

FINANCIAL MECHANISMS FOR HERITAGE BUILDINGS

RECOMMENDATION

That the January 18, 2022, Urban Planning and Economy report CR_7701, be received for information.

Report Purpose

Information only.

This information report identifies financial mechanisms which may be applied to encourage the preservation and restoration of heritage buildings and provides options for Council's consideration.

Previous Council/Committee Action

At the October 15, 2019, Urban Planning Committee meeting, the following motion was passed:

That Administration provide a report on options in civic financial mechanisms to encourage the preservation and restoration of heritage buildings.

Executive Summary

- This report identifies financial mechanisms which may be applied to encourage the preservation and restoration of heritage buildings, evaluates their applicability in the context of Edmonton and provides options for consideration.

REPORT

Built heritage management is characterized by a diversity of tools which may be used to facilitate the preservation and restoration of heritage buildings. These tools can be broadly classified into regulatory and market-based or financial mechanisms. Regulatory and financial mechanisms are often combined to form a complementary suite of tools for optimal results.

In Alberta, the *Historical Resources Act* provides municipalities with the authority to legally protect heritage buildings through Municipal Historic Resource designation. However, the *Historical*

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Resources Act also requires that property owners be compensated for any decrease in the economic value of the property resulting from designation. The required compensation can be significant and act as a barrier to the use of this regulatory mechanism. The City has responded to this challenge by developing a program that emphasizes providing incentives to encourage property owners to voluntarily allow for the designation of their property. A robust suite of financial mechanisms is fundamental to successfully providing adequate incentive for designation.

Financial mechanisms that may be used to encourage the preservation and restoration of heritage buildings, and the options associated with them, are summarized in the following report. A detailed description of each financial mechanism and analysis addressing their applicability in Edmonton is provided in Attachment 1.

Viable Financial Mechanisms

Following a review of financial mechanisms, Administration considers the following mechanisms have merit for further exploration:

Grant Aid

Direct grants are the sole financial mechanism currently used by the City of Edmonton to support built heritage management objectives. Heritage property developers indicate that direct grants are fundamental to encouraging their participation in the designation program and ensuring the financial viability of heritage projects.

Demand for the City's grant programs has increased significantly over the last decade, particularly in relation to rehabilitation grants for large-scale heritage buildings. In 2019, Administration implemented interim measures to manage demand, including capping rehabilitation grants to large-scale heritage buildings at \$.5 million, and prioritizing privately owned heritage buildings by concluding funding for City-owned heritage buildings. While the program has been successful, it cannot be expanded within currently allocated resources.

- **Option** - Expansion of current grant programs. As a component of the anticipated Historic Resource Management Plan renewal (as outlined within the January 18, 2022, Urban Planning Committee report UPE00724, Heritage Resource Management Strategy), and associated updates to City Policy C450B - Policy to Encourage the Designation and Rehabilitation of Municipal Historic Resources in Edmonton, Administration will be undertaking a comprehensive review of the heritage grant programs the City provides with the intent of improving their effectiveness. This is tentatively scheduled for 2023 and 2024.

Property Tax Incentives

In general, Administration advises against the provision of property tax incentives because they erode the City's revenue base and limit the City's capacity to respond to emerging issues. Rather, Administration considers the standard transparent budget process, which allows Council to weigh the City's competing priorities as the most appropriate means of allocating funding in support of the City's objectives. Tax incentive options for non-residential heritage properties are

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explored in the January 18, 2022, Financial and Corporate Services report FCS00645, Financial Incentive Options for Non-residential Heritage Properties.

The City also has the option to pursue a tax subclass for residential heritage properties with a lower property tax rate relative to the standard residential class. Administration advises against this approach as it will reduce the transparency of the property tax system and contribute to complexity that would result in greater administrative cost.

- **Option** - To explore this option further, Administration would assess establishing a tax subclass for residential heritage properties with a lower property tax rate relative to the standard residential class.

Transfer of Development Rights

A transfer of development rights approach (please refer to Attachment 1 for further detail), that allows for unused density from a site containing a heritage building to be transferred to another site, may be viable in a limited number of areas in central Edmonton; however, a market analysis is required to ensure this approach merits further consideration. Where a market analysis confirms that market conditions are favourable and demand for density transfers exists, Administration could explore implementing this approach through amendments to the relevant district plans.

- **Option** - To explore this option further, Administration would undertake a market analysis to identify areas where market conditions may be favourable to supporting density transfers for the purpose of built heritage preservation.

Charitable Donations

Actively soliciting charitable donations may have merit in the context of significant, publicly owned and accessible heritage buildings like the Rosedale Powerplant; however, it is unlikely that the City could successfully lead such an initiative. A donation program would more likely be successful if it was led by an external, non-profit organization with the capacity and experience to fundraise and a mandate to support built heritage preservation. Based on its current mandate, the Edmonton Heritage Council is the most relevant organization in Edmonton.

- **Option** - To explore this option further, Administration would engage with the Edmonton Heritage Council to assess the feasibility of developing a program to actively solicit charitable donations to support built heritage preservation and associated resourcing requirements.

Endowment Funds

An endowment fund may be a viable means to facilitate additional private funding to support built heritage preservation. This approach would necessitate partnering with an external foundation and may require the provision of “seed funding” to initiate the endowment. Further exploration would be required to better understand the viability of this approach and the interest and capacity of the Edmonton Community Foundation to act as a partner and steward of the endowment fund.

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- **Option** - To explore this option further, Administration would engage with the Edmonton Community Foundation to consider the feasibility of establishing an endowment fund to support built heritage preservation and associated resourcing requirements.

Non -Viable Financial Mechanisms

The following financial mechanisms were investigated but Administration does not consider them to warrant further exploration at this time:

Loans

As outlined in more detail in Attachment 1, given the limitations on municipalities providing loans in the *Municipal Government Act*, Administration does not currently consider guaranteed, low interest or no interest loans a viable option.

Revolving Funds

Administration does not consider a revolving fund for the purpose of purchasing, rehabilitating and reselling heritage properties following legal protection via designation, a viable option at this time as there is no external, non-profit organization that has expertise and capacity to partner with the City.

Preferential Leasing

Given operational constraints and that the City has committed to accommodating the majority of its employees through a long-term lease in the Edmonton Tower, Administration does not consider an approach that required the preferential leasing of heritage properties on the part of the City as a viable option at this time.

Public Private Partnerships

Public private partnerships may be relevant in the context of large-scale, publicly owned heritage buildings, particularly those like the Rosedale Powerplant which are currently underutilized and require significant investment. Administration would explore this approach on a case-by-case basis as it considers options for the rehabilitation, redevelopment and programming of large-scale City-owned heritage buildings. However, due to the limited circumstances in which this approach would be applicable, Administration does not consider it necessary to formalize this approach as a component of the broader Historic Resource Management Program.

Budget/Financial Implications

The projections for the Heritage Resources Reserve (using current commitments) anticipate a Reserve balance of \$4,208,980 at the end of 2021. Administration is considering a number of potential heritage designations for use of these funds that will be brought forward for Council approval as required. Based on the current commitments, the Reserve balance is anticipated to decline to a balance of \$2,017,880 at the end of 2022. The Reserve is funded by the tax levy on an annual basis (\$2.3 million in 2021 including \$418,000 that is specifically designated to fund rehabilitation work completed on the Edmonton Brewing and Malting Company Ltd.).

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The anticipated Heritage Resource Management Plan will identify priorities to manage heritage resources across the city. The Management Plan will also confirm available financial mechanisms and identify changes to the current suite of tools used to facilitate the preservation and restoration of heritage buildings. Upon completion of the Management Plan, Administration will report back to Council and identify any recommended changes to support its implementation.

COMMUNITY INSIGHT

This report was informed by limited informal engagement with heritage developers and the Edmonton Heritage Council in order to identify financial mechanisms and better understand their applicability in the context of Edmonton. In general, heritage developers indicated that the City's direct grant program is fundamental to encouraging their participation in the designation program and contributing to the economic viability of heritage rehabilitation projects. That said, additional financial mechanisms to supplement the grant program were viewed favorably and deemed to send a message to industry in relation to the City's heritage preservation priorities. The Edmonton Heritage Council provided guidance in relation to pursuing financial mechanisms that required partnering with an external non-profit organization.

GBA+

Historical resources have the potential to help communicate the story of Edmonton's diverse history, and thus contribute to the meaning of our urban places and quality of life of Edmontonians now and in the future. Currently, however, the City's Inventory and Register of Historic Resources does not reflect a broad spectrum of Edmonton's diversity. Women and other marginalized groups, including gender minorities and intersectional identities whose heritage is more intangible, are underrepresented in the Inventory and Register and current activities to commemorate history through heritage preservation.

As Administration pursues the development of a new Historic Resource Management Plan, a GBA+ process will be applied to help us better understand inequalities and create opportunities for marginalized groups. Administration will include a robust GBA+ process in the planning, engagement, creation and delivery of the proposed plan.

ATTACHMENT

1. Financial Mechanisms Description and Applicability