COUNCIL REPORT

FINANCIAL INCENTIVE OPTIONS FOR NON-RESIDENTIAL HERITAGE PROPERTIES

RECOMMENDATION

That the January 18, 2022, Financial and Corporate Services report FCS00645, be received for information.

Report Purpose

Information only.

This report, for information, provides Council with options it requested to further support non-residential heritage properties.

Previous Council/Committee Action

At the May 10, 2021, Executive Committee meeting, the following motion was passed:

That Administration return to Executive Committee, with Urban Planning and Economy report CR_7701 (Financial Mechanisms for Heritage Buildings), in December 2021, with options and a potential draft bylaw to defer or exempt taxes, or add additional preservation tools or incentives, for non-residential properties that are applying for heritage designation.

Executive Summary

- Council has requested additional information on tools to incentivize non-residential heritage designations.
- The May 10, 2021, Financial and Corporate Services report FCS00133, Non-Residential Heritage Properties - Tax Exemptions/Deferral Options, advised that expansion of the existing grant program to achieve the City's policy objectives on heritage properties is a better tool than tax exemptions.
- Exemptions are a less transparent manner of funding policy objectives and take precedence over all other funding priorities in the budget process.
- Under provincial legislation, an exemption approach can only be used on non-residential properties that are seen to be redeveloping or revitalizing their properties. An exemption can extend for a maximum of 15 years.

FINANCIAL INCENTIVE OPTIONS FOR NON-RESIDENTIAL HERITAGE PROPERTIES

- Administration considered several approaches to heritage properties including a supplement to the existing grant program, a flat exemption and a tax freeze. Cost analysis showed large variation on the benefit received and so all three approaches were capped.
- Exemptions from taxation redistribute the tax burden to the remaining tax base, which in effect increases taxes to non-benefiting property owners.

REPORT

Council Policy C450B, Policy to Encourage the Designation and Rehabilitation of Municipal Historic Resources in Edmonton, provides a variety of incentives to achieve its objectives. The primary tool to realize this policy is the City's heritage grant program that offers up to $500,000 in matching grants for commercial heritage building designation and rehabilitation, and a maintenance grant up to $50,000, representing a maximum of 33 per cent of eligible costs for designated commercial heritage properties seeking to maintain the property's condition. At its October 16, 2020 meeting, Executive Committee requested Administration explore the use of section 364.2 of the *Municipal Government Act* to bolster the existing grant program.

At the May 10, 2021, Executive Committee meeting, Administration presented report FCS00133, which addressed the new tools that effectively allowed municipalities to offer up to 15 years of tax deferrals or exemptions to non-residential properties for the purpose of encouraging redevelopment or revitalization of properties for the general benefit of the municipality. Based on its analysis, Administration determined a grant approach is the most straightforward method of incentivizing designation and preservation of heritage resources. The report suggested that, should Council believe the current grant program to be insufficient, an alternative to adding a tax exemption would be to increase the scope of the existing grant (either in terms of the overall funding envelope or individual grant amounts). The current Heritage Resource Reserve Fund receives $2.3 million annually.

Administration does not advise the use of exemption tools to achieve heritage policy objectives because exemptions are less transparent than grants from a public finance perspective. Exemptions also take precedence over all other funding priorities, which limits Council's ability to weigh costs and benefits because they are not accounted for as individual budget items. Exemptions should be applied only when Council does not believe it equitable for a property class to contribute towards the tax base. In the past, Council's use of exemption powers historically has been limited to supporting non-profit organizations that otherwise did not qualify under provincial legislation for a tax exemption.

While expanding the existing grant program is preferable, Executive Committee directed Administration to further analyze the option of using a tax deferral or exemption approach and to return with a potential draft bylaw for consideration. The draft bylaw is provided in Attachment 1 and further analysis is provided below. If Council directs Administration to pursue one of the options described below, further work would be required to finalize a bylaw for Council's approval.

FINANCIAL INCENTIVE OPTIONS FOR NON-RESIDENTIAL HERITAGE PROPERTIES

Options

In considering the use of a tax exemption approach, three options were considered. The first supplements the existing grant program by limiting the exemption to a percentage of eligible costs. The second considers a flat per cent reduction and the third considers a tax freeze as of the time of designation.

In all three approaches, exemptions from taxation would result in revenue loss for the City, which would result in a burden shift to the remaining tax base equivalent to Council increasing its budget by the same amount. To illustrate the potential cost of these approaches, Administration reviewed the past 10 years of the Heritage Grant Program and analyzed what the impact to the tax base would have been had the existing grant program been accompanied by an exemption. In the second and third approach, analysis was complicated by the fact that two heritage properties - the Enbridge Tower and Molson Brewery - would have received significantly larger benefits than other heritage applicants. As a result, Administration capped the exemption benefit for analysis.

<u>Option 1: Tax Exemption to Supplement Grant Program</u>

The first approach looks to use an exemption as a means to return eligible construction costs to the property owner over a period of time (up to 15 years). The current grant program has set its maximum at 50 per cent of eligible construction costs, up to a maximum of $500,000. An exemption program could be set up to return additional eligible construction costs over a defined exemption period in one of the following ways:

- The exemption would only be used if 50 per cent of eligible costs exceed the current grant cap of $500,000. Any eligible costs beyond the $500,000 cap, but within the existing 50 per cent limit, could then be covered using an exemption approach.
- The exemption would apply in all cases after the grant, and would further refund a percentage of eligible costs beyond 50 per cent over a specified time period through annual property tax exemptions. Alternatively, Council could expand the definition of what is included in eligible costs, which would widen exemption benefits.

Using either of these options is essentially the same as increasing the grant program's funding envelope, widening the grant program's definition of eligible costs or expanding eligible costs to something greater than 50 per cent. With an exemption approach, however, maximum costs would not be limited by program funding and the benefit would only apply to non-residential applicants. In the past 10 years, only Enbridge Tower and the Molson Brewery would benefit from either of these approaches.

While Council can choose to adjust the rebate amount, Administration does not recommend expanding the rebate past 50 per cent of eligible costs.

<u>Option 2: Flat Exemption and Rebate Cap</u>

The second option provides non-residential heritage property owners that perform rehabilitation work with a set percentage reduction from their municipal property taxes for 10 years. The cost of such an approach can only be approximated by looking back at what the impact of such a program would have been had it been put in place 10 years ago. To limit those benefits, a cap was placed on what a qualifying applicant could receive at $50,000 per year ($500,000 over a 10 year exemption period). With this cap in place, analysis was performed on a flat 25 per cent exemption. The total cost of this program over a 10-year period was approximately $1.2 million, with a median 10-year refund for non-residential heritage properties reaching $30,000.

In performing this analysis, Administration noted that the total cost for a flat exemption would have heavily benefited two heritage properties - the Enbridge Centre and Molson Brewery - which included significant modern additions relating disproportionately to non-heritage parts of the properties.

If this option was pursued, Council would need to determine the appropriate per cent exemption and associated annual dollar cap.

Option 3: Uplift Exemption (Tax Freeze)

The third option is to freeze property taxes for non-residential heritage property owners that perform rehabilitation work at pre rehabilitation levels. Similar to the flat exemption approach, a $50,000 per year dollar cap was placed to acknowledge the disparity of benefit gained by the two previously mentioned properties.

The cost of this approach would be similar to Option 2, but would require additional Administrative effort to annually compare the current assessment value against the baseline assessment value for the purposes of calculating the annual exemption amount.

If this option was pursued, Council would need to determine whether to put in a cap and how many years a tax freeze would be put in place.

Draft Bylaw

Attached to this report is a sample bylaw that could be used for an exemption approach at Council's direction. The bylaw is worded using a tax uplift exemption, but could be altered. There are no exemption caps within the draft bylaw and the exemption would only apply to property owners that invested a minimum of $100,000 in eligible capital expenditures.

Budget/Financial Implications

Property tax exemptions result in a redistribution of the tax burden to the remaining tax base. An exemption for some results in a tax increase for others. Under the City's current approach, property tax exemptions are recorded as negative assessment growth and would reduce the total growth envelope projected to offset the currently proposed tax increase. Depending on how the exemption is structured and the nature of the development, investment in the property now may, however, result in additional tax revenue in the future.

Legal Implications

Section 364.2 of the *Municipal Government Act* allows Council to grant full or partial tax deferrals or exemptions to non-residential properties for up to 15 years (with possible renewals) for the purpose of encouraging the development or revitalization of properties. Any exemption for heritage properties must be limited to non-residential properties that have performed sufficient rehabilitation work to meet the redevelopment or revitalization criteria of the legislation. Council may set any additional criteria it deems appropriate for a property to qualify, and must outline an application process. The exemption only applies to municipal taxes and education tax will still need to be collected as usual.

The amount of any partial exemption, and the method to calculate that exemption should be set out within the bylaw. Given that the City already has existing grant programs for heritage properties, any money paid out through a grant could be, but are not required to be, taken into account in the determination of the exemption amount. If Council creates an exemption bylaw where Administration is deciding whether to grant the exemption, an appeal procedure must exist for decisions to be appealed to Council. Once the exemption is granted, it cannot be removed as long as the property continues to meet the criteria within the bylaw, even if the bylaw is repealed.

COMMUNITY INSIGHT

No further public engagement was undertaken for this report. In preparation for report FCS00133, Administration engaged a number of heritage property owners and developers to discuss possible tax options. In those discussions, heritage property owners indicated that grants were their preferred funding mechanism, but that they would support additional funding on top of the grant mechanism. Some of those owners and developers also spoke at the May Executive Committee meeting.

GBA+

This report discusses tax options to support heritage property preservation and designation. From a GBA+ perspective, if criteria for exemption are set out in a bylaw, there will be limited flexibility to change the structure of that exemption. In general, non-residential property tax exemptions benefit a small and relatively financially stable subset of the City’s population. As is the nature of tax exemptions, a tax reduction for one group means a tax increase for all other property owners. In the case of non-residential exemptions, other non-residential property owners would be impacted.

Heritage preservation contributes to an attractive urban environment that provides a better understanding of the city’s past, which can be experienced and appreciated by all Edmontonians. There are, however, relatively few historical resources connected to equity-seeking groups on the Inventory and Register of Historic Resources in Edmonton. Because the heritage program has focused on built heritage, groups whose heritage is not as connected to physical buildings may not find themselves reflected in the program.

To address this possible inequity, Administration will explore opportunities to remove barriers to equity in the City’s heritage program through the new Historic Resource Management Plan.

FINANCIAL INCENTIVE OPTIONS FOR NON-RESIDENTIAL HERITAGE PROPERTIES

ATTACHMENT

1. Draft Heritage Designation Tax Exemption Bylaw