Financial Mechanisms Description and Applicability

Grant Aid

Grants are a financial mechanism widely used to support the preservation of heritage properties. While grants can be quite flexible in terms of how they are developed and administered, generally they are provided to the owners of legally protected historic resources for projects that directly result in restoration, preservation and rehabilitation of the historically significant aspects of the property. Grant aid mitigates the costs associated with owning a heritage property and may also be employed as an incentive to encourage property owners to voluntarily legally protect and maintain heritage buildings.

Applicability

Grants are the primary financial mechanism employed by the City to support the preservation of historic properties. City Policy C450B - Policy to Encourage the Designation and Rehabilitation of Municipal Historic Resources in Edmonton - allows for the provision of two types of grants to the owners of designated Municipal Historic Resources; rehabilitation incentives, and maintenance incentives.

Rehabilitation incentives are a one-time grant of up to 50 per cent of eligible rehabilitation costs, provided to property owners at the time a property is designated. The property owner agrees to accept the grant in lieu of compensation required by the *Historical Resources Act*. Administration's practice has been to limit rehabilitation incentives to a maximum of $75,000 for small-scale residential historic resources and $500,000 for commercial/institutional/multi-family historic resources. During the 2015-2019 period, Administration disbursed an average of $1.75 million in rehabilitation incentives annually.

Maintenance incentives are a grant of up to 33 percent of eligible costs available to the owners of designated Municipal Historic Resources on an ongoing basis for the purpose of supporting the property's upkeep. Administration's practice has been to limit maintenance incentives to a maximum of $10,000 for small-scale residential historic resources and $50,000 for commercial/institutional/multi-family historic resources every five years. During the 2015-2019 period, Administration disbursed an average of $82,000 in maintenance incentives annually. While the annual cost associated with maintenance incentives remains relatively low, demand is anticipated to increase as the Historic Resource Management Program matures and the number of properties that qualify for maintenance incentives grows.

A Council-approved Heritage Resource Reserve Fund provides a secure source of funding for the City's heritage grant programs. The current annual allocation to the Heritage Resources Reserve Fund is $2.35 million (including $0.4 million specifically for the Edmonton Brewing and Malting Company Ltd). Monies unspent in a calendar year are retained in the fund for future years.

Challenges

The provision of grants has proven fundamental to the success of the Historic Resource Management Program. However, the Heritage Resources Reserve cannot sustainably support the designation of all large-scale historic resources. The eligible costs associated with a single large-scale project can exceed the $500,000 maximum rehabilitation grant amount, as well as the existing capacity of the Heritage Resources Reserve.

Property Tax Incentives

Property tax incentives are a fiscal mechanism available to municipalities to encourage the retention and restoration of historic resources. It can be difficult to compare these incentives across international and national boundaries as enabling legislation can be quite different from nation to nation and province to province.

Applicability

Property tax incentives are employed widely throughout North America and Europe. In Canada, heritage property tax incentives are provided by dozens of municipalities including Victoria, Winnipeg, Regina, Saskatoon and Toronto. They are a mechanism that has become increasingly popular in Ontario where 30 municipalities have developed property tax incentive programs since 2006 when the Ontario provincial government initiated a property tax relief program. The program provides an ongoing fixed percentage decrease in property tax to eligible heritage properties, the cost of which is shared between the municipality and the Government of Ontario.

The *Historical Resources Act* provides broad authority to municipalities in relation to how they compensate the owners of Municipal Historic Resources for designation, including property tax incentives. However, despite City Policy C450B allowing for the provision of property tax incentives to encourage

Municipal Historic Resource designation, they have not been employed for decades.

In regards to residential properties, the *Municipal Government Act* allows Council to set tax subclasses for residential properties on any basis they deem appropriate. Though not a recommended approach, conceivably a separate subclass for residential Municipal Historic Resources could be established which would provide an ongoing, lower municipal tax rate relative to the standard residential tax class.

In regards to non-residential properties, the *Municipal Government Act* was amended in 2019 to enable municipalities to offer tax incentives to non-residential properties for the purpose of encouraging investment and providing longer-term certainty for businesses. Municipalities in Alberta can now pass bylaws providing up to 15 years of tax exemptions, reductions or deferrals for non-residential properties. This tool could be employed as part of a plan to encourage the designation of non-residential Municipal Historic Resources and to incentivize investment in the properties.

Challenges

Tax incentives can result in a redistribution of the tax burden to the remaining tax base, which in effect increases taxes to non-benefiting property owners.

Transfer of Development Rights

Transferring development rights is a mechanism for compensating the owners of historic resources for costs associated with rehabilitation and lost development potential. All sites have development rights as established by land use regulations. Where a site cannot be developed to its highest use under these regulations, because of the presence of a designated or otherwise protected historic resource, this mechanism allows the property owner to transfer the unused development rights, most often in the form of density, to another site, or sell them to another party. The seller of the development rights may be required to apply all, or a portion of the proceeds of the sale to the rehabilitation and conservation of the protected historic resource.

Applicability

Transfer of development rights programs are most effective in prime locations during booming property markets where demand for development rights transfers exist.

Transfer of development rights programs are employed in a number of jurisdictions throughout the United States and Canada. Vancouver has operated a heritage density transfer program since 1983. Under the program, the transfer of available density occurs on an open market between willing sellers and buyers. The price of the density is determined by supply and demand of available density in the city and is negotiated privately between the buyer and seller. The density transfer system is administered by the City of Vancouver.

There is no formal legislation in Alberta specifically enabling municipalities to develop transfer of development rights programs for the purpose of encouraging the preservation of heritage buildings, however these programs can be implemented through municipal powers associated with land use and development.

This approach may have merit in the context of Edmonton's core, urban neighbourhoods, but further exploration would be required to better understand whether market conditions are favourable and demand for development rights transfers exists. Assuming the transfer of development rights approach was determined to be viable in some areas of central Edmonton, Administration could pursue implementation of this approach through amendments to the relevant district plans.

Challenges

The experience of other Canadian municipalities suggests that even in the most favourable market conditions the transfer of development rights is only an attractive incentive to retain heritage buildings in limited areas and on a limited number of sites.

Charitable Donations

A charitable donation is a gift of cash or property by an individual or corporation to a non-profit organization to support its pursuit of a specified goal, for which the donor receives nothing of value in return. In Canada charitable donations to registered non-profit organizations may be credited against individual or corporate income tax.

Applicability

Charitable donations are widely employed and can be an effective mechanism of soliciting private investment in heritage buildings. Donations are generally made to non-profit organizations with a mandate to support built heritage preservation. These organizations can range in scale from foundations dedicated to the preservation of a single, specific heritage building, to those with a broader mandate to preserve built heritage within a certain geographic area such as a county or municipality.

While the City of Edmonton has never actively solicited charitable donations to support the preservation of heritage buildings, conceivably it is possible. The City of Edmonton is a registered non-profit organization which can accept charitable donations and provide associated tax receipts in accordance with Administrative Directive A1440 - *Donations to the City of Edmonton*. Further, the donor may provide general direction that the donation be utilized to support a specific program operated by the City, rather than the donation being directed to general revenue. A donor could provide direction for a donation to the Heritage Resources Reserve in order to support the activities of the Historic Resource Management Program.

Challenges

The experience of other municipalities suggests that this approach is likely to be most effective where the donations are made to a non-profit organization, which is independent of the City, and has a specific mandate to support the conservation of heritage buildings No non-profit organizations of that nature are currently active in Edmonton. The Edmonton Heritage Council is the closest equivalent organization, and while their mandate is more explicitly linked to promoting Edmonton's cultural heritage, they have been actively increasing capacity and advocacy as it relates to built heritage preservation.

Endowment Fund

Endowment funds are an investment fund typically established and managed by a foundation, where the initial investment is provided through charitable donations. The donations are invested and the revenue generated is utilized to support a specified purpose. The principal remains untouched in order to enable the fund to continue in perpetuity. Endowments can also be created in the service of charitable organizations or not-for-profit organizations.

Applicability

An example can be found in Vancouver, British Columbia, where the Vancouver Heritage Foundation has a Conservation Endowment Fund. The Fund is managed by the Vancouver Foundation and aims to build a $3 million fund which will provide long-term stable support for programs and activities that promote the conservation of heritage buildings and sites in Vancouver.

Challenges

Edmonton does not currently have an endowment fund for the purpose of supporting built heritage conservation. Establishing such a fund would require resources and expertise and is best achieved through partnering with an external foundation. The most likely potential partner would be the Edmonton Community Foundation, whose mission is to attract and steward endowment funds and make strategic investments that enhance the quality of life for Edmontonians. Further exploration would be required to better understand the viability of this approach, however, it's likely to have the most value in the context of large-scale publicly-owned and accessible historic resources.

Loans

Loan programs supporting heritage conservation typically provide guaranteed, low, or no-interest loans to property owners to undertake eligible conservation work. Guaranteed loans involve a government agency committing to assume a private debt obligation should the borrower default. Guaranteed loans can aid small borrowers to access credit and all borrowers to access credit at interest rates lower than might otherwise be available. Low or no-interest loans typically involve the provision of loans on the part of a government agency or non-governmental organizations at rates lower than those available from private lenders. Low or no-interest loans may be administered independently by government agencies and non-governmental organizations or in partnership with financial institutions. In order to qualify for low or no-interest and guaranteed loans, a property generally needs to be designated or otherwise legally protected, or located within a heritage area.

Applicability

Low or no-interest and guaranteed loans supporting heritage conservation work are employed in the United States, United Kingdom and parts of Canada. Loans may be employed in addition to grant aid or fiscal incentives to form a comprehensive incentive package. As most grant aid programs operate on a cost-sharing model, loans can remove barriers to the retention and restoration of heritage buildings where a property owner is unable to afford or secure financing for their share of the cost.

Since 1985, the City of Hamilton has administered the Hamilton Community Heritage Fund Loan Program. The program provides no-interest loans to a maximum of $50,000 for eligible conservation work on properties which are designated under the Ontario Heritage Act, or located within a Heritage Conservation District. The Hamilton Community Heritage Fund from which the loans are provided was established through contributions from both the municipality and the province.

Challenges

The *Municipal Government Act* provides limited authority to municipalities to provide or guarantee loans. Municipalities may only lend money to or guarantee loans for its controlled corporations or a non-profit organization where the loan is utilized for purposes which benefit the municipality. As a result, loans for the purpose of supporting the preservation of historic properties could only be employed in limited circumstances.

Revolving Funds

Revolving funds supporting built heritage preservation have been used throughout the United States and Europe. Revolving funds, or acquisition funds, are generally employed by a non-profit organization to purchase, rehabilitate, and then resell historic properties subject to the legal protection of the property in some form. Revenue earned from the sale of the historic property is invested back into the fund for future use in preserving other heritage assets.

Applicability

In Canada, the Heritage Canada Foundation (now named the National Trust) operated a revolving fund for the preservation of heritage buildings. The fund has since been discontinued. Many examples of revolving funds exist in the United States. One of the oldest and best known is the Historic Charleston Foundation's Edmonds Endangered Property Fund. Through this fund, the Foundation seeks to purchase, stabilize and re-sell historic properties with protective covenants which last 75 years. To initiate the fund, $100,000 was raised in the late 1950s through charitable donations. This original investment of $100,000.00 resulted in investments of about $2 million in property improvements and purchases after seven years. The Charleston model has been used throughout the United States to advance built heritage preservation objectives.

There is some precedent for the utilization of this approach in Edmonton. Throughout the 1980s the Old Strathcona Foundation, a publicly funded community development initiative dedicated to the preservation of the neighbourhood of Strathcona's historic resources, employed some of the principles of a revolving fund when they purchased heritage buildings and then rehabilitated and legally protected them prior to leasing or sale. The proceeds were then reinvested in the purchase and rehabilitation of additional heritage buildings. This approach contributed to the retention of a number of significant historic resources in the neighbourhood including the Princess Theatre, the Dominion Hotel and the Tipton Block. The Old Strathcona Foundation is no longer active.

Challenges

There may be merit in this approach, however, it would require that the City partner with an external organization with resources and expertise in heritage conservation and property redevelopment. There aren't currently any organizations in Edmonton whose mandate and capacity align with this approach.

Preferential Leasing

Preferential leasing of heritage properties is a form of direct investment which allows governments and organizations to support heritage conservation objectives by giving preference to heritage buildings and areas when leasing office and facility space. Preferential leasing of heritage properties increases market demand for older buildings, creating a powerful incentive for developers to rehabilitate rather than demolish historic properties.

Applicability

Preferential leasing of heritage properties has been employed in the United States by multiple levels of government. In 1976, the United States Federal Government passed the Public Buildings Cooperative Use Act which required the Federal Government's real property agency to give preference to historic buildings for space requirements. This legislation is credited with having contributed to economic and neighborhood revitalization in historic downtown areas. A number of state governments have enacted similar legislation including Pennsylvania, Oregon and Iowa.

Preferential leasing of heritage properties has yet to be formally employed by any level of government in Canada. Informally, the City of Edmonton employed this approach, through its lease of the Boardwalk and Revillon Buildings during the 1990s, to support the rehabilitation of these heritage buildings as well as the revitalization of 104 Street's historic warehouse district.

Challenges

While this approach may have merit on a case-by-case basis in relation to individual heritage buildings, it's unlikely that the City could satisfy operational requirements while formally committing to a preferential leasing policy. It should also be noted that this option can contribute to increased cost pressure when maintenance and servicing requirements are the municipality's responsibility.

Public Private Partnerships

Public-private partnerships (P3s) are partnerships between a government body and a private sector party whereby the private sector provides infrastructure or services that have traditionally been delivered by the public sector. These types of partnerships are usually employed for large-scale infrastructure projects such as roads and recreational facilities.

Applicability

With regard to the heritage sector, public-private partnerships are uncommon, but have been touted as an emerging approach that can aid municipalities in retaining, rehabilitating, maintaining and operating, publicly owned heritage assets. In a public private partnership agreement, the private sector may be responsible for conservation work as well as building, operating, and/or financing. Ownership of the asset usually takes the form of:

- a long-term lease to the private partner
- a sale to the private partner with a repurchase provision for the municipality
- a sale to the private partner with an immediate leaseback to the municipality, or
- a combination of a sale to the private partner, leaseback, and a future sale back to the municipality.

Public private partnerships have been employed to support heritage preservation in a relatively limited number of cases in Europe and Australia.

There is some precedent for the use of private public partnerships in Edmonton to deliver infrastructure and services, most notably in relation to the Valley Line LRT. This is an approach that may have merit in the context of large-scale, underutilized, City-owned heritage assets such as the Rossdale Powerplant, that may be attractive to a private sector partner as an adaptive re-use opportunity. It may also be able to be applied where a City facility is located within a heritage building.

Challenges

This approach will only be effective in the context of a limited number of City-owned heritage buildings, where the opportunity for profit is sufficient to stimulate private sector investment.