

Non-Residential Heritage Properties

Tax Exemptions/Deferral Options

Recommendation

That the April 26, 2021, Financial and Corporate Services report FCS00133, be received for information.

Previous Council/Committee Action

At the October 16, 2020, Executive Committee meeting, the following motion was passed:

That Administration analyze, including provisions for future use or reuse as a condition of tax relief, and provide options to explore using Section 364.2 of the *Municipal Government Act* and other tax tools to create tax exemptions or deferrals for non-residential heritage properties, and provide a report to Committee.

Executive Summary

This report explores the possible use of tax incentives to support non-residential heritage properties. The newly created section 364.2 of the *Municipal Government Act* allows Council to partially or fully exempt heritage property from municipal property tax for up to 15 years. Using such an approach would come with additional administrative cost to the City. Alternatively, Council could consider increasing the size of its existing grant to support heritage properties or to introduce a tax deferral.

Report

In accordance with Council Policy C450B (Attachment 1), the City of Edmonton regards historical resources as integral in providing a “sense of identity and place both for tourists and, more importantly, local citizens.” Historic resources contribute to attractive, meaningful urban places that enhance quality of life and contribute to vibrant local economies. It is also a guiding value of the City Plan to preserve and enhance Edmonton’s historic resources. The purpose of Policy C450B is to encourage the designation and conservation of historic resources in Edmonton.

Under typical real estate market conditions, existing buildings are rehabilitated and maintained until it becomes more economically feasible for the owner to demolish and rebuild. However, the cost to rehabilitate and maintain historic resources varies from property to property and can be significantly higher than for non-heritage properties

due to increased management administration and scarcity of specialized labor and materials. As such, private historic resources are often not owned solely for their real estate value but also for historical and conservation reasons. Owners of designated municipal historic resources forgo redevelopment and commit to retaining and maintaining the resource. Governments can provide financial and non-financial support to offset some of these increased costs.

The impact of designation to a property's marketability and ultimate value is case dependent. Some increase their value, others hold their value and others can experience a value decrease. In some cases, historical designation results in reduced property values. Annual property assessments reflect that loss in value leading to a tax reduction as part of the normal assessment process.

Non-residential historical properties can earn similar rental income competitive to that of comparable non-historical properties, but maintenance costs of historical resources can be higher. To address this competitive disadvantage, Policy C450B offers incentives to the owners of historical resources for the purposes of rehabilitation or maintenance. This can take the form of:

- Non-monetary incentives - the transfer of land use density, relaxation of parking, loading and amenity requirements, land transfers, or any other means deemed appropriate by City Council (for rehabilitation only)
- Tax incentives - a payment equal to the property taxes and the incremental portion of the municipal property taxes for up to 10 years to a maximum of 50 percent rehabilitation costs or 33 percent of maintenance costs
- Direct grants - a payment to a maximum of 50 percent of rehabilitation costs or 33 percent of maintenance costs.

Policy C450B makes reference to tax incentives at an equivalent level to the direct grants. The grant approach has historically been used over the tax incentive approach for two reasons. Firstly, the grant approach is funded through the existing Heritage Resources Reserve Fund whereas the tax approach is not. Secondly, direct grants provide a more immediate funding source for developers and lenders. Under the existing policy, a tax approach would provide an equivalent payout, but over a longer period of time.

New Incentive Tools and Options

In 2019, the provincial government amended the *Municipal Government Act* allowing municipalities to offer tax incentives for non-residential properties. These amendments are intended to help attract investments and provide longer-term certainty for businesses. Under these recent provisions, the City can provide full or partial municipal property tax exemptions or deferrals for up to 15 years on non-residential heritage properties. Such an approach requires Council to set eligibility criteria, delegate decision-making authority, and to establish application and review processes

and timelines. While this approach was made available by the Government of Alberta, the education portion of property tax would not qualify.

In comparing the new tax incentive tools to the existing grant program, Council may wish to consider the intended purpose of each approach. At the highest level, both approaches support the preservation of heritage resources.

The grant, as currently structured, aims to off-set rehabilitation and maintenance costs while also satisfying the compensation requirements under the *Historical Resources Act*. The purpose of a tax exemption would need to be clarified.

A simplified approach would be to provide a percent tax exemption for any property designated as a historical resource, but this could also be achieved through a granting mechanism. If the City used an exemption approach, however, the City would incur additional costs. The amount would depend on the exemption amount, number of qualifying properties as well as any other administrative costs. Exemptions would create some financial uncertainty for the City, but because the legislation allows the exemption to be put in place for up to 15 years, property owners would benefit from certainty.

Administration believes that there are few instances where a tax incentive approach would offer strategic advantages to both the property owner and the City over a direct grant approach, so it would be hard to justify the costs of administering such a program.

Alternative Approaches

If Council believes the current grant is insufficient to incentivize designation, an alternative to adding a tax exemption would be to increase the grant's size through the overall funding envelope and/or an increase to the eligible rehabilitation or maintenance rebates. Increasing the size of the grant could then be controlled by Council and prioritized against other costs the City may incur. The City currently contributes \$2.3 million to the Heritage Resources Reserve Fund each year, representing approximately 0.1 percent of tax levy funding.

Council could also add a provision within the existing Policy 450B for an option to defer property taxes for up to two years after designation and renovation. Some heritage property owners indicated that renovations often result in assessment and tax increases. Delaying tax payments as a building gets to full occupancy may support the successful reintegration of a renovated heritage site. A deferral would not reduce taxes, but would delay their collection for a designated period.

City of Calgary Experience

In July 2020, the City of Calgary reviewed the option to either supplement or replace its current heritage resource program with a property tax incentive program. Ultimately, Calgary's City Council increased the budget for their current grant program in lieu of a tax program, due to high upstart and ongoing administration costs. However, Calgary's Council requested a report due in Q1 2022 with a possible residential-only property tax program for consideration.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton is attractive and compact			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Unique character and history of the neighbourhood is preserved	Number of designated Municipal Historic Resources	162 (April 6, 2021) 67 of which are commercial properties	There is no target for the designation of historical resources
The City of Edmonton has a resilient financial position	Reserve Balance	Projected balance of \$2 million at the end of 2021	A robust Reserve capable of responding to demand for the Historic Resource Management Program

Attachment

1. Policy to Encourage the Designation and Rehabilitation of Municipal Historic Resources in Edmonton (City Policy C450B)

Others Reviewing this Report

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- K. Fallis-Howell, Acting City Solicitor