



**Committee of the Whole Report
For the Meeting of February 27, 2020**

To: Committee of the Whole **Date:** February 13, 2020
From: Karen Hoes, Director, Sustainable Planning and Community Development
Subject: Heritage Tax Incentive Program Overview and Update

RECOMMENDATION

That Council receive this report for information.

EXECUTIVE SUMMARY

The purpose of this report is to provide City Council with an overview of the City's Tax Incentive Program in advance of considering a tax exemption for 2615-2629 Douglas Street, which is the first heritage tax exemption proposed following the 2018 municipal election. The report responds to action 17 under Strategic Objective 8- Strong Livable Neighbourhoods in the City's *Strategic Plan 2019-2022*, which requested a review of the Heritage Tax Exemption program.

The Tax Incentive Program (TIP), adopted by City Council in March 1998, is the City's most effective heritage conservation incentive program. The program offers building owners, who propose the major revitalization of an underutilized heritage-designated building, a tax exemption of up to ten years to help cover the seismic upgrade costs and other eligible rehabilitation costs associated with the renovation. The program has resulted in the rehabilitation and seismic upgrading of 43 heritage buildings, together with the creation of 699 new residential units primarily in the downtown. It has attracted approximately \$266 million in private investment and produced award-winning projects like The Janion (1610-1620 Store Street) and The Hudson (1701 Douglas Street). The program typically attracts between one and three applications per year.

The initial purpose of the program was to incentivize downtown revitalization through the conversion of the upper storeys of heritage buildings for residential uses. Over time, the program expanded outside of the downtown and included commercial properties as well. Eligible buildings must be protected by a Heritage Designation Bylaw, result in the substantial rehabilitation of vacant or underutilized space or a new economic use for the building and be privately owned. Commercial TIP applications must also demonstrate that their project requires a tax exemption to be financially viable through submission of a pro forma, which is reviewed by a third party consultant retained by the City. Single detached houses are not eligible for the TIP.

Ongoing support for the TIP helps implement seismic risk mitigation policies under multiple chapters of the *Official Community Plan* (OCP, 2012) including Land Management and Development (Chapter 6), Economy (Chapter 14) and Emergency Management (Chapter 18). The TIP also supports Strategic Objective 8: Strong, Liveable Neighbourhoods of the *2019-2022 Strategic Plan*.

PURPOSE

The purpose of the report is to present City Council with information and analysis regarding the City's Tax Incentive Program for information purposes.

BACKGROUND

In 1998, Victoria became the first municipality in British Columbia to implement a tax exemption program for heritage conservation. The Province introduced this planning tool into the *Local Government Act* in a 1994 overhaul of the legislation. The initial motivation for Victoria's TIP was a goal in the 1997 Corporate Strategic Plan, which was "To develop a vibrant and healthy downtown core, which supports residential, business and leisure activities". The initial goal of the program was to assist owners of downtown heritage buildings to convert underutilized or vacant upper storey space to residential use, enabling the rehabilitation and preservation of Victoria's significant collection of turn-of-the-century heritage commercial buildings in Old Town. The duration of the tax exemption was to be between one and ten years and calculated based on the cost of seismic upgrading required for the building. Studies at the time showed that seismic upgrades accounted for between 21% and 35% of heritage rehabilitation costs.

The program received the 2001 Gold Medal from the B.C. Chapter of the Canadian Home Builders Association during the annual Construction and Renovation Excellence Awards. The TIP contributed to the City winning the Prince of Wales Prize for outstanding stewardship of built heritage. This is a national award given annually to the government of a municipality which has demonstrated a strong and sustained commitment to the conservation of its historic places and is displayed in the lobby at City Hall.

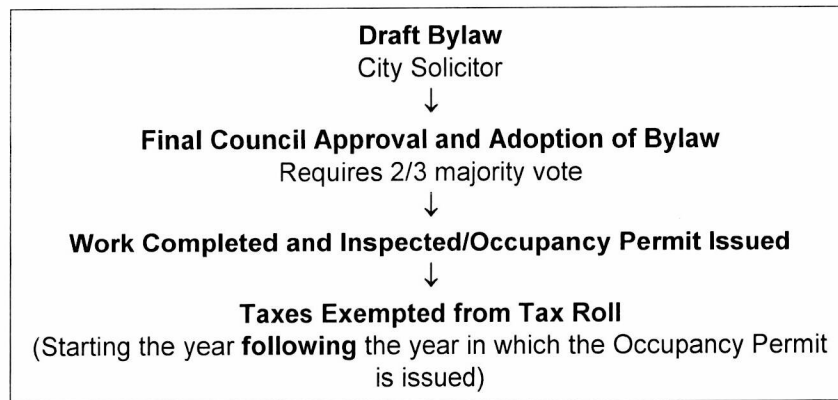
In 2012, the program was expanded to include non-residential projects. In 2017, the City expanded the program outside of the downtown, making heritage-designated buildings throughout the City eligible. Single detached houses are not eligible for TIP; however, grants for seismic upgrades and other rehabilitation work are available through the Victoria Heritage Foundation.

Despite expansions of the program in 2012 and 2017, the TIP has never attracted more than three applications in one year. The average number is between one and two. Over the period of the tax exemption, the City redistributes the amount of the exemption to be covered by non-exempt tax payers, so there is no loss in tax revenue to the City.

Approval Process

The following diagram illustrates the approval process for a TIP application:





Term of Exemption

Projects eligible for the City of Victoria Tax Incentive Program are subject to the following calculation:

$$\text{Term of exemption (\# of years)} = \frac{\text{Cost of seismic upgrading}}{\text{Current taxes}}$$

Following project completion, the project will be exempt from property taxes for the specified number of years.

Example:

A building being proposed for rehabilitation needs \$200,000 worth of seismic upgrading. It currently pays \$20,000 per year in property taxes. The maximum eligible term of exemption, which City Council may approve, is therefore:

$$\frac{\text{Seismic Upgrade Cost}}{\text{Current Annual Taxes}} = \frac{\$200,000}{\$20,000} = 10 \text{ Years}$$

ISSUES AND ANALYSIS

Official Community Plan

The existence of the TIP implements important goals in the OCP, which states in Section 18: Emergency Management, “there is a 32% likelihood of a damaging earthquake event in the City before 2054”. Such a disaster is likely to require the demolition and extensive reconstruction of buildings and structures. As such, the OCP contains many policies urging the City’s decision makers to prepare for such an event and incentivize the seismic upgrading of existing buildings.

Section 8: Placemaking - Urban Design and Heritage

8 (j) *That heritage property is conserved as resources with value for present and future generations.*

8.52 *Continue to enable and support heritage conservation through incentives and allowances including, but not limited to: property tax reductions; grants; bonus density provision; and, zoning variances.*

Section 14: Economy - Tourism and Visitor Services

- 14.33 *Continue to invest in the heritage character of the Downtown and other neighbourhoods through incentives for rehabilitation and seismic upgrades.*

Section 18: Emergency Management - Disaster Resiliency and Planning

- 18.6 *Explore the tools available in Provincial legislation to protect development from hazardous conditions such as, but not limited to seismic events, tsunamis and flooding.*
- 18.11 *Protect new development, and existing buildings, structures and infrastructure, from seismic hazards through planning and delivery of emergency services, disaster mitigation and recovery with particular attention to areas identified on Map 17.*
- 18.16 *Continue incentives for seismic upgrades to owners of designated heritage property, and consider incentives for non-heritage properties.*

Seismic Risk in Victoria

In 2016, the City completed the Citywide Seismic Vulnerabilities Assessment Study to investigate the risk of earthquake damage to privately-owned buildings and publically-owned infrastructure.

The city is located within a seismically-active region where there are three types of earthquakes that could pose a threat to its built environment: a shallow crustal event (the type of earthquake that damaged Christchurch, New Zealand in 2011); an in-slab event, triggered by fault ruptures deeper underground; and an interface/subduction event, where one tectonic plate slips beneath the other and generates very high levels of ground shaking (referred to as “the Big One”). The last large interface event in the Cascadia subduction zone was approximately 300 years ago.

The type of earthquake and the resulting ground shaking intensity are important factors in determining risk of damage during a seismic event. In addition, the soil consistency upon which the building is constructed is an important factor.

Another key variable in earthquake damage risk is the age and construction typology of a building. Buildings constructed prior to 1972, when seismic design became much more stringent in the National Building Code of Canada, are weaker than modern construction and are at a high risk of seismic damage. At the time of the study, approximately 80% of the city’s building stock was built before 1972. Unreinforced masonry buildings, which comprise the majority of heritage buildings downtown, are especially susceptible to earthquake damage compared to other building types.

Façade-only Conservation

In the vast majority of cases, approved TIP projects have conserved the majority of the heritage building being upgraded, including exterior walls and internal structure. The Victoria Civic Heritage Trust (VCHT), who review and make recommendations to Council on TIP applications, recently had a formal policy discussion over whether grants administered through their Building Incentive Program should be used for façade-only and/or low retention projects. At the meeting, the Board affirmed the purposes of the VCHT and Building Incentive Program to retain, protect and encourage full conservation of heritage buildings rather than façade-only conservation.

In future, façade-only conservation projects will likely be deemed ineligible for heritage grants. The Board continues to finalize these policies, subject to further consideration of circumstances

in which a significant portion of the building is lost to earthquake, fire or otherwise deteriorated beyond repair. Ultimately, the decision to approve or decline a TIP application is made by Council.

OPTIONS AND IMPACTS

Accessibility Impact Statement

The focus of the TIP is to increase public safety in the downtown through seismic mitigation, avoiding human casualties in the event of an earthquake. Full accessibility is not a prerequisite of TIP approval; however, the program has led to a net increase in the number of accessible buildings in the downtown. A visual survey of buildings that have received tax exemptions reveals that 37 of 43 approved projects have entrances that are flush with grade and have no steps to gain entry to the ground floor. These entrances were either pre-existing or constructed as part of the rehabilitation. In larger projects like The Hudson, Hotel Rialto and The Janion, accessibility upgrades included elevators to upper storeys of the building.

Where possible, owners are inclined to make their buildings accessible and provide seamless entry to their ground floor businesses. Some buildings are difficult to adapt, however. For example, 532 Wilson Street, a four-storey former cold storage building built to the front property line, has an entrance staircase with six risers. Creating a barrier-free entry may not be feasible because of the narrow width of the adjacent public sidewalk.

2019-2022 Strategic Plan

The TIP also supports Strategic Objective 8 - Strong, Liveable Neighbourhoods of the *2019-2022 Strategic Plan*.

Impacts to Financial Plan

Over the period of any tax exemption, the City redistributes the exemption to be covered by non-exempt tax payers, so there is no loss in tax revenue to the City. However, the tax burden shifts to non-exempt taxpayers.

Since its initiation, 22 out of 34 projects have had their tax exemptions expire and on average these properties are paying double what they previously paid in property taxes due to the significant increased value of the properties.

Official Community Plan Consistency Statement

Continued support for the TIP is consistent with OCP policy direction under multiple different chapters.

CONCLUSIONS

The TIP is the City's most successful heritage conservation incentive program and has resulted in the seismic upgrading of 43 of the city's heritage buildings. It has attracted over \$266 million in private investment and facilitated the creation of 699 new residential units in the downtown. Recent dramatic increases in seismic resistance requirements and the life safety threshold in the 2018 BC Building Code underscore the need for incentives like the TIP to subsidize the escalating costs of seismic upgrades and ensure life safety in the event of an earthquake. Staff recommend ongoing support for the TIP, which meets multiple strategic objectives and policies in the OCP and *2019-2022 Strategic Plan*.

Respectfully submitted,




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Report accepted and recommended by the City Manager:


Date: Feb 19, 2020

List of Attachments

- Attachment A: Tax Incentive Program Fact Sheet
- Attachment B: Case Studies.