



Committee of the Whole Report

For the Meeting of June 22, 2023

To: Committee of the Whole **Date:** June 15, 2023

From: Karen Hoese, Director, Sustainable Planning and Community Development

Subject: **Tax Incentive Program – Challenges and Opportunities**

RECOMMENDATION

1. That as an interim measure, Council confirms the following eligibility criteria for the Tax Incentive Program (TIP), which are generally consistent with the intent and administration of the program, Provincial legislation and City policy:
 - a. The building must be Heritage Designated.
 - b. Eligible alterations are limited to seismic upgrading work, associated with retaining and conserving existing heritage fabric.
 - c. Construction must not commence until the TIP Application has been advanced to Council for consideration (some strip-out work may be permitted in specific cases). Retroactive applications will not be accepted.
 - d. Proposals must retain internal structure and exterior façades of the heritage building to the highest level possible unless proven in a seismic assessment to be the only viable option for seismic upgrading and/or adaptive reuse and be verified as being necessary by an independent peer review.
 - e. Rooftop additions must be sensitively located and smaller in scale than the existing building and are limited to:
 - One-storey on top of heritage buildings that are two to three storeys and must include step-backs of at least 4 metres from street elevations.
 - Two storeys on top of heritage buildings that are 4-storeys or greater and must include step-backs that are at least 3 metres from street elevations.
 - f. Excavation below the original building foundations is not permitted unless verified as required as part of a structural assessment.
 - g. For Residential Use TIP Applications, buildings must reuse/repurpose existing upper floors for residential use, with commercial on the ground floor. Eligible costs are limited to seismic upgrade work.
 - h. For Non-Residential Use TIP Applications, the building must contain entirely commercial, industrial or institutional uses. Eligible costs can include seismic upgrade work as well as exterior conservation as well as code, mechanical and electrical

- upgrades.
- i. All applications must submit a seismic assessment of the heritage building with cost estimates for the seismic upgrade strategy and clearly separate out eligible heritage costs from any new construction and/or new development costs.
 - j. Applications not meeting the above criteria will be considered ineligible and will not be accepted. Where an application has been accepted and its status changes to make it ineligible, application processing will be stopped.
 - k. Incomplete applications will not be accepted and if necessary, will be returned to applicants to await a complete, accurate submission.
2. That Council direct that all program information related to the Tax Incentive Program, including the VCHT website, be updated as quickly as possible, to clearly reflect the program parameters, eligibility criteria and anticipated timing of application review.
 3. That Council confirm that despite being inconsistent with the above noted parameters, that current in stream proposals having already received all necessary Council development approvals, and where a complete Tax Incentive Program application has been submitted before December 31, 2023, will be brought forward for consideration by Council after being processed by City staff and Victoria Civic Heritage Trust. To take advantage of this opportunity, applicants will be required to engage a third-party structural engineer as well as any necessary supporting professionals, paid for by the applicant but reporting to the City, to conduct a seismic review of:
 - a. the design strategy
 - b. budgeted costs
 - c. any changes that are proposed during construction
 - d. the project at completion, prior to the tax incentive coming into effect, to verify all work was completed in accordance with the approval.
 4. That Council direct staff to bring forward a report exploring opportunities to potentially:
 - a. Expand or establish a program aimed at supporting heritage and adaptive reuse projects that retain prominent heritage buildings but require significant internal demolition and reconstruction and/or proposed additions.
 - b. Allow investigative work, partial demolition or temporary reinforcement work to commence while the grant evaluation process is underway.
 - c. Allow a greater number of heritage designated buildings to qualify.
 - d. Clarify roles and responsibilities of the VCHT, City staff and applicants as well as the overall process involved in administering the TIP.
 - e. Recognize economic challenges associated with current construction costs as well as with providing rental housing within heritage buildings.
 - f. Address recent and anticipated British Columbia Building Code changes particularly as related to seismic standards.
 - g. Undertake a financial analysis of any impacts to the City of Victoria as well as any resource impacts, associated with an expanded or new program.

EXECUTIVE SUMMARY

The City of Victoria's Tax Incentive Program (TIP), which is delivered with the assistance of the Victoria Civic Heritage Trust (VCHT), has been successful in saving and seismically upgrading a significant number of heritage buildings within the City of Victoria. This is particularly apparent in

Old Town where a unique sense of place has been cultivated, creating a robust commercial node, attractive to visitors and residents alike.

However, in recent years a number of challenges have been experienced which are impacting the ability of the City and the VCHT to deliver this grant program effectively. These are largely related to a lack of clarity related to eligibility for the program combined with new development pressures resulting in significant additions and changes being proposed to heritage buildings. Given these changing times, it is recommended that options be explored to potentially expand the grant programs in order to adapt to new development realities and to allow a greater number of buildings to attain some form of support.

In the interim, it is recommended that Council confirms several eligibility criteria and that all publications and documentation related to the TIP be updated to reflect these criteria. To assist with communications, this information should also include the general timing that can be expected for the review of TIP applications. As a result, several issues that have bogged down the TIP will be alleviated and going forward, eligible applications can be processed in a more expeditious manner because of renewed clarity and the resulting freeing-up of resources.

There are also several in-stream applications that are inconsistent with the recommended interim eligibility criteria. The report recommendation would provide direction to process these applications; however, due to their complexity, additional resources would be needed, and it is therefore recommended that applicant-funded consultant services be secured as a part of this recommendation.

PURPOSE

The purpose of this report is to review the Tax Incentive Program (TIP) and seek direction from Council to confirm interim program parameters and to clarify eligibility criteria. A second aim of this report is to seek direction from Council to explore options to address challenges, potentially expand the program, and to address current issues.

BACKGROUND

Report Scope

Although there are many facets to the City's heritage programs and the grants offered by the City and the Victoria Civic Heritage Trust (VCHT), this report focuses on the Tax Incentive Program (TIP).

Provincial Legislation

Tax exemption legislation is enabled through Provincial legislation and allows municipalities to exempt eligible heritage properties from property taxation. The exemption can be a partial or total exemption for properties that meet at least one of the following criteria:

- protected through a heritage designation
- included in a heritage conservation area schedule
- subject to a heritage revitalization agreement
- subject to a heritage conservation covenant
- on an archaeological or other site protected under the Heritage Conservation Act.

The purpose of the tax exemption is to enable local government to provide financial support to

private property owners to conserve their heritage properties. This support is limited to aspects of developments which are required to retain the heritage structure. Once a tax incentive bylaw is adopted, a municipality must monitor tax exempted properties to ensure compliance with the terms of the heritage protection and any other requirement for maintenance, rehabilitation or restoration.

Although there are a few different ways in which the tax exemption could be applied, in the case of Victoria, it has been utilized on a site-by-site basis with criteria and terms designed to suit each unique property. At the time of its inception, the TIP was seen as a way to help revitalize the downtown, add diversity of housing stock, retain and conserve the heritage fabric, and most importantly seismically upgrade heritage buildings that pose a life safety risk in a seismic event.

What is Heritage Conservation?

As the Local Government Act (LGA) only allows municipalities to provide a tax exemption for heritage conservation, a discussion regarding “what is heritage conservation” is central to question of what is eligible for the tax incentive. Although there is general agreement about the benefits of heritage conservation, there is significant debate regarding what is considered appropriate treatment of heritage buildings and how much of the building must be saved for its retention to have value.

Within the Standards and Guidelines there are a number of definitions:

- *Conservation* includes all actions or processes that are aimed at safeguarding the character-defining elements of an historic place to retain its heritage value and extend its physical life. This is an “umbrella” term which may involve Preservation, Rehabilitation, Restoration, or a combination of these actions or processes.
 - *Preservation*: the action or process of protecting, maintaining, and/or stabilizing the existing materials, form, and integrity of an historic place, or of an individual component, while protecting its heritage value.
 - *Rehabilitation*: the action or process of making possible a continuing or compatible contemporary use of an historic place, or an individual component, while protecting its heritage value.
 - *Restoration*: the action or process of accurately revealing, recovering or representing the state of an historic place, or of an individual component, as it appeared at a particular period in its history, while protecting its heritage value.

Within the heritage community, all of these approaches are generally considered to be acceptable ways of treating buildings with heritage value.

Facadism is defined as the architectural and structural practice of only preserving the façade of a building and constructing a new building behind or around it. It is often the compromise between conservation and development. The adaptation of buildings overtime is critical; however, retaining only a façade or two, or where a significant portion of the original building is removed and replaced, is sometimes criticized as not being true conservation.

Examples of some projects that have applied for and/ or received TIP exemptions are shown below.



The Hudson Bay Co. department store converted into condos with commercial at ground level. An example of rehabilitation, adapted for a contemporary new use. Received a TIP in 2010 for 10-year tax exemption as well as BIP funding for the restoration of the facades.



Wellburns at 1050 Pandora, currently under construction. The historic building was partially retained. Approximately 50% of the building was removed to accommodate a 4-storey rooftop addition, a side-by-side addition and underground parking. The project will preserve portions of the façade, restore the storefronts, and rehabilitate the building for continued use, of commercial on the ground level, with residential above. This TIP Application is still under consideration by Council.



Customs House during construction (above) and redevelopment completed (below). Received a 10-year tax exemption, on partially retained heritage building. An example of facadism, adaptive-reuse, and rehabilitation.



Before and After - Morley Soda Factory, TIP received with one storey addition, an example of rehabilitation and an adaptive reuse of an industrial building, converting into live/work and residential units.

Despite the debate, it is noted that all these approaches advance forms of adaptive reuse which can achieve positive outcomes, and arguments can be made for the retention of only part of a building or the façade. As the “face” of the building, in many cases it is the only part that is experienced by the public and it helps retain the original character of streetscapes and neighbourhoods while preserving urban landscape histories. From a development perspective, it may also be more achievable in terms of changing building code requirements and economic realities.

City of Victoria Heritage Policy Framework

There are a number of approved policies and plans that support the preservation of heritage assets within the City. The following provides a brief summary of these policies, which together with the Provincial Legislation, lay the foundation for the Tax Incentive Program.

Official Community Plan, 2012 (OCP)

Heritage conservation has multiple benefits and the OCP supports heritage conservation as a way of contributing to several City objectives around placemaking, climate action, and economic development. The OCP speaks to the resiliency goals related to seismic improvements and supports heritage, both for individual properties and more broadly. It looks to protect and enhance heritage value, character and special features of areas, districts, streetscapes, and cultural landscapes. As such, the OCP policies encourage the protection and the seismic upgrading of heritage buildings, as well as continued investment in the heritage character of the Downtown and other neighbourhoods. This is achieved through incentives such as grant programs as well as offering potential support for increased density, new uses and variances to help facilitate rehabilitation and conservation.

Downtown Core Area Plan, 2011 (DCAP)

DCAP policies seek to strike a balance between new development and heritage conservation in the downtown core, through heritage protection, sensitive infill, and new additions. Policies in

DCAP support the development of financial incentives for building rehabilitation, particularly for seismic upgrading, for eligible heritage-designated buildings.

Standards and Guidelines for the Conservation of Historic Places in Canada

In January 2005, the City of Victoria adopted the *Standards and Guidelines for the Conservation of Historic Places in Canada (Standards and Guidelines)*. The *Standards and Guidelines* are referenced in multiple Development Permit and Heritage Conservation Areas within the Official Community Plan, 2012 which is adopted by bylaw. The *Standards and Guidelines* are important to this discussion because a building must be heritage designated in order to be eligible for a TIP and once a building is heritage designated, any changes to it must be consistent with the *Standards and Guidelines*.

The *Standards and Guidelines* are intended to promote responsible conservation practices that help protect Canada’s irreplaceable historic places. While neither technical nor case-specific, the *Standards and Guidelines* provide a philosophical and performance-based approach to conservation work and the basic principles provide a foundation for decisions about which features of an historic place should be maintained and which can be altered.

The *Standards and Guidelines* are not prescriptive, nor hierarchical in their application and while there is significant agreement about most of the content and intent, there is sometimes debate on how they should be applied. It is therefore not surprising that developments that propose significant alterations and/or additions to heritage buildings are more challenging in terms of applying the *Standards and Guidelines* and are likewise challenging to the Tax Incentive Program.

The figure below shows the relationship between the levels of legislation and policy that apply to heritage properties.

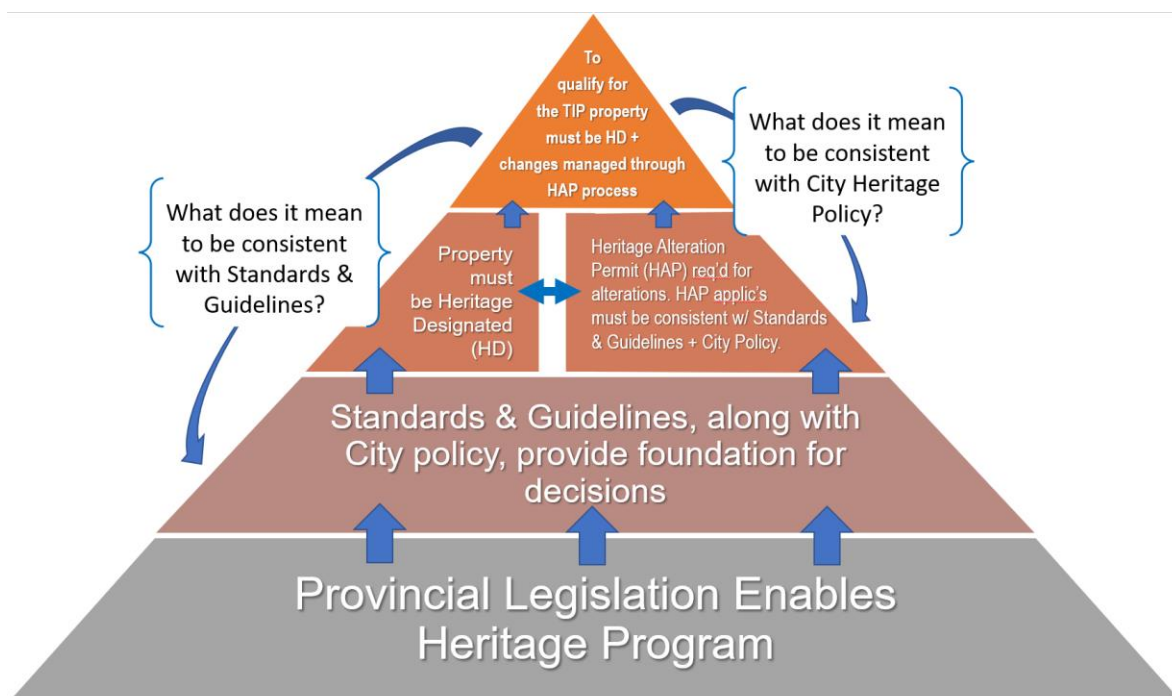
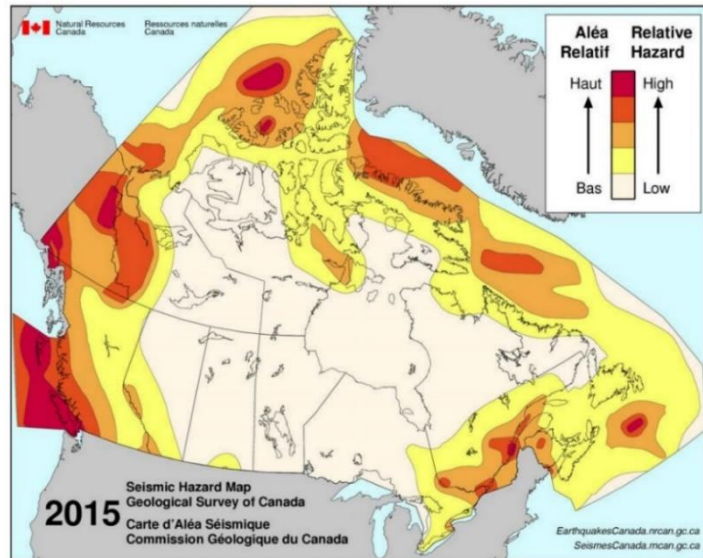


Diagram showing the regulatory and policy framework that lays the foundation for and enables the TIP

Importance of Seismic Upgrading

The Pacific Northwest is noted as a seismically active region and BC is known to be the most seismically at-risk province in Canada, with Vancouver Island having a high hazard risk.

Given that the BC Building Code was not introduced until 1973, one can appreciate the danger posed by many buildings which were not built to a modern building code. Unreinforced masonry buildings are the most at risk and the majority of those that remain are situated in the downtown core, especially Old Town.



When it comes to seismically upgrading unreinforced historic buildings, funding is the biggest obstacle, although not the only one. In addition, the BC Building Code has evolved over time and adapted to include and strengthen seismic requirements which affect construction costs and the ability to achieve the requirements for life safety and building preservation.

The TIP was established to promote seismic upgrading of heritage resources and address significant public safety and potential economic impacts associated with a large-scale seismic event.

Victoria Civic Heritage Trust

Established by the City in 1989, the Victoria Civic Heritage Trust (VCHT) is a non-profit society that receives municipal funding to develop, administer and financially support programs that preserve, promote, interpret, and enhance the cultural and natural heritage resources of the City of Victoria. It was originally established to administer the Building Incentive Program (BIP), with initial capital funding of \$704,160, which the City had received from the sale of a portion of Broad Street to Cadillac Fairview Corporation for the construction of the Bay Centre Development.

VCHT reviews and makes recommendations to City Council on applications to the City's Tax Incentive Program (TIP) for the following financial grant programs to subsidize the rehabilitation of heritage designated buildings across the City (except single family dwellings):

- Building Incentive Program (BIP)
- Parapet Incentive Program (PIP)
- Building Incentive Program – Design Assistance Grant (BIP-DAG)
- Parapet Incentive Program – Design Assistance Grant (PIP-DAG)

The City of Victoria's Heritage Grant Program is well-known in the heritage community and serves as a model to other municipalities. Hundreds of buildings in Victoria have benefitted from the various grant programs and the VCHT has been instrumental in the successes and have received several awards.

Tax Incentive Program

In 1998, Council approved the Tax Incentive Program (TIP). This program was intended to offset

the costs of seismic upgrades for heritage projects, where they facilitated the reuse or conversion of existing upper stories for residential purposes, while maintaining commercial use on the ground floor. It was originally designed to assist property owners within the downtown area with the objective of:

- increasing seismic resiliency in the downtown core
- increasing public safety
- encouraging heritage revitalization
- establishing a dynamic mixed-use neighbourhood to support the ability of residents to live, work and play in the downtown core.

In 2003, the program was expanded to assist in the conversion of heritage designated buildings to non-residential uses, aimed at offsetting the rehabilitation costs for projects that are commercial, industrial and/or institutional in nature.

In 2017, Council approved the expansion of the TIP beyond the downtown to include all eligible heritage designated buildings citywide.

As of May 2023, there have been 36 TIP applications. Twenty-nine of those applications were for residential projects, and seven were for non-residential buildings. The 29 residential projects, resulted in the creation of 703 residential units within the historic fabric of the heritage buildings, and 126 residential units were constructed from new additions, for a total of 818 residential units.

While the majority of the applications have been for full retention of the historic building, listed below are some of the projects where partial retention was accepted. In these cases, there were circumstances where, for example, floors or structure needed to be replaced due to fire, years of neglect, or did not meet code for load bearing purposes. These cases were reviewed by staff, the Architectural Conservation Committee (ACC) and VCHT, to verify that the portions of the building that were removed were justified as per the parameters of the program.

PARTIAL HERITAGE RETENTION			
Year	Address	Residential Units	Reasons for Partial Retention
2018	816 Government St. / Customs House	25	Original floors were uneven, not load bearing, would not sustain a seismic event
1998	Dragon Alley / Hart Block	12	Neglected property.
2002	538 Herald/ B. Wilson Building	4	Fire damaged interior.
2009	1315-17 Waddington Alley/ Morely Soda Factory	9	Neglected property.

As previously noted, Provincial legislation only permits tax incentives to be granted for the purposes of heritage conservation. As a result, where projects propose removal of integral structure for the purpose of adding storeys on top of the historic building or installing underground parking, it becomes very difficult to parse out whether interventions are required for conservation

of the historic property or whether they are required to support the new structure.

Current Tax Incentive Program Process and Tax Exemption Calculation

The current processes and calculations associated with the TIP are complicated and require a significant amount of rigour to ensure that the integrity of the program is preserved and that when a tax incentive is provided, it is granted within the bounds of the enabling provincial legislation.

There are a number of steps involved in processing TIP Applications which differ depending on whether the project is residential or non-residential (commercial, industrial, institutional). However, the actual tax incentive calculation is the same for both categories. Further information on the process and the methodology used to calculate the TIP is provided in Appendix A. In summary, the process requires review by the VCHT and City staff with Council making the final decision, and a construction verification inspection being conducted, prior to the tax incentive coming into effect.

ISSUES & ANALYSIS

The following sections explore a number of issues impacting the current Tax Incentive Program. These sections also provide analysis and offer some opportunities for potential improvements, with the aim of seeking Council direction regarding immediate and longer-term next steps. The discussion in this section has been organized under the following headings:

- Significant Additions / New Added Basements
- Construction Costs and Requests for Additional Density
- Timing Challenges
- TIP Eligibility Criteria
- Instream Applications
- Next Steps and Areas for Further Exploration

Significant Building Additions, Basements and Low Retention

Despite the discussion related to what can be considered heritage conservation, under the current TIP and to be consistent with enabling Provincial legislation, the only work eligible is the seismic upgrade and conservation of the historic fabric. Further, it must be verifiable that money awarded to projects, through tax savings, is only allocated towards interventions required for heritage retention and conservation purposes.

Most applications that have been approved so far have been relatively straightforward, where the whole building is retained and it is clear that the new structure proposed is for the seismic restraint of the historic building. However, due to a number of factors, we are seeing an increasing number of buildings applying for the TIP, that involve more significant redevelopment of the site.

Processing TIP applications and providing the necessary verifications outlined in Appendix A, is a time-consuming endeavour and requires a significant number of hours from both City and VCHT staff. However, where a tax exemption is requested for a partially retained building, with additions to and removals of portions of heritage buildings, as well as excavation below the buildings, the review of the TIP application becomes more difficult. This is because there needs to be a clear understanding of the structural design and the degree to which a segment of work is required to support the original fabric of the building versus the new. These considerations compound the complexity and length of time it takes to review applications.

A seismic assessment must be provided at the inception of the application; this is to allow the

reviewer to understand the structural design strategy and to verify that the exemption is for seismic upgrade and heritage conservation. Because of the complexity associated with applications with significant additions and/or involve excavation under the building, it is recommended that a third party be involved for in-stream applications that deviate from the interim eligibility criteria. This will ensure that the proposed seismic work is verified by a professional and costs estimates associated are accurate before work proceeds, and verifiable once completed.

Construction Costs and Requests for Additional Density

One of the factors that has impacted the TIP and development in general, is the dramatic increase in construction costs which is linked to rising fuel costs, supply issues and post-pandemic inflation. Additionally, British Columbia Building Code standards, particularly pertaining to seismic stability have intensified, further driving construction costs upward. An exacerbating factor related to construction costs is the availability of labour and skilled trades available to work on projects. This is more keenly felt on Vancouver Island, because of the high cost of living, including housing costs, and resulting challenges related to attracting and retaining construction crews.

Applicants have advised staff that increased construction costs have led developers to advance projects that require more significant additions and often extra density, to achieve an economically viable project.

With the desire to respond to City policy which favours the provision of multi-unit rental housing over condominiums, the challenge around economics has been further exacerbated. It is worth noting that the TIP was originally conceived with the purpose of advancing heritage objectives and public safety, with the knock-on effect of increasing residential units downtown; nonetheless, rising construction costs paired with the desire to provide rental housing has resulted in increasing applicant determination to achieve financial incentives through the TIP.

Contrary to this approach of making projects more economically viable, there have also been arguments made that projects that go through a rezoning or variance process should not be eligible to receive a tax incentive as they have already received a form of incentivization by being approved for additional density, uses and/or variances.

Despite the TIPs original purpose, there is an opportunity now to reconsider whether new or expanded programs can be developed that respond to increased economic pressures. The report recommendation includes wording to undertake this work.

Timing Challenges

Increasingly, developers are expressing their concern related to timeframes associated with processing TIP applications because they need to start construction as quickly as possible to combat rising material and labour costs as well as increasing lending rates.

The development industry's need for accelerated timelines, is to some degree at odds with the TIP requirement that construction must not begin prior to Council consideration of a Tax Incentive Program Application. However, this approach was confirmed by Council on May 25, 2017 when the following resolution was passed that:

"...reaffirms the City's Tax Incentive Program Policy that states City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project."

A more recent pressure on the Tax Incentive Program is that several applications with incomplete information have been received over the past few months. Incomplete applications have the effect of slowing down overall processing times and impacting overall responsiveness. Moving forward, to reduce processing “churn”, staff and VCHT will take a more rigorous approach with incomplete applications. As with other development applications, if information is missing, the TIP applications will not be accepted or will be returned. The recommendation includes language to make it clear that a complete and accurate application is a pre-requisite of submission and moving forward in the process.

TIP Eligibility Criteria

Linked to increased complexity of projects and the delay in processing applications, and likely most significant in its impact to the Tax Incentive Program, is the uncertainty regarding eligibility criteria. This has resulted in a situation where the VCHT has been reluctant to process projects that have large additions and/or are primarily focused on preserving the building façade(s).

While the TIP has historically supported projects that focused on retaining whole existing buildings with little or no added space, in recent years there have been examples where a tax incentive has been granted even though only a portion of a heritage building was retained. Some of these, including Dragon Alley, have been highly successful in revitalizing and highlighting important heritage sites within the city. This, perhaps in combination with much of “the low hanging fruit has already been picked,” along with increasing construction costs and stricter seismic code upgrades, has led to more applicants requesting that their partial retention projects receive a tax incentive.



Dragon Alley and Hart Block received TIP for 10 years tax exemption, and BIP funding. There was nothing in the interior that could be saved, facades were restored.

Another factor pertaining to eligibility, which is currently being challenged is that projects are limited to two categories:

- *Residential Use* - Reuses/repurposes existing upper floors to residential use, with commercial use on the ground level.

- *Non-Residential Use* – Rehabilitate entirely commercial, industrial or institutional buildings.



Victoria Press Building, Non-Residential Use, seismic upgrade and adaptive re-use project. TIP application has initial approval and going through final steps of the process.

There may be a benefit to expanding eligibility to include projects that are multi-use or result in an entirely residential project with no commercial component. The report recommendation includes direction that would allow for the exploration of opportunities for expanding the number and types of projects that are eligible for some form of municipal support, to continue to expand heritage retention and ensure that key heritage resources are protected and seismically upgraded.



Former toy warehouse in Los Angeles, adapted/ converted into loft apartments.

The table below shows a summary of the interim criteria for TIP applications and references the reason that these are included.

Interim Tax Incentive Program Criteria	Policy
The building must be Heritage Designated.	Provincial Legislation
Eligible alterations are limited to heritage conservation work, associated with retaining existing heritage fabric.	Provincial Legislation
Eligible alterations are limited to seismic upgrading work, associated with retaining and conserving existing heritage fabric.	1998 TIP parameters
Construction must not commence until the TIP Application has been advanced to Council for consideration (some “strip-out” work may be permitted to commence earlier.)	Council resolution of May 25, 2017
Proposals must retain internal structure and exterior façades of the heritage building to the highest level possible unless proven in a seismic assessment to be the only viable option for seismic upgrading and/or adaptive reuse and be verified as being necessary by an independent peer review.	VCHT recommendation
<p>Rooftop additions must be sensitively located and smaller in scale than the existing building and are limited to:</p> <ul style="list-style-type: none"> - One-storey on top of heritage buildings that are two to three storeys and must include step-backs of at least 4 metres from street elevations. - Two storeys on top of heritage buildings that are 4 storeys or greater and must include step-backs that are at least 3 metres from street elevations. 	City of Victoria Old Town Design Guidelines
Excavation below the original building foundations is not permitted unless verified as required as part of a structural assessment.	VCHT recommendation
For Residential Use TIP Applications, buildings must reuse/repurpose existing upper floors for residential use, with commercial on the ground floor. Eligible costs are limited to seismic upgrade work.	1998 TIP parameters
For Non-Residential Use TIP Applications, the building must contain entirely commercial, industrial or institutional uses. Eligible costs can include seismic upgrade work as well as exterior conservation as well as code, mechanical and electrical upgrades.	2003 expansion of TIP parameters
All applications must submit a seismic assessment of the heritage building and provide options with cost estimates for the seismic upgrade strategy and clearly separate out eligible heritage costs from any new construction and/or new development costs.	Procedural
Applications not meeting the above criteria will be considered ineligible and will not be accepted. Where an application has been accepted and its status changes to make it ineligible, application processing will be stopped	Procedural
Incomplete applications will not be accepted and if necessary, will be returned to applicants to await a complete, accurate submission.	Procedural

In the interim, to provide more clarity about the types of projects that are currently eligible for the TIP, and to provide increased certainty about anticipated timelines, it is recommended that updates to all documents and communication be expedited.

Instream Applications

Although not ideal in terms of reducing complexity and limiting resources dedicated to processing TIP applications, a recommendation is included which would facilitate the processing of instream applications that are inconsistent with the recommended interim eligibility criteria. In this case, “instream applications” are proposals having already received all necessary Council development approvals, and where a complete Tax Incentive Program application has been submitted before December 31, 2023. If approved, this option would require applicants to hire a third-party, independent structural engineer, as well as any other supporting professionals, who would report to the City but be paid for by the developer to conduct a seismic review of:

- the design strategy
- budgeted costs
- any changes that are proposed during construction
- the project at completion, prior to the tax incentive coming into effect, to verify all work was completed in accordance with the approval.

It is recommended that this option only be available for current in-stream applications where all necessary Council approvals have been received and complete and accurate TIP application is submitted by December 31, 2023. The known potential “instream” proposals which may wish to take advantage of this are:

- 1050 Pandora Avenue – Wellburn’s / Parkway Building (Presented to Council on February 16, 2023. This application has been assessed by staff and VCHT but will require a consultant for any proposed changes and at the verification stage.)
- 1314-1318 Wharf Street – Northern Junk
- 2659 Douglas Street – Scott Building
- 780 Blanshard – Power Commission Building

The intention here is to not open the door to other properties where construction is complete or nearing completion to submit retroactive applications.

Next Steps and Areas for Further Exploration

On an interim basis, the recommended eligibility criteria will provide greater certainty for VCHT, the development community, and staff in the processing of TIP applications. Updating program literature, applications and website information to reflect the confirmed parameters, and with information about anticipated timelines for application review, would assist in providing a more transparent and streamlined process. It would also be beneficial to review and clarify roles and responsibilities of the VCHT, City staff, Council and applicants in the TIP process.

For Council’s consideration, a recommendation is included that would allow for in-stream (Council approved) applications, that do not meet the eligibility criteria, to be processed under the TIP.

If Council wishes to expand the TIP beyond the measures described above, opportunities could be explored to potentially:

- support heritage projects that retain prominent heritage buildings but require significant internal demolition and reconstruction and/or propose additions
- allow work or partial work to commence while the grant evaluation process is underway
- allow a greater number of heritage designated buildings to qualify
- recognize economic challenges associated with increasing construction costs as well as with providing rental housing within heritage buildings

- address recent and anticipated British Columbia Building Code changes particularly as related to seismic standards
- undertake a financial analysis of any impacts to the City of Victoria, associated with expanded or new programs.

As part of this work, staff would seek to learn about heritage programs in other cities and would engage both the heritage and development community in discussions before bringing a report back to Council.

OPTIONS & IMPACTS

The following sections outline two options along with impacts for Council's consideration.

Option One – Clarify Parameters / Explore Options (Recommended)

- Clarify and establish interim TIP parameters.
- Update communication and program documentation to make parameters clear.
- Direction to process “instream applications”
- Opportunity to explore and develop options for expanding heritage program.

Motion: See Recommendation

Benefits

- The interim TIP eligibility criteria will provide greater clarity for staff, VCHT and the development community, which will help to streamline the process by creating a more efficient intake and review process.
- Enhanced communication will provide increased efficiencies and greater transparency about the program to the public.
- Applicants whose projects are not eligible under the interim TIP parameters can be considered with the assistance of a third-party consultant to undertake much of the review work, which may improve the economic viability of some projects.
- Potential to expand / refresh heritage program achieved.

Challenges

- Continuing to process instream applications that do not meet the current parameters, will cause an interruption in workflow and ability to undertake other heritage program work, including processing other applications that do meet application requirements.

Option Two: Make no Changes

- Leave program as is and take no further action.

Motion:

That Council receive this report for information.

Benefits

- In the short term, no further staff resources will be expended on program improvements or expansion.

Challenges

- Ongoing confusion and frustration resulting from lack of clarity about the TIP.
- In the long term, significant staff and VCHT resources utilized in continuing to address this lack of clarity.
- No opportunity to expand and further develop heritage programs.

Accessibility Impact Statement

The *Standards and Guidelines for the Conservation of Historic Places in Canada* allows for the incorporation of accessibility provisions during conservation projects. The TIP incentivizes heritage conservation and adaptable re-use and creating accessible and/or adaptable residential units and commercial spaces is possible and encouraged under the program.

2023-2026 Strategic Plan

The TIP incentivizes the adaptive reuse and revitalization of heritage buildings. This encourages urban evolution, innovation and adaptation, which is one of the guiding principles of the Strategic Plan. The Strategic Plan also includes goals pertaining to Climate Action and Environmental Stewardship, Housing, and Economic Health and Community Vitality. The TIP aligns with these goals by incentivizing the retrofitting of heritage buildings, encouraging the creation of housing in these buildings, and the beautification and enhancement of the community through the conservation of heritage buildings.

Impacts to Financial Plan

The interim clarification and establishment of parameters for the TIP will have no impact to the City of Victoria Financial Plan; however, any expansion to the program may have an impact, depending on what is proposed. Subsequent reports will revisit this topic and outline resource and financial plan requirements.

The VCHT is funded as part of the City's budget process and is required to submit the budget proposal annually for approval. At this time, it is unknown if the recommended changes will have implications on the funding requested by the VCHT.

Official Community Plan Consistency Statement

Providing tax exemptions to promote the seismic upgrading of heritage buildings is generally consistent with the Official Community Plan, 2012 (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.

The TIP is consistent with policies under Section 8 - Placemaking: Urban Design and Heritage:

8.6 Conserve and enhance the heritage value, character and special features of areas, districts, streetscapes, cultural landscapes and individual properties throughout the city.

8.43 Encourage high quality architecture, landscape and urban design to enhance the

visual identity and appearance of the City.

8.50 Encourage new development to avoid the demolition of heritage property, or one or more of its façades.

8.51 Continue to give consideration to tools available under legislation to protect or conserve heritage property including, but not limited to: heritage designation bylaws.

The TIP is consistent with policies under Section 14: Economy of the Official Community Plan, 2012 (OCP) including the following:

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

The recommended option is consistent with Section 18: Emergency Management of the Official Community Plan, 2012 (OCP), including:

18.16 Continue incentives for seismic upgrades to owners of designated heritage property and consider incentives for non-heritage properties.

CONCLUSIONS

The Tax Incentive Program has been very successful in terms of supporting and advancing heritage conservation within the City of Victoria and the benefits of this conservation work has been invaluable.

However, with recent pressures and economic changes that are impacting the development industry and resulting in more complex applications, some aspects of the TIP have been challenged. These challenges, while difficult to navigate through when amidst them, also represent an opportunity to achieve greater clarity, make improvements and explore options to expand and build on the heritage program.

As a result, the recommendation is to clearly define and articulate eligibility criteria that can be used at least during an interim period while further work is undertaken to potentially refine and expand heritage programs in a way that addresses current challenges.

Respectfully submitted,

Kristal Stevenot, Senior Heritage Planner
Development Services Division

Karen Hoese, Director
Sustainable Planning and Community
Development Department

Report accepted and recommended by the City Manager:

Date: _____

List of Attachments

- Attachment A: Current Tax Incentive Program Process and Tax Exemption Calculation

- Attachment B: TIP Application Residential Use
- Attachment C: TIP Application Non-Residential Use
- Attachment D: Motion from Council, May 25, 2017 – TIP00027 – 506 Fort Street