



Committee of the Whole Report For the Meeting of May 25, 2017

To: Committee of the Whole **Date:** May 12, 2017
From: Jonathan Tinney, Director, Sustainable Planning and Community Development
Subject: Tax Incentive Program Application No. 00027 for 506 Fort Street

RECOMMENDATION

That Council decline Tax Incentive Program Application No. 00027 at 506 Fort Street.

LEGISLATIVE AUTHORITY

In accordance with Section 225 of the *Community Charter*, Council may exempt protected heritage property from taxation under Section 197(1)(a) to the extent provided in the bylaw and subject to conditions established by the exemption agreement.

EXECUTIVE SUMMARY

The purpose of this report is to present Council with information, analysis and recommendations regarding an application for a ten year tax exemption under the City's Tax Incentive Program – Residential Uses (TIP) based on seismic upgrading costs related to the residential conversion of underutilized upper storey spaces of the Pacific Transfer Building at 506 Fort Street to nine unit rental apartments. The application is for a rehabilitation and seismic upgrading project for the creation of nine residential units on the upper floors of the existing building, with commercial use on the ground floor. The total estimated cost of the project, including interior improvements, is \$1,200,000.00 of which the cost of seismic upgrading is estimated to be \$267,349.45.

This Tax Incentive Program Application is unusual as the rehabilitation and seismic upgrading began prior to submission of the TIP application for technical review by the Victoria Civic Heritage Trust (VCHT), and tax exemption approval by Council. Tax Incentive Program Policy adopted by the City of Victoria on March 12, 1998, states: "*City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project.*" In mid-November City staff referred the TIP application for 506 Fort Street to the VCHT for technical review and recommendations to City Council, with a question of evaluation as to whether the application would have been recommended for a tax exemption if the work was not already done. To complete submission requirements that would enable the Victoria Civic Heritage Trust to complete a technical review, the applicant was asked to submit relevant seismic upgrading design and costing received prior to construction. The application was reviewed by the Victoria Civic Heritage Trust at its meeting on February 27, 2017, and it was determined that the project meets the technical cost formula established to determine the

legibility threshold for a tax exemption period of ten years. (See attached letter dated February 28, 2017.)

If the application had followed standard program policy, procedures and timelines, the project would be worthy of staff support as it contributes to the City's strategic objectives of strengthening the Downtown with additional residential development; assisting in the preservation and rehabilitation of heritage buildings; improving public safety through the seismic upgrading of the masonry building; and is located in a compact cluster of designated and registered heritage properties.

The alternate motion provided for Council's consideration supports the approval of the TIP Application regardless of the fact this application did not adhere to the policy related to completion of the work after Council approval is achieved.

BACKGROUND

In March 1998, City Council approved the Tax Incentive Program to provide tax exemptions of up to ten years to assist heritage building owners with the high cost of seismic upgrading which was affecting the economic viability of converting the upper floors of heritage buildings to residential use. Not including the current project, the program has created 600 new residential units in 34 rehabilitated heritage buildings and attracted \$205 million in private investment in the Downtown Core.

This application is to assist the rehabilitation project involving the conversion of a heritage building at 506 Fort Street (Pacific Transfer Building) to residential use on its upper two floors. The total estimated cost of the project, including interior improvements, is \$1,200,000.00 of which the cost of seismic upgrading is estimated to be \$267,349.45.

A Building Permit was issued on July 19, 2016, for the change of use alteration on the 2nd and 3rd floors, however the applicant did not apply for a Heritage Alteration Permit as the change of use alteration was contained to the interior and was determined to not impact the exterior appearance of the building. A Heritage Minor Alteration Permit (HMA), now referred to as a Delegated Heritage Alteration Permit (DHAP), was issued for the addition of Juliette balconies on the rear north side of the building.

City staff received an incomplete Tax Incentive Program application for 506 Fort Street in late October of 2016. The incomplete application was referred to the Victoria Civic Heritage Trust to determine whether the application would have been recommended for tax exemption if the work was not already done, the application for 506 Fort Street was reviewed by the Victoria Civic Heritage Trust's Architectural Conservation Committee (ACC) on January 16, 2017. At the VCHT Board of Directors meeting on February 27, 2017, the following recommendation was approved:

Subject to heritage designation, the residential conversion project at 506 Fort Street (Pacific Transfer building) meets the technical cost formula established to determine the eligibility threshold for a tax exemption period of Ten (10) Years subject to Council's approval and the project meeting all other City requirements, final site visit and verification of final costs. The project does not meet Tax Incentive Program Policy adopted by City of Victoria that "City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed projects." (see attached Program Conditions, 3.6)

Further:

If the Tax Incentive Program application for 506 Fort Street is approved, it is recommended the Council immediately pass a motion to prohibit any retroactivity Tax Incentive Program applications that do not meet the City of Victoria's policy that "City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project." (Program Conditions, 3.6)

And:

If the tax exemption application for 506 Fort Street is not approved, it is recommended that council immediately pass a motion to reaffirm its Tax Incentive Policy that "City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project." (Program Conditions, 3.6)

The estimated value of the tax exemption is $\$26,333.56 \times 10 = \$263,335.60$ over the ten year period. The estimated seismic upgrading costs for 506 Fort Street of \$267,349.45 exceed the technical cost formula for a ten year tax exemption period, thus meeting the technical cost formula. The value of the property after conversion increases its current assessed value of \$1,806,000.00 to \$3,624,000.00 with the new tax assessment of approximately \$35,151.60 a year over the ten year period.

ISSUES AND ANALYSIS

Tax Incentive Program (TIP)

Processing retroactive TIP applications is problematic as it preempts an important aspect of the review where cost estimates are vetted and analyzed to verify the work's value prior to Council considering approval. As noted in the previous section, the Tax Incentive Program application for 506 Fort Street is not consistent with this aspect of the policy which states: "City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project." Despite this inconsistency, all other aspects of the project comply. The alternate recommendation would advance potential approval of this TIP Application along with a recommendation that Council reaffirm the portion of the policy that does not support retroactive applications in order to make it clear to future applicants this is not acceptable as a normal practice.

Official Community Plan and Downtown Core Area Plan

This Tax Incentive Program Application is consistent with numerous goals, objectives, policies and guidelines in the Official Community Plan and the Downtown Core Area Plan related to heritage resources and their conservation.

Resource Impacts

The building rehabilitation has created nine new residential units on the upper floors of the heritage building. The total 2016 property tax for the property is \$26,333.56, with the municipal portion being \$15,534.98. The formula to determine the term of the tax exemption is based on the rate of the current year's property tax multiplied by the number of years (to a maximum of ten) required to meet the estimated cost of seismic upgrading. The term requested is ten years as the total tax incentive is estimated at \$263,335.60 ($\$26,333.56 \times 10$) which is less than the estimated seismic upgrading costs of \$267,349.45. Upon completion, BC Assessment estimates the value of the property will increase to \$3,624,000.00 from the 2016 assessed value of \$1,806,000.00. Based on the proposed tax rates, the estimated value of the tax exemption will

be \$351,516.00 (\$35,151.60 x 10) over the ten year period, with the municipal portion being \$22,074.40.

	Assessment	Total Taxes	Municipal Taxes
Current	\$1,806,000.00	\$26,333.56	\$15,534.98
Proposed	\$3,624,000.00	\$35,151.60	\$22,074.40

The City will redistribute the \$351,516.00 tax exemption to non-exempt taxpayers over the ten year period. Although the exemption will reallocate the tax revenue, the City will receive additional tax revenue at the expiry of the ten year term. The net impact of additional residents living downtown and their support for downtown businesses will also be a positive economic benefit.

CONCLUSIONS

The submission of this application was unfortunately received very late in the process after rehabilitation and seismic upgrading was well underway, which is not consistent with Program Policy. For this reason, it is recommended for Council's consideration that the project be declined.

However, the building contributes to the heritage character of the street; benefits the Downtown Core; improves the seismic resistance of a hazardous structure and the safety of its occupants; rehabilitates a heritage building; and adds housing diversity, affordability and availability within the downtown. If the application had followed standard policy, procedures and timelines, staff would have supported the application with a recommendation for Council to consider the preparation of a Tax Exemption Bylaw.

ALTERNATE MOTION

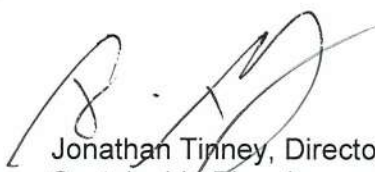
That Council instruct the City Solicitor to prepare a Tax Exemption Bylaw for 506 Fort Street for 10 years, pursuant to Section 392 of the *Local Government Act*, with the following conditions:

1. That a covenant identifying the tax exemption be registered on the title to the property and any possible future strata titles.
2. That the final costs of seismic upgrading be verified by the Victoria Civic Heritage Trust.
3. That Council reaffirm the City's Tax Incentive Program Policy (Program Conditions, 3.6) that states City Council approval of the tax exemption must occur prior to the commencement of any work on the proposed project.

Respectfully submitted,



Merinda Conley
Senior Heritage Planner
Community Planning Division



Jonathan Tinney, Director
Sustainable Planning and Community
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Report accepted and recommended by the City Manager:



Date: May 18, 2017

List of Attachments

- Subject map
- Aerial map
- Photos
- Letter from the Victoria Civic Heritage Trust, dated February 28, 2017
- Tax Incentive Program Policy Conditions, as approved by Council on March 12, 1998
- Heritage Tax Incentive Program Application – Residential Uses Information
- Analysis by BC Assessment Authority
- Structural plans