Summary of Financial Incentive Analyses and Explored Alternatives

Designating Heritage Resources in Calgary

To date, 785 existing sites of heritage significance have been assessed for Calgary's *Inventory of Evaluated Historic Resources* (*Inventory* sites) and hundreds of additional non-*Inventory* potential candidates have been identified as part of visual windshield surveys of inner-city communities. Using the currently-available financial incentives in Calgary, only 99 of the total identified sites have been protected against alteration or demolition through designation as a Municipal Historic Resource. While Administration's comprehensive program of heritage conservation does not exclusively focus on the designation of individual sites, designation is considered one of the most significant and effective tools in ensuring the continued existence and long-term public enjoyment of Calgary's heritage resources.

Due to the framework of required compensation in Section 26 of the Alberta *Historical Resources Act*, Administration does not typically consider it feasible to designate privately-owned heritage resources without a property owner's express agreement. This means that besides the limited number of owners interested in designation for personal or altruistic reasons, financial incentives play a significant role in achieving designation of identified heritage resources.

General Summary of Financial Incentive Analysis To-Date

Responding to Council in PFC2019-0223 and PUD2020-0259, Administration has explored new financial incentives to increase heritage conservation in Calgary. The following analysis was completed prior to 2020 April 1:

- Comparative research through Heritage Planning (City Wide Policy) into conservation incentives offered across Canada and internationally (2019-2020);
- Analysis of the financial factors influencing property owner behavior, including a survey of owners of non-designated sites on the *Inventory of Evaluated Historic Resources* (2019), a preliminary valuation of increased development potential through land use re-designation (2018); and,
- Initial program cost projections from Administration based on existing data for *Inventory* sites (2020), and then-current assessment information (2018).

Further analysis has been completed following the 2020 April 1 Standing Policy Committee on Planning and Urban Development:

- Additional collaboration with City Assessment, Finance and Law to consider potential terms, conditions and operations of the proposed programs;
- Updated projection models using the most current data regarding local heritage conservation statistics, property value assessments, and annual municipal property taxes levied; and,
- Incorporation of new datasets into projection modelling, including select non-*Inventory* properties into the proposed residential program.

Proposed Financial Incentives to Increase Heritage Designations

This attachment provides information on the analysis used to determine the recommended financial incentives in this report, including refinements following direction at PUD2020-0259:

Explores the two financial incentives recommended with this report: A new residential tax credit, and a non-residential structured grant program increase.

Provides financial projections for implementation options in advance of 2020 November mid-cycle budget recommendations.

Compares the non-residential conservation tax credit shown in PUD2020-0259 to the structured grant program increase now recommended for Council and describes the advantages of the current approach.

A summary of the identified challenges with a differential tax credit approach.

Part 1: Financial Analysis of Recommended Programs

Residential Tax Credit

The proposed residential tax credit program is intended to provide property owners with a more competitive alternative to redevelopment than existing incentive programs offered for conservation. It would provide owners of residential (designated) Municipal Historic Resources with a 75% annual credit on their municipal property tax assessment for up to 15 years, or a maximum $50,000 per property. The program terms do not require an owner to perform restoration or rehabilitation work to receive the credit, although it is assumed that many owners will invest a portion of the credit into their properties.

The program incentivizes property owners to seek designation by providing unrestricted, easily-accessed financial support that is more proportionate to the effort, risks and expenses involved in selling or redeveloping their properties than the existing *Historic Resource Conservation Grant Program* (which requires owners to perform restoration or rehabilitation work). This incentive helps counteract the inclination of property owners towards redevelopment, particularly in the context of rising property values where allowable density has increased.

There are generally three status of heritage sites as shown in Table 1 below:

Status	Sites potentially eligible for incentive	Responsible organization	Estimated yearly capacity
***Non-Inventory* Sites**: Owners of properties that would qualify for the *Inventory of Evaluated Historic Resources* but are not yet listed can request evaluation and approval by Heritage Calgary. Recent visual surveys have identified 477 likely *Inventory* candidates in Calgary's most heritage-rich areas.	477 known	Heritage Calgary	20 new evaluations per year (increased from previous average of 10-15 per year)
***Inventory* Sites**: Owners of listed properties seeking designation will make a formal request to Administration. Subsequent collaboration will create a proposed bylaw which is presented in a report to the Standing Policy Committee on Planning and Urban Development and Council.	233	City of Calgary	50 new designations each year (increased from current target of 7 per year)
Designated Sites: Owners of designated Municipal Historic Resource properties will apply and meet eligibility criteria for the residential tax credit program.	31	City of Calgary	All eligible (designated) sites can be processed with provided resourcing

Table 1: Three statuses for heritage assets leading to Municipal Historic Resource designation of residential heritage

Projected Outcomes

Out of the estimated 741 sites in Calgary that could be *potentially* eligible for this program, it is assumed that up to **315** may realistically apply for the residential tax credit:

- <u>Designated Sites</u>: All 31 properties that are already designated are eligible to apply immediately, with 100% participation is assumed.
- <u>*Inventory* Sites</u>: 93 properties (of the total 233) currently on the *Inventory* are projected to request designation to receive the tax credit. This projection was derived from a 2019 survey of owners of properties on the *Inventory.* Of residential respondents, 40% indicated almost certain interest in designation given a program like the proposed.
- <u>Non-*Inventory* Sites:</u> Using the same projected 40% uptake, as many as 191 property owners (of the known 477) could also seek to complete *Inventory* listing and Municipal Historic Resource designation process to become eligible for the tax credit.

Projected Costs

Total Cost

To achieve the total 315 properties with projected designation interest, the total lifetime cost of the program is estimated to be approximately $18 million. With the requested additional full-time staff resource, Heritage Planning estimates being able to accommodate a maximum 50 residential designations per year. This means that from the start date of the program, 50 newly-designated sites could enter into 15-year tax credit agreements annually. Based on the projected number of interested sites and *Inventory* capacity per Heritage Calgary, the total time required to provide all incentives would be approximately 24 years if the program is fully subscribed each year. The resourcing capacity of 50 annual designations (and therefore incentives) stages costs, so the initial and final years of the program will be less expensive than a 'peak period' from approximately two years after the program begins for a duration of seven years. During this peak period, the annual cost to The City of Calgary is estimated at an annual $1.2 million. Subsequently, costs decline to an average annual cost of approximately $500,000 for the remaining 14 years it would take under current resource estimates to complete the program. Due to this fluctuation, the average annual cost over the projected lifetime of the program is approximately $750,000.

Chart 1 shows the pattern of cost fluctuations over a projected program duration. **Please note that although Administration's recommendation is for the residential tax credit to be approved through the 2023 budget, the below projection shows a start date of 2021. Projections were performed for the immediate 15 years to minimize inaccuracies due to rate fluctuations, given that 2020 property assessments and taxes levied are used for all future years (future mill rate changes unknown).*

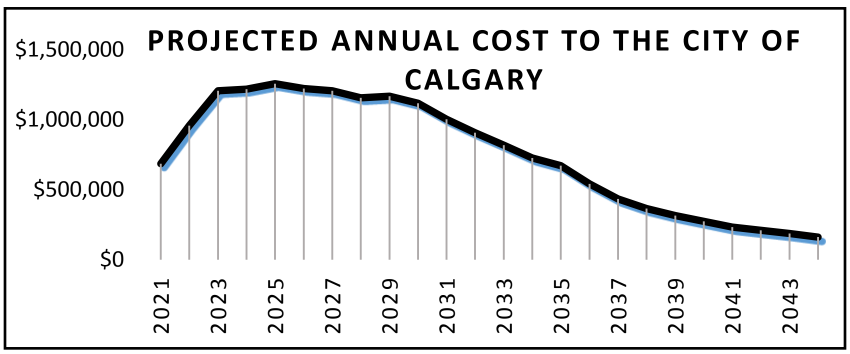

Chart 1: Projected annual costs for residential tax credit program over time

Two components make up the total program cost: the value of the provided tax credits, and the cost of the new estimated staff resource.

Tax Credit

Over the course of the program, an approximate projected $14.42 million of total tax credit will be claimed by eligible property owners. Of this total amount, approximately $1.44 million dollars would go towards the 31 already-designated residential sites that would become immediately eligible for the tax credit, or approximately $95,000 annually for 15 years. This is understood as a minimum cost necessary to ensure fair and equitable distribution of incentives to designated heritage resources in Calgary and would be incurred regardless of the number of new heritage designations achieved by the program.

As shown in Table 2, a majority of *Inventory* and non-*Inventory* site owners may claim the maximum $50,000 over a 15-year duration with the proposed program terms. Remaining owners can claim a reduced amount based on their property taxes (at a 75% tax rate).

Inventory & *Non-Inventory* Site Owners		
	Number of Owners	Total Incentive Amount (apprx.)
Able to claim $50,000 (maximum)	184	$9,200,000
Able to claim between $40,000 and $49,999	49	$2,200,000
Able to claim between $30,000 and $39,999	36	$1,200,000
Able to claim between $25,000 and 29,999	9	$250,000
Able to claim between $20,000 and $24,999	4	$85,000
Claiming less than $20,000	2	$25,000
Total Tax Credit	**284**	**$13,000,000**
Existing Designated Site Owners		
	Number of Owners	Total Incentive Amount
Total Tax Credit	**31**	**$1,440,000**
Grand Total	315	$14,400,000

Table 2: Projected total tax credit claims

Staff Resources

This program will require a total of 1.0 Full-Time Equivalent (FTE) staff position estimated at $150,000 per year. Given the projected program duration (24 years), this would amount to a total estimated $3.6 million. The additional staff resource will assist with designating all 284 non-*Inventory* and *Inventory* properties in years 1 to 10 (2021 – 2030) and provide required ongoing support to all designated resources for the duration of the program. As indicated in Table 1, current resource capacity supports approximately seven Municipal Historic Resource designations per year. With the additional full-time resource this amount increases to 50, made possible through a dedicated staff member and proposed new efficiencies. The graph below illustrates program progression if an additional resource is secured.

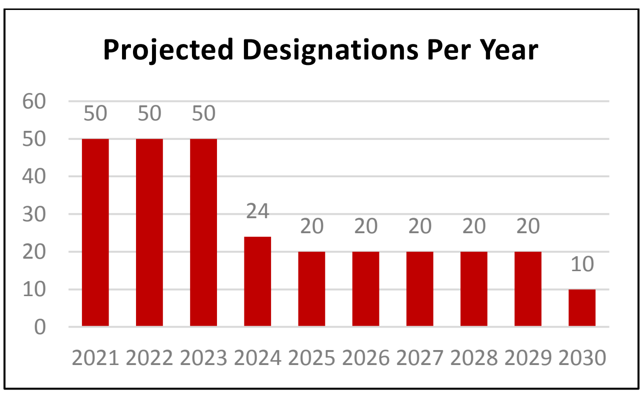

Chart 2 – Projected designations per year

Beginning in 2024, the number of projected annual designations sharply declines. While Administration estimates that 50 designations can be processed annually, Heritage Calgary can only perform 20 annual new evaluations for the *Inventory* at current funding level. From 2024 onward, current projections show there being fewer than 50 sites on the *Inventory* eligible for designation and, therefore, this incentive each year.

Projection Model

The listed outcome and cost projections were generated using the following datasets:

- Existing properties from *Inventory*;
- The list of residential sites identified through the 2019 windshield survey as likely candidates for the *Inventory* according to visual criteria alone; and,
- Monitored outcomes of the existing *Historic Resource Conservation Grant Program*.

Following the initial project analysis of financial incentives in other municipalities, Administration investigated the feasibility of tax-based incentives by modelling example scenarios on non-designated residential properties currently listed on the *Inventory*. Privately-owned sites assessed under the residential tax-class were subject to a range of tax-credit scenarios using then-available (2018) property values and annual taxes levied by The City. The possible financial value generated for property owners under a residential tax-credit program was benchmarked against preliminary analysis on the financial impact of land use re-designation (allowing higher development potential such as R-C1 to R-CG) on property value.

Following the proposed program terms being determined according to outcome-testing (described further in Assumptions), the hypothetical program was described to owners of non-designated *Inventory* sites through a 2019 physical and online survey. Among other parameters, the survey measured changes in an owner's described interest in designation given the proposed program. Based on the resulting change (40% of respondents indicated "almost certain" interest given the program), a random sample of residential properties from the *Inventory* and windshield survey datasets was created, and 40% of the combined set was selected to provide a potential 315 maximum sites (Table 1). The projected application dates to the incentive program were staggered according to yearly workload-limits estimated by Heritage Planning, accounting for additional requested staff resources. The resulting annual, average, and lifetime program costs were derived from this projection model.

Assumptions

1. <u>$50,000 is an appropriate program limit</u>
   As properties experience increases in allowable density (through City-initiated land use re-designations, or individual applications), averaged assessed property values have been projected to increase by between approximately 13% and 30% depending on property size, community, and the land uses in question. The residential tax credit program incentivizes property owners to designate by providing them with unrestricted, easily-accessed property tax savings. Because of this, the proposed residential tax credit program is more proportionate to the effort, risks, and expenses involved in re-designating and redeveloping properties than the existing grant program.

   Additionally, this amount is similar to the average grant issued to designated single-family residential properties through the existing grant program (approximately $60,000), with nearly 40% of the 18 grants being under $50,000.

2. <u>A 75% property tax credit over 15 years is a balanced approach</u>

   Using financial models, the 75% tax credit was tested alongside credits ranging from 50-100%. Lower percentages allow fewer properties attain the maximum $50,000 incentive over the 15-year duration, while higher percentages increase the program cost. At a 75% credit, owners of 278 of the 284 *Inventory Sites* and non-*Inventory* sites can claim between $25,000 and $50,000 (at least half of the maximum), while 184 property owners will be able to claim the maximum $50,000 (see Table 2).

3. <u>Data Limitations</u>

   Given the additional project scope between 2020 April 1 and July 15, the taxation and assessment values used to generate the refined financial projections reflect 2020 values, and do not account for rate fluctuation over the duration of the program. If approved by Council, Administration will continue to coordinate internally to further refine financial projections for the recommended Residential Tax Credit in preparation for the 2023 budget discussions.

Non-Residential – Structured Increase to the *Historic Resource Conservation Grant Program*

In lieu of the non-residential conservation tax credit proposed with PUD2020-0259, Administration recommends a $2 million base increase to the *Historic Resource Conservation Grant Program*. The increase would be accompanied by an associated re-structuring of the program terms to apply the increased amount specifically for non-residential heritage resources and increase the maximum matching grant value to $1 million per project. This proposal has some differences between the tax-credit approach, but indications show similar or better conservation outcomes at a reduced cost with higher degree of certainty (further detail in Part 3).

The existing *Historic Resource Conservation Grant Program* receives $500,000 annually through One Calgary and provides 50% matching grants for restoration or rehabilitation projects to designated Municipal Historic Resources, capped at $125,000 per project or 15% of a property's overall assessed value. The annual program budget is currently split between residential and non-residential heritage resources, and funds are issued on a first-come, first-serve basis. Prior to the 2020 year, the grant program was fully subscribed (see Attachment 1 for additional details).

In contrast to the Residential Tax Credit, there are not a significant number of known non-residential heritage sites outside of what is already listed on the *Inventory of Evaluated Historic Resources*. For this reason, Table 3 below indicates only '*Inventory*' and 'Designated' sites.

Status	Sites potentially eligible for incentive	Responsible Organization	Yearly Capacity
Inventory Sites: Owners of listed properties seeking designation will make a formal request to Administration and collaborate to create a proposed bylaw which is presented in a report to the Standing Policy Committee on Planning and Urban Development and Council.	224	City of Calgary	50 new designations each year (increased from previous average of 1-2 per year)
Designated Sites: Owners of designated Municipal Historic Resource properties will apply and meet eligibility criteria for the non-residential grant program.	28	City of Calgary	All eligible (designated) sites can be processed with provided resourcing

Table 3: Three statuses for heritage assets leading to Municipal Historic Resource designation of non-residential heritage

Projected Outcomes

There is greater uncertainty in projecting non-residential outcomes for new conservation incentives than with residential due to factors including varying ownership structures (corporations, REITS etc.), and strong redevelopment potential. Despite this, comparative and analytic information strongly indicates that Calgary's existing grant program crucially underserves non-residential heritage resources and can be bolstered to improve the likelihood of designation.

Given existing projection models, the following outcomes have been estimated for the proposed $2 million structured grant program increase:

- *Inventory* Sites: A 2019 survey of non-designated *Inventory* sites estimated that 17% of non-residential owners had a strong likelihood of legally protecting their property if a tax incentive or similar was proposed. Based on this, approximately 38 *Inventory* site owners were projected to seek designation given that program. While a structured increase to the grant program has some differences from the tax incentive and is considered more beneficial overall for recipients and The City (see Part 3), the incentives retain general similarities. Regarding overall investment, the non-residential tax credit was projected to cost between $2.0 and $2.5 million per year, which aligns with the recommended grant program increase. As such, the estimate of approximately 38 additional designations is considered still a viable projection.

- Administration projects that with required resourcing, up to five new non-residential conservation grants could be processed annually by Heritage Planning in addition to the existing grant program workload. The lower capacity in comparison to the residential program reflects that where residential applications only need to meet qualifications and execute an agreement, conservation grants entail detailed review, approval, and monitoring of major rehabilitation projects.
- Designated Sites: The 28 already-designated sites would be eligible to immediately apply for conservation grants through the restructured program.

Projected Costs

In contrast to the residential tax credit, the proposed grant program base increase would not have a target end date. The *Historic Resource Conservation Grant Program* is designed to not only incentivize new designations, but to provide regular support to heritage resources in Calgary as-needed.

Given that grants are only approved under this program where matching private investment is made, program costs are highly correlated with successful outcomes. If real-world outcomes differ from current projections, program adjustments can be made at future budget discussions.

Grant Budget

Regardless of the identified challenges in projecting potential non-residential incentive uptake, the recommended grant program increase would require $2 million annually (unused amounts for a given year would remain in the *Heritage Incentive Reserve Fund* for future use). Administration recommends that a two-year review be provided to Council as part of the 2023 budget discussions on the measured outcomes of this program. This review period would allow enough time for impacts of the increase to be explored while allowing Administration and Council an early opportunity to adjust according to successes and lessons-learned.

Staff Resourcing
At the projected capacity of 5 additional grants per year, Administration does not anticipate additional staffing requirements. Due to the *Historic Resource Conservation Grant Program* being an existing incentive with established parameters and operations, the required staff time through Law, Finance, and Planning & Development is significantly lower than with the creation of a new program.

Projection Model

The recommended $2 million increase for non-residential resources reflects several points of analysis:

- The average of multiple projected cost scenarios for the prior non-residential tax-based program (see Part 3 of this attachment) is approximately $2 - 2.5 million per year, and the grant program increase seeks to create a similar impact with less required resourcing.
- The City of Edmonton, which shares similarities with Calgary's heritage conservation context (including approximate City size and age) currently provides $2.3 million in annual funding for heritage grants.
- Average non-residential property value is over 3 times larger than average residential property value, and individual variance can be significantly higher. Accounting for value alone (predictive of maintenance, restoration and rehabilitation needs), a fourfold increase for non-residential resources helps provides comparable funding between these two types.

Assumptions

1. An increased grant maximum to $1 million in matching funds increases the feasibility of funding a greater variety and scale of non-residential rehabilitation work
   Owners applying for the non-residential program need to perform restoration/rehabilitation work and contribute an equal private investment in the project. Rehabilitation for non-residential properties can be

much higher than residential properties, and project costs vary significantly depending on the type of projects undertaken and owners' financial risk profile.

The current program cap of $125,000 (at 15% of a property's assessed value) does not effectively incentivize most non-residential owners to designate their property, as this amount can be insufficient for major scopes of work. Based on an analysis of previous rehabilitation projects from Calgary's *Historic Resource Conservation Grant Program*, the average cost of individual major repair scopes (roof replacement, window rehabilitation, etc.) on a property is approximately $570,000. Comprehensive rehabilitation may be far more expensive, with analyzed Calgary examples ranging between approximately $350,000 and $4.6 million as the total project cost. The trend of high restoration costs for non-residential projects persists across different cities in Canada, with conservation costs often ranging between $200,000 - $500,000 for moderate-scale projects, and more than $1 million for major projects.

Property owners are also unlikely to generally seek a maximum $1 million matching grant, as doing so would also require an equivalent private investment and thus, increase financial risk.

2. A $2 million program increase supports a higher overall volume of rehabilitation and restoration projects, incentivizing more *Inventory Site* owners to seek designation
   An increased and restructured program with $2 million dedicated to non-residential sites allows for a greater annual number of grants to property owners, incentivizing designation. While the maximum grant value is $1 million in matching funds, most grants are estimated to cost between $200,000 and $500,000. In addition to this, there are regional precedents to support this program limit. For example, The City of Edmonton currently provides $2.3 million in annual funding for heritage grants.

3. This is a low-risk program that has potential to yield high rewards
   In the current economic context, this program has the potential to play an important role in recovery and stimulus. Studies on the financial impact of heritage conservation through *PlaceEconomics* indicate that higher numbers of jobs are created for the same dollar investment than in new construction, amplifying the impact of stimulus generated through this program. As a conceptual example, if all existing designated resources in Calgary were to receive their maximum possible grant value, this program would facilitate $28 million in private investment.

Currently Designated Sites	Private Investment	Matching Grant
28	$28 million	$28 million
Total Investment	$56 million	

Table 4: Potential for private investment in heritage if all currently-eligible sites receive a hypothetical maximum grant

Part 2: Two-Year Projected Costs

Administration's recommendations for this report propose the residential tax credit program return to Council for approval as part of 2023-2026 budget discussions, while the proposed increase and restructure to the *Historic Resource Conservation Grant Program* would be advanced through a 2020 November mid-cycle budget adjustment (*Near-Term Financial Option, as per below*). Two additional scenarios are also presented for consideration.

1) **Near-Term Financial Option:** Under the scenario of Administration's recommendations, the following approximate two-year costs are projected

    2021
    Residential Tax Credit: N/A
    Administration Staff Costs: N/A
    Conservation Grant Program Base Budget Increase: $2 million

    2022
    Residential Tax Credit: N/A
    Administration Staff Costs: N/A
    Conservation Grant Program: $2 million (assuming 2021 base budget increase is approved)

    Total Cost: $4 million
    Key Assumptions: No financial tax-based incentives currently approved (for 2021 & 2022); Council to consider interim increase to existing grant program. Structure of grant program would require amendment.

2) **Residential Tax Credit & Conservation Grant Program (for non-residential component):** Should Council seek to instead approve both of the proposed financial incentives through a 2020 November mid-cycle budget adjustment, the following approximate two-year costs are projected

    2021
    Residential Tax Credit: $550,000
    Administration Staff Costs: $150,000
    Conservation Grant Program Increase: $2 million

    Total 2021 Base Budget Increase: $2.7 million

    2022
    Residential Tax Credit: $800,000
    Administration Staff Costs: $150,000
    Conservation Grant Program Increase: $2 million

    Total 2022 Base Budget Increase: $250,000 ($800,000 - $550,000)

    Total Cost: $5.65 million
    Key Assumptions: Residential Tax Credit approved; Increase to Conservation Grant Program for the non-residential Program. Analysis of the proposed non-residential tax credit program showed that a yearly increase to the existing grant program could have a similar impact without the upstart costs and challenges of introducing a new program.

3) **Residential & Non-Residential Tax Credit:** If Council prefers that Administration advance both tax-based financial incentives as proposed with PUD2020-0259 (including the residential and non-residential tax program) through the 2020 November mid-cycle budget adjustment, the following approximate two-year costs are projected

    2021
    Residential Tax Credit: $550,000
    Administration Staff Costs: $150,000
    Non-Residential Tax-Credit: $2.5 million

    Total 2021 Base Budget Increase: $3.2 Million

    2022
    Residential Tax Credit: $800,000
    Administration Staff Costs: $150,000
    Non-Residential Tax-Credit: $2.5 million

    Total 2022 Base Budget Increase: $250,000 ($800,000 - $550,000)

    Total Cost: $6.65 million
    Key Assumptions: Council to proceed with tax-based incentives for both residential and non-residential programs.

Part 3: Why a Non-Residential Tax Incentive is No Longer Considered

Non-Residential Conservation Tax Credit

As proposed in PUD2020-0259, a non-residential conservation tax credit would allow owners of legally-designated non-residential heritage sites to apply to receive reimbursement of up to 50% of an approved restoration/rehabilitation project through an annual credit on their municipal property taxes over a period of up to 15 years. The credit amount is limited to 50% of each year's municipal tax assessment or capped at an overall yearly maximum ($250,000 was proposed in PUD2020-0259, and $1,000,000 was subsequently explored). The 15-year total for this proposed program cannot exceed 15% of a property's overall value in combination with other City of Calgary conservation incentives.

The intent of the non-residential conservation tax credit was to provide a significantly larger incentive value to designated non-residential heritage resources than is currently available, and through a mechanism considered convenient and popular in many jurisdictions (including in Toronto, Regina, and across the United States).

Projection Model

The listed outcome and cost projections were generated using data from *the Inventory of Evaluated Historic Resources* and monitored outcomes of the existing *Historic Resource Conservation Grant Program*.

Following comparative analysis of financial incentives in other municipalities, and program successes of the existing *Conservation Grant Program*, Administration determined parameters for a conceptual non-residential conservation tax credit. This hypothetical program was described to owners of non-designated *Inventory* sites through a 2019 conservation survey. Among other parameters, the survey measured changes in an owner's described interest in designation given the proposed program. Based on the resulting change (17% of respondents indicated "almost certain" interest given the program), random samples of non-residential properties from the *Inventory* were created using 17% of the total number of eligible properties, or 38 sites.

Unlike the residential tax credit program, potential uptake requires matched private investment through specific City-approved conservation projects. These projects may vary significantly in scale, so to account for possible variation, four scenarios were compared to model the range of possible program costs:

1) All 28 existing designated properties apply for their maximum possible incentive value
2) The most valuable 38 sites apply for their maximum possible incentive value
3) 38 Random potentially-eligible sites apply for their maximum possible incentive value
4) The same 38 randomly-selected sites apply for the lower of $500,000, or their maximum possible incentive value

Although a large range of outcomes are modelled through these 4 scenarios (shown in Table 5), the *average* yearly program cost was projected at either approximately $2.0 million or $2.5 million depending on the value of the annual program cap.

Scenario	Sites Assumed to Designate	Existing Designated Properties	Annual Cost ($250K/Year Cap)	Annual Cost ($1M/Year Cap)
#1		28	$ 1,166,242.81	$ 1,166,242.81
#2	38		$ 5,178,215.86	$ 7,133,798.65
#3	38		$ 1,219,149.20	$ 1,219,149.20
#4	38		$ 692,629.46	$ 692,629.46
Average			$ 2,064,059.33	$ 2,552,955.03

Table 5: Outcome projections from four non-residential tax credit scenarios

Advantages of a Structured Grant Program Increase vs. a Conservation Tax Credit

1. A matching grant can provide expedited funding over a smaller recurring credit
   Due to the high cost of non-residential rehabilitation projects, funding received through lump-sum grant reimbursements (installments, or at project completion) is better suited to major capital investments that can represent the most urgent heritage conservation work. In contrast, portioned funding provided by a tax credit over a 15-year duration is well-suited to ongoing maintenance, but could increase financial uncertainty for property owners given major rehabilitation projects if long-term financing needs to be secured, weaken the incentive value.

2. Grants under the increased program can offer a higher percentage of a property's value than the conservation tax credit
   While a conservation tax credit can provide a significant value over the 15-year program duration (51 of the 224 potentially-eligible sites could achieve more than the $1 million restructured grant maximum), the proposed grant program allows more sites to achieve a larger percentage of their overall property value through having access to a maximum incentive unrelated to their assessed taxes.

   This is most pronounced for *Inventory* sites with the lowest property values, including 38 sites which would be eligible for less than $125,000 over 15 years if receiving a conservation tax credit – a smaller incentive than currently possible through the *Conservation Grant Program*. In contrast, a grant of up to $1 million would amount to more than 20% of the current property value for 157 properties, therefore providing a better *proportional* incentive and increasing for a greater number of heritage resources.

3. Restructuring the existing grant program has lower associated costs and resource requirements than creating a new program and can be implemented faster
   A $2 million base increase to the existing grant program is a fixed, predictable cost to The City that offers a lower risk profile compared to projected costs with a non-residential tax credit. With an increased grant program, unused amounts for a given year would remain in the *Heritage Incentive Reserve Fund* for future use.

   An increase to the existing grant program also requires less resourcing from Administration and would be easier to implement quickly to provide timely economic stimulus during a period of economic recovery. At the projected capacity of 5 additional grants per year, Administration does not anticipate additional staffing requirements. The Historic Resource Conservation Grant Program is an existing incentive with established parameters and operations, and the required resources to assist in increasing and restructuring the program through Law, Finance, and Planning and Development is significantly lower than with the creation of a new program.

Part 4: Why A Differential Tax Class Is Not Proposed

Differential Tax Class

As part of investigations into the residential tax credit proposed with this report, Administration also explored the potential of instead creating a differential tax class for designated residential heritage resources. Under this approach, designated resources could be assessed under a new subclass of the existing 'residential' classification through changes to Calgary's property tax bylaw. While like the residential tax credit proposed through this report, key differences and challenges were identified through internal consultation with Assessment, Finance, and Law, including:

- Inflexibility: Once created, a tax class is considered more difficult to modify or discontinue than Administration's proposed program, potentially creating barriers for adjustment following the suggested monitoring period;
- Required resourcing: Significant financial cost would be required to initiate a new tax subclass, including Information Technology upgrades to the current assessment system, and modifications to the tax bylaw. In contrast, Administration's proposal would share operational similarities to the Council-approved 2020 Phased Tax Program (PTP) and would have lower initial and ongoing associated costs;
- Clarity and simplicity to citizens: Additional tax subclasses may introduce further complexity for taxpayers compared to the recommended program, which impacts the existing tax structure; and
- Viability as an incentive: Sites assessed under a differential tax class would continue to receive lower taxes in perpetuity. While this would demonstrate a dedication to heritage conservation through tax policy, it would serve no additional benefit as a designation incentive relative to the proposed tax credit. Once a property is designated (at the onset of the agreement), the designation is perpetual. A differential tax class, which would offer a discount of less than 75%, would offer less initial incentive to homeowners. Given the individual period a property owner may possess a heritage site, a smaller yearly discount provides a weaker incentive for that owner to designate – but at a higher long-term cost to The City.

Due to these factors, Administration chose to pursue the recommended option of a residential tax credit program over a residential subclass. Administration's proposal is considered to provide a similar program incentive to citizens while avoiding or mitigating the identified drawbacks.