

**Planning & Development Report to  
SPC on Planning and Urban Development  
2020 July 15**

**ISC: UNRESTRICTED  
PUD2020-0758**

## **Heritage Conservation Tools and Incentives Update Report**

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### **EXECUTIVE SUMMARY**

Administration was directed to conduct analysis on heritage preservation tools and financial incentives to support a continuum of heritage conservation and presented findings at the 2020 April 1 SPC on Planning and Urban Development committee meeting (Attachment 1). Given COVID-19's impact on Calgary communities, the report was received for information with direction for Administration to return later with further refinement of the financial incentive packages. This report provides recommendations based upon the refined financial incentives and includes the original recommendations for the planning policy tools that did not receive direction. The financial incentives support heritage sites on the conservation continuum by encouraging qualified properties to be designated. The policy tools support heritage sites and assets on the continuum by providing development opportunities to retain heritage buildings and policy tools to ensure new development in historic communities respects the heritage assets.

Administration is recommending approval of the planning policy tools, which will allow integration with other planning initiatives including the Guidebook for Great Communities and North Hill Communities Local Area Plan that are being considered at the 2020 July 15 SPC on Planning and Urban Development committee meeting. Additionally, after further review of the non-residential tax credit program and in support of Committee's discussion in April, Administration recommends approval of a \$2 million increase to the City-wide Historic Resource Conservation Grant instead. Following this recent economic disruption, a grant program that not only incentivizes designation but also creates jobs and requires matching private investment into Calgary's established communities is not only a significant heritage conservation tool, but a prudent and timely economic stimulus tool as well. The residential tax credit is recommended for consideration in the 2023-2026 budget deliberations given The City's current financial capacity.

### **ADMINISTRATION RECOMMENDATION:**

That the Standing Policy Committee on Planning and Urban Development recommend that Council Direct Administration to:

1. Undertake a two-year phased program (2021 – 2023) to implement the heritage area policy tools, using the recommended thresholds, through the local area planning process, Land Use Bylaw amendments, or associated land use redesignations, and return to the Standing Policy Committee on Planning and Urban Development to report on the progress in Q1 2024;
2. Alter the City-wide Historic Resource Conservation Grant Program by:
  - a. Preparing a mid-cycle budget request for a \$2 million increase to the base budget and funding for the City-wide Historic Resource Conservation Grant Program from \$500,000 to \$2.5 million;
  - b. Restructuring the grant program to direct \$2 million to non-residential conservation projects with a cap of \$1 million per project, and reserve \$500,000 for residential projects with the existing cap of \$125,000; and,
3. Return to the Priorities and Finance Committee no later than Q1 2022 with the residential tax credit financial incentive package for consideration in the 2023-2026 budget deliberations.

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### **PREVIOUS COUNCIL DIRECTION / POLICY**

At the 2020 April 1 meeting of Standing Policy Committee on Planning and Urban Development, Report PUD2020-0259 was presented for information, and the following was approved:

1. Direct Administration to return to the Standing Policy Committee on Planning and Urban Development no later than 2020 October 7 with refined financial tools and incentives, respecting future financial constraints in the face of the global COVID-19 pandemic.
2. Recommendations be brought to mid-cycle budget in November. Recommendations may also incorporate any relevant pre-COVID-19 considerations as outlined in Attachment 13.

At the 2019 November 6 meeting of Standing Policy Committee on Planning and Urban Development, Report PFC2019-1359, the following deferral was approved:

Heritage Preservation Tools and Financial Incentives, PUD2019-1359 due Q4 2019 to be moved to no later than April 2020, PFC2019-0223.

At the 2019 March 5 meeting of the Priorities and Finance Committee, Report PFC2019-0223, the following was approved, as amended:

That the Priorities and Finance Committee direct Administration to conduct further analysis on heritage preservation tools and financial incentives and report back to SPC on Planning and Urban Development no later than Q4 2019.

### **BACKGROUND**

Heritage conservation is an important component of sustainable city building. It benefits economic development, environmental sustainability and quality of life for Calgarians. There is tremendous value to The City of Calgary in conserving heritage; however, despite significant progress, most heritage properties remain unprotected from significant alteration or demolition. This report provides options for various tools, both planning and financial, that may help incentivize the conservation of heritage in Calgary representing noteworthy progress for heritage planning in Calgary.

The importance of heritage conservation is identified in Calgary's Municipal Development Plan and the Council-approved Calgary Heritage Strategy (2008) which identifies a number of actions required to fulfill the City of Calgary's heritage conservation goals. Significant progress has been made since 2008, however, some of the more challenging actions of the Calgary Heritage Strategy have yet to be fully implemented due to the requirement of significant resources, funding, and corporate support. Administration has now evaluated potential new policy tools and financial incentives to increase the conservation of local heritage sites. Future work will continue to address how best to realize the City's heritage conservation goals. Administration conducted this analysis and prepared a report for the SPC on Planning and Urban Development for the 2020 April 1 committee meeting. The 2020 April 1 report (Attachment 1) includes in-depth background information that may be valuable to reference in consideration of this report.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Identified tools and incentives will address and support the conservation of heritage sites, while policy and regulatory tools will address heritage areas. This report presents updated information based on direction received in April. The focus of this additional information is on the financial

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incentives and no alterations were made to the planning tools since April, which are summarized in this report and detailed in Attachment 1.

### Financial Incentives

Financial incentives are essential for advancing economic development and heritage preservation. Tax-based programs are a popular and successful example of financial incentives for heritage conservation. There are some limitations to the development of such tools, however. For example, it is difficult to know exactly how many properties will choose to designate (assumed to be 40% based on a 2019 heritage property owner survey) and the cost projections must use static 2020 value (that do not account for future inflation or changes to assessed value). For a more in-depth analysis of financial assumptions, see Attachment 2. Currently, the only financial incentive provided to property owners by The City is the City-wide Heritage Conservation Grant Program, which is a matching grant that considers applicants on a first-come, first-serve basis but is often unable to provide enough funding to incent designation.

### Non-Residential Tax Credit Program

Additional analysis of the non-residential tax credit program since April shows that a yearly increase to the existing city-wide grant program (and parameter adjustment) could have a similar impact without the upstart costs and challenges of introducing a new program. Administration recommends a boost to the city-wide grant program in lieu of the explored non-residential tax credit program; nonetheless, in response to Committee's direction in April, the tax credit program is outlined in Attachment 2.

### Increase to the City-wide Conservation Grant Program

In lieu of the non-residential tax credit, Administration recommends an increase to the existing Heritage Conservation Grant Program. The current program receives \$500,000 annually, with a cap of \$125,000 per project, which is often insufficient to incent non-residential projects. An increase to the city-wide conservation grant program would allow more, or larger, projects to make use of the grant.

Administration recommends the city-wide grant program be increased to \$2.5 million annually and the structure of the grant program be amended to reserve \$2.0 million for non-residential projects and focus the existing \$500,000 for residential properties. Analysis of potential scenarios for the non-residential tax credit found that, on average, the program could be reasonably estimated to cost between \$2.0 and \$2.5 million per year and may generate an additional 38 designations within 7 years. Administration found, through a review of past Calgary projects and similar grant programs in other jurisdictions, this would allow for several typical projects and a larger project each year. That analysis informed the proposed increase. A mid-cycle budget request for funding support is necessary to support an increase to the program (Attachment 7).

Following the economic disruption caused by COVID-19, a grant program that not only incents designation, but creates jobs and requires matching private investment into Calgary's established communities is not only a significant heritage conservation tool, but a prudent and timely economic stimulus tool as well.

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### Residential Tax Credit

The residential tax credit would provide owners of protected buildings with an annual credit on their municipal property tax levy for up to 15 years equal to 75 percent of each year's municipal property taxes. An alternative mechanism to a tax credit would be the creation of a residential heritage tax sub-class for designated sites with an associated lower tax rate. Through cross-departmental consultation, Administration determined that a residential tax credit would achieve the same benefit with lower administrative costs and risk. The proposed tax credit has been refined since April (moving from a tax-back grant system) to achieve additional benefits as opposed to a differential tax class. As the City tax systems are upgraded, future opportunities for a differential tax class should be revisited.

The tax credit program is proposed to be capped at \$50,000 per property and does not require an owner to perform restoration or rehabilitation work. The program incentivizes property owners to designate by providing unrestricted, easily-accessed property tax savings to better balance the economic trade-off between conserving or redeveloping a heritage resource. There are 665 known potentially-eligible sites. The 75 percent credit allows nearly half of all Inventory sites to maximize the \$50,000, slightly exceeding the projected uptake of 40 percent.

Projections from a heritage property-owner survey (completed for April 2020 report and available in Attachment 1) indicates strong interest in designation from 40 percent of overall owners offered a tax credit. A 40 percent program uptake among undesignated properties would result in an additional 266 properties to be designated to apply for the tax credit. We assume full participation of the existing 31 designated properties.

With available capacity (maximum of 50 new designations and 20 new Inventory sites per year) and using the above assumptions, by 2023 there could be 131 designated properties receiving the residential tax credit incentive; representing a more than four-fold increase in designations from the current 31 residential properties over a two-year period (2021 and 2022). If designation trends continue in-line with projections, we anticipate having 297 designated properties by 2030.

The proposed residential tax credit program can be established and administered with \$150,000 base budget to fund one FTE addition to the heritage planning team and to cover other costs for internal services. The additional FTE position will support the additional designations, the development of tax credit agreements, and the administration of the annual tax credit.

The 31 already-designated residential sites that would become immediately eligible for the tax credit are estimated to cost The City of Calgary approximately \$95,000 annually for 15 years, totaling \$1.42 million. 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.

The total 15-year cost per site of providing the residential tax credit is approximately \$45,000, with tax credits highest between 2023 and 2033 when the greatest number of eligible sites are simultaneously receiving the incentive. The program is expected to achieve designation of all 315 interested sites by 2030, with total lifetime tax credits and program administration costs of \$17.97 million (2021-2045).

This report recommends review of all proposed new financial incentives within two years of implementation, allowing the actual uptake, costs and staffing requirements to be measured against projections and potential adjustments to be made to the program terms. Should Council

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wish to modify or discontinue the proposed tax credit, no new applicants would be accepted; however, existing partially-completed credits would continue for the remaining duration of their 15-year contract. Opportunities to introduce a differential tax class should be revisited at this time.

### Non-Recommended Policy Tools and Financial Incentives

For the 2020 April 1 report, Administration reviewed several other policy tool and financial incentive options for potential implementation in Calgary; however, through cross-departmental consultation, some tools were determined to be out-of-scope or infeasible at this time. Additional detail on each of these tools, including rationale for their exclusion and future opportunities, is included in Attachment 2. Additionally, Attachment 3 provides more detail on density bonusing and density transfer as this is a tool that can be used for more than heritage conservation. Administration acknowledges density bonusing and density transfer as a successful tool where it is currently applied in the city (for example, in the Beltline community), and we recommend continued use in those areas. Further evaluation regarding the broader applicability of this tool is being considered through the Established Area Growth and Change Strategy (EAGCS). Future reporting from Phase 2 of the EAGCS initiative, no later than 2022 November, is anticipated to provide further comments on the use of these tools in a growth context.

### Alternatives to Administration's Recommendations

Given the scope of this report and the identified risks and challenges facing Calgary's heritage resources, Council may seek alternate implementation of the explored tools and incentives than what is recommended by Administration. Attachment 5 provides alternate recommendations for Council's consideration.

### Heritage Area (Planning) Tools

A three-layer system of heritage areas is proposed and would apply in portions of a community that merit preservation based on the historic integrity of the area (e.g. percentage of heritage assets compared to all other structures). The threshold scenarios required for the discretionary guideline and direct control heritage areas are explored in Attachment 6.

The layers, intended to stack or build upon each other resulting in increased specificity and control as the concentration and integrity of heritage areas increase, are as follows:

#### 1 – Incentive Areas

To broadly incentivize the conservation of heritage assets in the city, this policy tool will offer additional development potential or incentives to developments that retain a heritage asset on site. This tool is intended to apply broadly within the built-out area to sites that have identified residential heritage assets (through the "windshield" survey or Inventory). These incentives do not restrict or inhibit development. Some proposed incentives for this policy can be found in the 2020 April 1 report (Attachment 1). The Incentive Areas tools would be implemented through a separate City-initiated *Land Use Bylaw* amendment.

#### 2 – Discretionary Guideline Area

To incentivize the conservation of heritage assets in areas of the city with moderate to high historical integrity (25-49 percent heritage assets), this policy tool would build upon the Incentive Areas (Layer 1) by making all uses (other than those incented by Layer 1) discretionary, and subject to locally-specific heritage design guidelines. This means that many uses that are permitted

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today, such as single-detached dwellings, will become discretionary in these defined areas to allow design guidelines to address heritage form elements. These guidelines will apply to all developments within the area boundary (not just those parcels with heritage assets). The Discretionary Guideline Areas would be implemented through the Local Area Plan process and associated redesignation(s).

### **3 – Direct Control Heritage Area**

To incentivize the conservation of heritage assets in areas of the city with the highest historical integrity (greater than 50 percent heritage assets), this policy tool is intended to incentivize the conservation of heritage assets through specific architectural controls and limited redevelopment potential and will be implemented through a direct control district land use redesignation.

### **Stakeholder Engagement, Research and Communication**

PUD2020-0259 (Attachment 1) provides an overview of stakeholder engagement and communications that were completed for 2020 April 1. Since then, Administration has engaged 20 student and teacher volunteers from the University of Calgary and from Southern Alberta Institute of Technology to test the Discretionary Design Guidelines heritage policy tool. This is additional work undertaken to better understand the tools and support potential implementation, and their work is included as Attachment 4. An additional stakeholder information session was held on 30 June 2020 to refresh stakeholders on the report given the COVID-19 postponement, answer outstanding questions, and update them on work undertaken since April 2020.

### **Strategic Alignment**

The proposed heritage conservation tools and incentives contribute to advancing the Next Generation Planning System in Calgary, as detailed in the April report (Attachment 1). The tools and incentives will support the Municipal Development Plan and the Calgary Heritage Strategy.

### **Social, Environmental, Economic (External)**

There are many external social, environmental and economic impacts of these tools and incentives, which are detailed in the April report (Attachment 1).

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

An increase of \$2 million to Calgary Growth Strategies' base budget to increase the annual funding for the City-wide Historic Resource Conservation Grant Program would result in a 0.115% mill rate increase in 2021. The 2023-2026 budget recommendations will have impacts in the next budget cycle and will require funding sources for operating investments to be identified within future reports. Similarly, the alternative recommendations would have impacts to be addressed as part of the same process.

Administration will seek to support the two-year phased implementation program of the heritage area planning tools through reprioritization and will prepare appropriate investment requests for future budget deliberations as necessary pending Council direction. Administration will evaluate the specific resourcing requirements once direction has been provided on the proposed tools and scoping for next steps has been completed.

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### ***Current and Future Capital Budget:***

There are no current or future capital budget implications associated with this report.

### **Risk Assessment**

As a finite resource, once demolished or significantly altered, heritage assets cannot be restored or recreated. Failing to provide, or delaying the provision of, effective tools and incentives may result in the loss of heritage assets and resources that provide value to Calgary and support the city's culture, identity and sense of place, which is often discussed during local area plan processes. The proposed tools and incentives mitigate this risk, where possible, in the Calgary context.

The implementation of tools and incentives will require funding. Given the current economic climate and the as-yet-unknown full impacts of COVID-19, proposing new tools or incentives that require additional spending represents a risk to The City's objective of reducing the tax burden on Calgarians. Considering additional operational budget impacts as part of future budget deliberations in 2022 mitigates this risk.

This report identified the exceptional needs of non-residential heritage assets as well as the acute conflict between development pressures, city-wide growth policies and certain heritage commercial streets. Work has begun to identify additional strategies, tools and incentives for the conservation of commercial heritage assets, there remains significant risk of losing valuable heritage assets prior to their completion.

### **REASON(S) FOR RECOMMENDATION(S):**

The proposed tools and incentives in this report respond not only to Council direction and priorities, but also to significant community interest and common concerns identified through the local areas planning process. The tools incentivize the conservation of more than 4,000 heritage assets and help support historically-sensitive redevelopment where appropriate. The proposed \$2 million increase to the City-wide Historic Resource Conservation Grant is not only a significant heritage conservation tool, but a prudent and timely economic stimulus tool as well. The residential tax credit program will build upon and support the policy tools and increased Historic Resource Conservation Grant program; however, the tax credit is a larger financial commitment that should be considered in the context of the next budget deliberations.

### **ATTACHMENT(S)**

1. Attachment 1 – Report to PUD April 1, 2020, PUD2020-0259 - PUD2020-0758
2. Attachment 2 – Summary of Financial Incentive Analyses and Explored Alternatives - PUD2020-0758
3. Attachment 3 – Overview of Municipal Density Bonusing Policies - PUD2020-0758
4. Attachment 4 – Testing of Heritage Areas Discretionary Guidelines Policy Tool - PUD2020-0758
5. Attachment 5 – Alternatives to Administration's Recommendations - PUD2020-0758
6. Attachment 6 – Heritage Area Planning Tools Thresholds for Consideration - PUD2020-0758
7. Attachment 7 – Potential Mid-Cycle Budget Requests - PUD2020-0758
8. Attachment 8 – Heritage Conservation in Calgary Progress Snapshot - PUD2020-0758