

Program Analysis

Residential Heritage Tax Incentive

Core Value

“We conserve heritage resources because they have value to our community – aesthetic, historic, scientific, economic, cultural, social, natural and/or spiritual qualities that make a place important or significant for past, present and future generations.” – Municipal Development Plan 2.3.3

Program Overview

The Residential Heritage Tax Incentive program would offer a municipal tax credit to the owners of residential properties with identified heritage value to encourage them to designate their properties as Municipal Historic Resources. The program would only apply to privately-owned properties that were originally constructed as solely residential developments and that remain assessed as such. Non-residential and mixed-use buildings would not be eligible for this program.

Designated properties would receive a reduction of 80 per cent to their annual municipal property taxes, excluding local improvement levies, penalties, fines, and other special tax bill charges. No reductions to the provincial portion are proposed.

Properties could qualify one time to receive the tax credit for up to a maximum period of 15 years, up to a maximum amount of \$50,000, whichever comes sooner.

Eligible Properties and Projected Program Uptake

44 currently designated properties would already be eligible for the program. Administration expects all 44 would enter the program. A further 232 properties on the Inventory of Evaluated Historic Resources would require designation to be eligible. Visual surveys also identified 433 potential Inventory sites that would require both evaluation and designation. Of these currently non-designated sites, over 250 properties are projected to access the program if sufficient funding is available to support the applications of all interested property owners (Table 1). This is based on a 2019 survey of owners of non-designated properties that identified 40 per cent would be “almost certain” to designate in exchange for a tax reduction.

Status	Potentially Eligible for Incentive	Projected Program Uptake	Responsible Organization	Estimated Maximum Yearly Capacity
Non-Inventory Sites: Properties that would qualify for the Inventory, but are not yet listed, can request evaluation and approval by Heritage Calgary.	433	173	Heritage Calgary	20 annual evaluations (up from previous average of 10-15)
Inventory Sites: Owners of Inventory properties can pursue designation. Collaboration with Administration would create a proposed designation bylaw for Council consideration.	232	93	Heritage Calgary and The City of Calgary	50 annual designations (up from current target of 7)
Designated Sites: Owners of designated Municipal Historic Resource properties already meet the eligibility criteria.	44	44	The City of Calgary	All designated sites can be processed
Total	709	310		

Table 1: Eligible sites by inventory and designation status – Values are approximate

Should the pilot phase prove successful, Administration projects that a fully implemented program could result in over 250 newly designated residential properties in as little as ten years. Given that 44 residential properties were designated since the enactment of the Historic Resources Act in 1978, achieving over 250 new designations would result in an approximate 600 per cent increase in designations in roughly one quarter of the time as the previous 44.

Assumptions

1. \$50,000 is an appropriate program limit. As properties see increases in redevelopment potential (through new Local Area Plans, City-initiated Land Use Redesignations, or individual applications), average assessed property values may increase. These increases can be approximately 13 per cent to 30 per cent depending on context. The Residential Heritage Tax Incentive program incentivizes property owners to designate by providing them with unrestricted property tax savings. Because of this, the Residential Heritage Tax Incentive is more proportionate to the effort, risks, and expenses of redesignating and redeveloping a property than the existing Historic Resources Conservation Grant.
2. An 80 per cent property tax reduction over 15 years is a balanced approach. Lower percentages would allow fewer properties to reach the maximum \$50,000 incentive over the 15-year duration, while higher percentages would increase the program cost. At an 80 per cent reduction, approximately 236 (76 per cent) of the projected 310 properties in the program could receive between \$30,000 and \$50,000, while approximately 134 properties (43 per cent) could receive the maximum \$50,000 (see Table 2).

Staff Resources

Administration would require the addition of one Full-Time Equivalent position to liaise with Heritage Calgary on evaluations, process the upswing in designations, and administer the new program. The position would facilitate a significant increase in Administration's annual designation capacity of up to 50, versus the current target of seven. The position would also liaise internally on credit disbursement. Should the four-year pilot prove successful, this position, as well as other internal service costs, are estimated at \$3.6 million over the life of a fully implemented program.

Financial Analysis Methods

Administration created a model to project annual costs of a fully implemented Residential Heritage Tax Incentive program. This model included all currently eligible properties. It also included a randomized sampling of 40 per cent of potentially eligible properties, with entry to the program divided over the years. The number of properties assigned to each year represents the capacity for evaluations and designations that are possible if both Heritage Calgary and Administration are adequately resourced. This model represents a hypothetical list of properties that would enter the program.

Using tax account information, an 80 per cent reduction was applied to the annual property taxes of each property in the model, with total tax reduction costs then projected for each year. Properties contributed to the model's annual costs until they reached 15 years in the program, or a maximum reduction of \$50,000, whichever came first. The grand total of each year's estimated tax reductions then represents the estimated total cost of the Residential Heritage Tax Incentive.

Financial Analysis Results

Based on the projected maximum uptake, and assuming success of the initial four-year pilot, Administration's model estimated total tax reductions over the life of the program of approximately \$12.4 million. Combining expected total tax reductions, the staff position, and internal resources, the projected

total cost of the Residential Heritage Tax Incentive program is approximately \$16 million. The program is anticipated to last for approximately 24 years for all properties to reach their maximum 15 year and/or \$50,000 benefit, regardless of what year they entered the program.

Inventory and Non-Inventory Sites		
Able to Claim	Number of Properties	Total Value of Tax Credit
\$50,000 (maximum)	113	\$5,650,000
Between \$40,000 and \$49,999	32	\$1,414,000
Between \$30,000 and \$39,999	53	\$1,848,000
Between \$20,000 and \$29,999	58	\$1,462,000
Less than \$20,000	10	\$170,000
Total	266	\$10,544,000
Existing Designated Sites		
Able to Claim	Number of Properties	Total Value of Tax Credit
\$50,000 (maximum)	21	\$1,050,000
Between \$40,000 and \$49,999	5	\$226,000
Between \$30,000 and \$39,999	12	\$433,000
Between \$20,000 and \$29,999	4	\$100,000
Less than \$20,000	2	\$35,000
Total	44	\$1,844,000
Grand Totals	310	\$12,388,000

Table 2: Projected tax credit claims – Values are approximate

Program uptake is expected to be high over the first four years, dependent on funding allocation, with annual costs highest over the first ten years as the most properties are receiving their highest annual benefit. After these first ten years, fewer properties are expected to enter the program. Lower or more protracted funding allocations may shift these expectations.

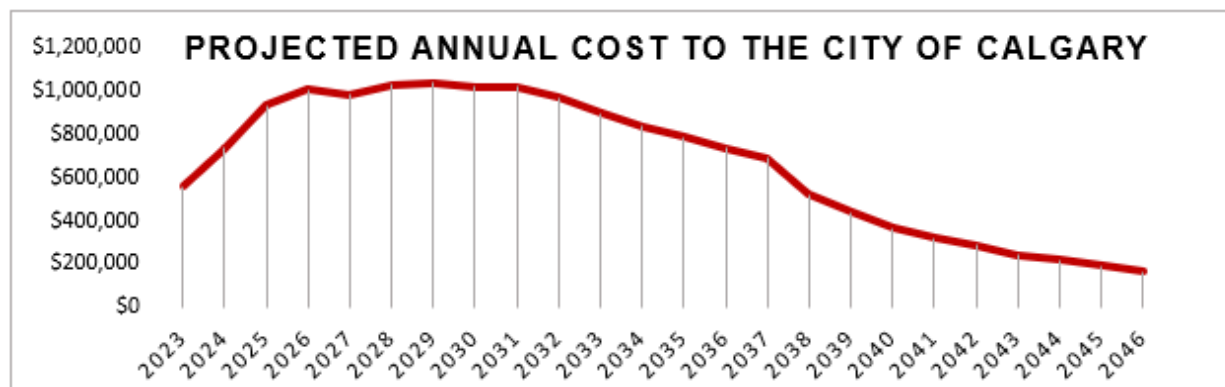


Figure 1: Projected annual costs for the Residential Heritage Tax Incentive over time

Budget Implications

Over the first four years of the program, coinciding with the One Calgary 2023-2026 Service Plan and Budgets, the program could scale between approximately \$2.5 million and \$9 million. On the low end, Administration would only be able to administer the program for those properties already designated as Municipal Historic Resources. No new designations would be incentivized. On the high end, Administration could achieve over 150 new designations over four years.

Administration plans to propose a \$5 million initial funding commitment for consideration in the 2023-2026 budget process. This would support a four-year pilot of the Residential Heritage Tax Incentive program.

This funding would allow for all 44 existing designated properties to enter the program and would incentivize approximately 60 new designations. 60 new designations would result in an approximate 136 per cent increase in roughly one tenth of the time as the previous 44 designations

While more designations over the first four years could be incented with more funds, Administration identified \$5 million as a conservative approach to piloting the program. This more conservative approach would allow for scaling up on Inventory evaluations by Heritage Calgary and on designations by Administration.

During this pilot, Administration would evaluate public interest in the program to inform future budget considerations. Applications would also be restricted to a first-come-first-served basis to stay within the \$5 million allocation. Should interest in the program quickly and significantly exceed what is possible to fund with the \$5 million, a mid-cycle adjustment is also possible.

Administration recommends, and has built into the budget proposal, that the initial four-year investment in the program would cover both the cost of the tax incentive for those four years and the cost to fulfill the full \$50,000 reduction for properties entering the program between 2023-2026. This ensures that, should Council discontinue the program after 2026, The City could still fulfil its legal and financial obligations to these properties without an additional budget request.

Limitations of Evaluation and Projections

All estimated costs are in 2021 dollars, reflecting the most recent property tax information. Projecting future costs is limited by the uncertainty of assessment changes, tax rate changes, inflation, and various economic considerations beyond The City of Calgary's control.

The number of properties currently designated as Municipal Historic Resources is correct as of 2022 April 1. Additional properties may be designated before the program is implemented.

It is only possible to estimate the number of properties that enter the program. Uptake may be lower or higher based on funding allocated to the program. Uptake may vary based on the life circumstances of individual property owners. Other economic, real estate, and redevelopment considerations beyond Administration's ability to control or project may also factor.

Heritage Calgary is key to the success of this program and designations in general. This organization is responsible for evaluations and its evaluation capacity is tied to consistent operating funding from The City of Calgary.

Risks and Mitigation

The greatest risk associated with this initiative is the risk of not implementing the program. Most residential properties with heritage value remain unprotected against the possibility of major modifications or demolition. Not approving this financial incentive as part of the One Calgary 2023-2026 Service Plans and Budgets would prolong the risk of losing both heritage properties and Calgary's cultural heritage.

Loss of heritage is raised by some community members as a point of opposition to redevelopment and the intensification policies of the Municipal Development Plan. Not implementing the full suite of heritage tools and incentives proposed in PUD2020-0758 would result in elevated opposition to other city building objectives because The City of Calgary may be perceived to not have kept its policy promises to communities on heritage conservation.

Applications to the program may be less than anticipated. Fewer properties would be designated as a result. While this may result in reduced effectiveness of the program, the financial implications are mitigated by funds only being spent if applications are made.

Property taxes for eligible and potentially eligible properties are based on 2021 data. Property assessments and tax rates may change over the course of the program, causing the \$50,000 incentive for each property to be exhausted faster or slower. Individual properties cannot receive more than \$50,000 in tax reductions, so no additional property-level mitigation is required. Administration can also stage new applications to keep total annual tax reductions within budget, even if annual program costs increase for properties already in the program.

The program is dependent on funding in the 2023-2026 Service Plans and Budgets. If the program is not funded to at least the amount identified, the program cannot advance.

The number of new designations as Municipal Historic Resources that The City can process is limited by staff resources. With the required Full Time Equivalent position, Administration could support up to 50 new designations per year. Without this position, and assuming the projected increased demand for designations, the current rate of approximately seven new designations per year would severely compromise the Residential Heritage Tax Incentive program's potential.

Should the current or future Council decide to cease funding for the Residential Heritage Tax Incentive at any time, The City risks defaulting on its legal and financial obligations to program applicants. This is mitigated by Administration proposing to secure funding for the full 15-year and/or \$50,000 commitment for properties entering the program between 2023-2026. This ensures they can be paid out even if no new applications are possible.