Agenda – Executive Policy Committee – July 6, 2016

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – July 5, 2016

Moved by Councillor

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than 96 hours preceding the committee meeting, be considered by Committee.

Item No. 28 Heritage Funding for 145 Pacific Avenue (Sport Manitoba) and 541 Selkirk Avenue (the former Merchant Hotel) and new Pilot Program for New Heritage Conservation Grant

STANDING COMMITTEE RECOMMENDATION:

On July 5, 2016, the Standing Policy Committee on Property and Development, Heritage and Downtown Development concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That a grant to each of 5662207 Manitoba Ltd., in respect of 145 Pacific Ave. (Sport Manitoba) and The Manitoba Housing and Renewal Corporation, in respect of 541 Selkirk Ave. (the former Merchant Hotel) in the respective amounts of 80% of incremental municipal taxes annually for a twelve-year term, in accordance with the parameters outlined in Appendix A, be approved.

2. That the City enter into, execute and deliver grant agreements with each of 5662207 Manitoba Ltd., in respect of 145 Pacific Ave. (Sport Manitoba) and The Manitoba Housing and Renewal Corporation, in respect of 541 Selkirk Ave. (the former Merchant Hotel) that set out the terms and conditions of the City's grant, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreements in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

3. That the City Solicitor / Director of Legal Services be directed to prepare and bring directly to Council for enactment a by-law establishing a Pilot Program, to be called the Heritage Conservation Grant Program, (the "Pilot Program") for incenting vacant or underutilized heritage properties as per the Program Parameters outlined in Appendix A. As with the proposed funding set out in Recommendation #1, the Pilot Program would establish base municipal taxes for eligible properties, and grant back to the successful applicant 80% of incremental municipal taxes annually for a twelve-year term. The Pilot Program will terminate upon approval of three applications (in addition to the two proposed in this Report), or five years, whichever occurs first.

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – July 5, 2016

4. That applicants under the existing Heritage Conservation Tax Credit Program (HCTC), as per By-law No. 7155/98, be encouraged to apply under the Pilot Program.

5. That the Planning, Property and Development Department be directed to conduct an evaluation of the Pilot Program's performance after its conclusion; and that its merit be evaluated based on average increased rate in assessed value of participating properties, risk to the City in offering such tax relief, and overall civic value of conserved heritage properties. The results of this evaluation would be compared with the existing HCTC and then submitted for Council review and decisions concerning the future of the two programs.

6. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

Agenda – Executive Policy Committee – July 6, 2016

Report – Standing Policy Committee on Property and Development, Heritage and Downtown Development – July 5, 2016

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On July 5, 2016, the Standing Policy Committee on Property and Development, Heritage and Downtown Development concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

ADMINISTRATIVE REPORT

Title: Heritage funding for 145 Pacific Ave. (Sport Manitoba) and 541 Selkirk Ave. (the former Merchant Hotel) and new Pilot Program for New Heritage Conservation Grant

Critical Path: Standing Policy Committee on Property and Development, Heritage and Downtown Development, Executive Policy Committee, Council

AUTHORIZATION

Author	Department Head	CFO	CAO
J. Hansell	J. Kiernan	M. Ruta	D. McNeil

RECOMMENDATIONS

1. That Council approve a grant to each of 5662207 Manitoba Ltd., in respect of 145 Pacific Ave. (Sport Manitoba) and The Manitoba Housing and Renewal Corporation, in respect of 541 Selkirk Ave. (the former Merchant Hotel) in the respective amounts of 80% of incremental municipal taxes annually for a twelve-year term, in accordance with the parameters outlined in Appendix A.

2. That the City enter into, execute and deliver grant agreements with each of 5662207 Manitoba Ltd., in respect of 145 Pacific Ave. (Sport Manitoba) and The Manitoba Housing and Renewal Corporation, in respect of 541 Selkirk Ave. (the former Merchant Hotel) that set out the terms and conditions of the City's grant, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreements in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

3. That Council direct the City Solicitor / Director of Legal Services to prepare and bring directly to Council for enactment a by-law establishing a Pilot Program, to be called the Heritage Conservation Grant Program, (the "Pilot Program") for incenting vacant or underutilized heritage properties as per the Program Parameters outlined in Appendix A. As with the proposed funding set out in Recommendation #1, the Pilot Program would establish base municipal taxes for eligible properties, and grant back to the successful applicant 80% of incremental municipal taxes annually for a twelve-year term. The Pilot Program will terminate upon approval of three applications (in addition to the two proposed in this Report), or five years, whichever occurs first.

4. That applicants under the existing Heritage Conservation Tax Credit Program (HCTC), as per By-law No. 7155/98, be encouraged to apply under the Pilot Program.

5. That the Planning, Property and Development Department be directed to conduct an evaluation of the Pilot Program's performance after its conclusion; and that its merit be evaluated based on average increased rate in assessed value of participating properties, risk to the City in offering such tax relief, and overall civic value of conserved heritage properties. The results of this evaluation would be compared with the existing HCTC and then submitted for Council review and decisions concerning the future of the two programs.

6. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Council approval is required to grant back incremental municipal property taxes with respect to the two properties in question.

In addition, a grant program can only be implemented by by-law. Only Council can enact a by-law.

EXECUTIVE SUMMARY

This report recommends that Council approve grant funding to 5662207 Manitoba Ltd., in respect of 145 Pacific Ave. (Sport Manitoba) and The Manitoba Housing and Renewal Corporation, in respect of 541 Selkirk Ave. (the former Merchant Hotel) on terms that would serve as the basis for a new heritage grant program (the Pilot Program). The Pilot Program (proposed to be called the Heritage Conservation Grant Program) would require enactment of a by-law by Council which the City Solicitor is being directed to prepare and bring to Council directly. The Pilot Program would have specific incentives for assisting owners of vacant or underutilized heritage structures with the redevelopment of their properties as a means to contribute to the vitality and well-being of Winnipeg's heritage stock. As a Pilot Program, it would provide an alternative to the existing HCTC, which has been in operation since 1998. Although applicants for heritage funding would be encouraged to apply under the Pilot Program rather than the existing HCTC, this report does not propose repealing the existing HCTC by-law. However, if the Pilot Program is considered successful, Council could consider replacing the existing HCTC by-law at that point.

The granting back of property taxes to the two proponents named herein would finalize applications submitted in the past, but held in abeyance until a new granting program could be realized. Sport Manitoba applied for a tax credit under the HCTC program in 2010, but the application was on hold pending confirmation of an addition to the facility. As the Sport for Life Fieldhouse has since been approved, the request for heritage-related tax incentives has been resubmitted. Similarly, the Former Merchant Hotel has a pre-existing application that is best considered under this Pilot Program.

IMPLICATIONS OF THE RECOMMENDATIONS

- A Pilot Program will be established and operate for the duration of time it takes to approve three applications (in addition to the two proposed in this Report), or five years, whichever occurs first. It will be aimed at incenting vacant or underutilized heritage properties by granting back 80% of total incremental municipal taxes for 12 years.

- An estimated $1.9 million in incremental municipal property taxes would be granted back over 12 years to 145 Pacific Avenue if approved for a grant as proposed in this Report. Resulting upgrades to the building are estimated to yield an approximate 1,000% increase in assessed value of the property.

- An estimated $126,000 in incremental municipal property taxes would be granted back over 12 years to 541 Selkirk Avenue if approved for a grant as proposed in this Report. Resulting upgrades to the building are estimated to yield an approximate 350% increase in assessed value of the property.

- Applicants pursuing the existing HCTC by-law would be encouraged to apply to the Pilot Program instead.

- Upon completion of the pilot period, the Pilot Program would be evaluated using specified criteria and compared against the performance of the existing HCTC to allow Council to determine which program is most beneficial to the City and proponents.

HISTORY

As a strategic component of the City's Heritage Program, the Heritage Conservation Tax Credit (HCTC) Program has been offered since 1998 to assist owners with the conservation and redevelopment of Listed heritage buildings. Its purpose is to contribute to the retention and preservation of original and significant heritage resources; to assist in the upgrading of vacant or underutilized heritage structures; and to increase property assessment values within Winnipeg.

Under this program, owners are eligible for tax abatement on the municipal portion of their property taxes, (including realty and business taxes, if applicable) for a 10-year term, or other such period as may be approved by Council. The maximum value of the tax credit is determined as being the lesser of a) up to 50% of the project's eligible costs; or b) the municipal taxes over the term. This program is the primary means of financial assistance offered by the City to aid in larger-scale conservation of heritage buildings.

The Program has been well-received and assisted some 41 heritage properties over its duration, largely within the downtown, particularly the Exchange District. Total credits range from $16,000 into the millions, and the leverage ratio sits at 4½:1 – or an increase of $4.50 of assessed value for every $1 invested by the City. Properties that benefited from the Program from 1998 - 2006 experienced, on average, a nearly 5-fold increase (486%) in assessed value. By comparison, non-residential properties in the Exchange District increased in assessed value by 142% over the same period; while non-residential properties in Winnipeg overall increased in assessed value by 40%.

The HCTC Program underwent a mandatory review in 2007, resulting in a number of recommendations for adjustments. These, coupled with ongoing feedback from applicants, industry stakeholders and staff signaled the need for an update to the Program. Some primary concerns include:

- The Reserve used to operate the Program is self-perpetuating and, over a reasonable time frame (given the scale of these investments), achieves net gain. However, due to a number of large projects and economic grants disbursed by Council from this fund for various purposes in a short period of time, the Reserve is currently struggling to accept new commitments.
- Reliance on a self-perpetuating Reserve for the Program is considered less desirable for all as incremental taxes from existing tax credits are used to fund newer ones. In this scenario, property tax revenue is not collected from owners; instead they receive a credit on their tax bill, with the amount owing collected from the Reserve. This means the Reserve must maintain a sufficient balance to cover all tax credits that have been committed to. If adequate levels cannot be maintained, the ability to take on new applications is negated. Similarly, Reserve balances determine the magnitude and duration of applications that can be taken on. This results in the need for constant monitoring and balancing of the Reserve, and ultimately in times of deficit, a need to 're-seed,' even if only temporarily. This is in contrast to programs which collect property taxes annually from the subject property, then *grant* the incremental portion back to the property owner. In this system there is less reliance on a larger pool of money, thereby avoiding all the potential disadvantages outlined above.
- Proponent demand for a Provincial contribution - ideally tax abatement akin to the City's
- Proponent desire for terms longer than standard 10 years - (requesting up to 21 years in many instances, a handful of which Council approved.) This is being spurred by large scale projects which cannot fully recover the amount of tax credit granted given the increase in taxation, while considerable, is not large enough to equal the eligible tax credit over a 10-year period.
- Viability of the Program's mandate in the long run to assist vacant and underutilized structures - theoretically, with time, the demand should decrease, assuming structures in greatest need are remediated. This could mean more strategic criteria, and/or fewer applicants, which in turn impacts the viability of relying on a self-perpetuating Reserve fund.

Discussion/Key Issues:

- As the HCTC Program has been fully subscribed for some time despite ongoing demand for heritage incentives, an update/replacement of the HCTC Program should be considered. The proposed Pilot Program would test an alternate granting model already used by the City- the *Live Downtown Rental Development Grant Program* - which is similarly aimed at assisting development. Like the *Live Downtown Program*, the proposed Pilot Program focuses on granting back incremental taxes collected, meaning no financing or borrowing against future taxes, and significantly reduced financial risk to the City. Eligible projects receive a base incentive of incremental taxes granted back on an annualized basis. In the case of the Pilot Program, the grant-back amount is proposed at 80% of annual incremental municipal taxes, ensuring the City retains 20% to cover basic service costs. This model appears to be a responsive method of financial assistance that could apply to incenting vacant or underutilized heritage buildings in Winnipeg.

- 145 Pacific Avenue (Sport Manitoba) represents a good test case for the model that is proposed for the Pilot Program. On January 28, 2009, the building was placed on the City's List of Historical Buildings. Soon after, it was purchased by Sport Manitoba and converted to a sport-focused facility providing recreation and office space. The organization applied for a tax credit in 2010, but the application was held in abeyance pending confirmation of an addition to the complex. The Sport for Life Fieldhouse has since been approved and the request for heritage-related tax relief has been resubmitted.

- The Sport for Life Centre Fieldhouse will be a four-storey, 40,000 ft^2 addition appended to the west end of 145 Pacific. With an initial facility conversion cost of $10,926,929, and the Fieldhouse addition of $25,236,977, Sport Manitoba will have invested $36,163,906 in the property by the scheduled completion in January 2017. Approvals of the Fieldhouse design have been secured from the City's Historical Buildings and Resources Committee and Urban Design Advisory Committee. Additionally, Council has approved the development as the principal capital legacy project for the 2017 Canada Games, with up to $1 Million in funding available, conditional to matching contributions from other levels of government. (See Appendix B)

- Base taxes representing the municipal tax levy in the year of application for 145 Pacific (2010 – but since held in abeyance) were $18,630. Post-completion Year 1 municipal tax levy is estimated at $208,800.
    - Under the existing HCTC Program, a tax credit could be worth up to approximately $1,901,700 over 10 years, (Year 1 post-completion estimate of $208,800 – base taxes of $18,630 = $190,170 x 10-year term.) Sport Manitoba has requested a 20-year term in order to maximize this incentive.

    - Under the proposed Heritage Conservation Grant Program, the proponent would receive an annual grant back of 80% of incremental taxes for 12 years. The estimated Year 1 grant back is $152,136 (80% of $190,170). If this rate stayed constant over the 12-year term, $1,825,632 in incremental municipal taxes would be granted back. However, as annual tax values are not fixed, it is almost certain the amount granted back would be higher due to normal tax increases.

- Another good test case is 541 Selkirk Avenue, the Merchant's Corner Project, (former Merchant's Hotel.) On January 12, 2016, the building was placed on the City's List of Historical Resources after having been acquired by the Province of Manitoba for redevelopment. The establishment's beverage room and below standard accommodations were closed, and plans developed to convert the structure to a residential and educational facility which will eventually be owned and operated by community groups. The complex will once again contribute to the transitioning

neighbourhood by providing nearly 7,800 ft. of affordable housing, classroom space, and other amenities.

- The Merchant Corner construction budget is $7,324,966, with completion scheduled for September 2016. Approvals for the project's design have been secured from the City's Historical Buildings and Resources Committee.

- Base taxes representing the municipal tax levy in the year of application for this property (2014 - since held in abeyance) were $3,685. Post-completion Year 1 municipal tax levy is estimated at $16,813.
    - Under the existing HCTC Program, a tax credit could be worth up to approximately $131,280 over 10 years, (Year 1 post-completion estimate of $16,813 – base taxes of $3,685 = $13,128 x 10-year term.)

    - Under the proposed Heritage Conservation Grant Program, the proponent would receive an annual grant back of 80% of incremental taxes for 12 years. The estimated Year 1 grant back is $10,502 (80% of $13,128). If this rate stayed constant over the 12-year term, $126,024 in incremental municipal taxes would be granted-back. However, as annual tax values are not fixed, it is almost certain the amount granted back amount would be higher due to normal tax increases.

FINANCIAL IMPACT

Financial Impact Statement

Date: June 22, 2016

Project Name:

Pilot Program for New Heritage Conservation Grant Program

First Year of Program **2018**

	2018	2019	2020	2021	2022 to 2029
Capital					
Capital Expenditures Required		$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs		-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 162,638	$ 162,638	$ 162,638	$ 162,638	$ 1,301,107
Less: Incremental Revenue/Recovery	225,613	225,613	225,613	225,613	1,804,904
Net Cost/(Benefit)	$ (62,975)	$ (62,975)	$ (62,975)	$ (62,975)	$ (503,797)
Less: Existing Budget Amounts	(22,315)	(22,315)	(22,315)	(22,315)	(178,520)
Net Budget Adjustment Required	$ (40,660)	$ (40,660)	$ (40,660)	$ (40,660)	$ (325,277)

Additional Comments: For the purposes of this analysis, it is assumed that the first full year of incremental muncipal realty taxes for both 145 Pacific Ave. and 541 Selkirk Ave. will be 2018. Direct costs beginning in 2018 represent tax credits to be paid to the two proponents equivalent to 80% of total incremental taxes of $203,298 (i.e. total taxes of $225,613 less base taxes of $22,315). The net budget adjustment of $40,660 represents incremental revenues accruing to the General Revenue Fund equivalent to 20% of incremental taxes of $203,298. Amounts are assumed to remain constant for the 12-year period ending in 2029.

"Original signed by"
Mike McGinn, CPA, CA
Manager of Finance

CONSULTATION

Finance

Housing

Economic Development

Historical Buildings and Resources Committee

Legal

Taxation & Assessment

OURWINNIPEG POLICY ALIGNMENT

The conservation of Winnipeg's heritage resources, including creation of an economic climate conducive to their continued viability, is in accordance with the following OurWinnipeg Directions:

Section 02 - A Sustainable City, Sub-Section 02-3 Heritage

- Direction 3: provide leadership in heritage conservation that links to broader civic goals of economic development, sustainability and neighbourhood planning
    - Strive to link heritage conservation to sustainable development initiatives, including economic, environmental and social initiatives.
    - Support economic development and viability through support for heritage and cultural initiatives.
    - Develop heritage stewardship policies that will allow the City to act as a leader in heritage conservation initiatives.
    - Engage the community in developing long-term heritage resource stewardship strategies.

SUBMITTED BY

Department:	Planning, Property and Development
Division:	Urban Design
Prepared by:	J. Hansell
Date:	June 29, 2016
File No.	O:\Reports Directive\Planning and Land Use\Urban Design Division\2015\Pilot Program for New Heritage Conservation Grant.doc

UD 2016-013

List of Appendices

Appendix A. Heritage Conservation Grant Program – Proposed Parameters
Appendix B. Council Support for Sport for Life Centre Fieldhouse
Appendix C: Heritage Incentive Programs across Canada
Appendix D: Comparison of HCTC to HCGP

Appendix A. Heritage Conservation Grant Program - Proposed Parameters

The Program's objective is to facilitate the conservation and continued use/viability of heritage buildings in Winnipeg by incenting the restoration or rehabilitation of existing buildings. Each applicant must complete an application form which will be available from the Heritage Planner.

The City of Winnipeg's funding/incentive for the Program will come from the granting back of actual incremental taxes from the development for a set period of time. There will be no maximum value, only maximum years in the term. Base Grant of 12 years of 80% of incremental municipal taxes will be issued in the year after the occupancy permit is issued, and conditional on:

I. Property Listed on the List of Historical Resources under By-law 55/2014
II. Located anywhere within City of Winnipeg boundaries, except within S.H.E.D. or other TIFF zone, and cannot have active approval under any other City tax-based incentive programs
III. Must be vacant or underutilized (may include buildings not occupied, minimally occupied, severely deficient with regards to meeting Building Codes, etc.)
IV. Minimum $10,000 in work being undertaken or 20% of current assessed value pre-renovation, whichever is less
V. Applicant must be the owner of the property
VI. Level and extent of conservation work being undertaken/Compliance with the Standards and Guidelines for the Conservation of Historic Places in Canada
VII. Grants are not retroactive (do not apply to work previously completed/no building permit/construction on property prior to application)

Additional considerations in evaluating applications:

I. Financial readiness
II. Redevelopment readiness (pro forma provided/level of market analysis)
III. Development history and experience
IV. Length of time building has been vacant, strategic location/context
V. The degree to which the project is likely to prevent the heritage property from being demolished or from deteriorating and the extent to which it will extend the life of the property will be considered.
VI. The applicant is expected to illustrate the viability of the project and the anticipated contribution of the project to the vitality of the community.

Note: Grants will be transferrable to subsequent owners upon sale of a property with City of Winnipeg approval.

Appendix B. Council Support for Sport for Life Centre Fieldhouse

June 25, 2014
Council approved:

- The Sport for Life Centre Fieldhouse be approved as the principal capital legacy project for the 2017 Canada Games and that up to $1 Million of the City of Winnipeg's $3 Million 2017 Canada Games capital contribution be applied to the Sport for Life Centre Fieldhouse Legacy Project, conditional upon an equal capital contribution of up to $1 Million from both the Federal and Provincial governments and;

- That subject to receipt from the 2017 Host Society of a detailed request acceptable to the Chief Financial Officer for the provision of in-kind services by the City, an in-kind contribution of City services for the 2017 Canada Games to a maximum value of $1,294,500 in 2017 ($600,000 to be funded through the Special Event Tourism Fund, and the balance of $694,500 from the City), with the cost of any additional City services to be the responsibility of the 2017 Host Society, be approved.

- That the City of Winnipeg enter into a grant agreement with the 2017 Host Society that sets forth the terms and conditions pursuant to which the City of Winnipeg will provide its $3,000,000 cash contribution and the $1,294,500 in-kind contribution.

May 27, 2015
Council passed By-law No. 56/2015 which closed a portion of Martha Street between Alexander Avenue and Pacific Avenue. However, outstanding issues regarding the development application must be satisfied prior to completing the amalgamation of properties; process is ongoing.

Appendix C: Heritage Incentive Programs across Canada

Heritage incentive programs vary greatly across Canada due to differences and nuances in legislation, economic and political climates, approaches/goals in heritage conservation, etc. Incentive forms range from grants, to tax relief, to relaxation of zoning or other controls, and more. The most prevalent incentive type is grants; however tax relief is available in at least 50% of jurisdictions, and increasing in popularity.



Maximum term limits (in years) for tax relief by City

By comparison to other cities, Winnipeg has one of the most generous tax relief programs for heritage structures in Canada. The current program, the Heritage Conservation Tax Credit Program (HCTC), allows for a standard ten years of property tax relief, (as well as business taxes if applicable) although the extension of this term is at Council's discretion. A minimum $10,000 in work must be undertaken, which must result in an increase in the property's assessed value. The tax credit is worth 100% of the municipal property taxes over the term, and is delivered annually as a credit on the property's tax bill.

Ontario is a leader in incentive programs; however few programs offer as much as Winnipeg's. The Ontario Heritage Act provides the power for municipalities to design their own tax relief programs within set parameters. Municipalities can decide to offer between 10-40% tax relief on properties, as well as determine the length of term, establish thresholds (minimum amount of work, etc.) and form of relief (credits, grant back, etc.) For example, Hamilton's program allows a maximum credit of $250,000 over 10 years.

Most other cities in Canada offering year tax relief terms do not credit 100% of the property taxes (Saskatoon – maximum 50% of eligible costs to maximum of $150,000 over term) or stipulate kinds of work, (Victoria –conversions of upper stories to residential use; elsewhere building code upgrades.)

Furthermore, many cities use a diminishing scale for percentage of taxes excused over time. For example, in Charlottetown, 100% of taxes are excused in year one; 80% in year 2; 60% in year 3 and so on, for a 5 year term.

Only a few provinces currently have no provision for tax relief for heritage structures, including Newfoundland, Nova Scotia, and Quebec.

Many cities have incentives beyond tax relief or grants, including loans, zoning mechanisms, and a myriad of other programs including:

- density incentives (bonuses, transfers)
- by-law relaxations
- permit fast tracking (queue jumping)
- complementary public works
- permit Fee reduction/elimination
- full rebate of PST for materials used on exterior restoration projects

Appendix D: Comparison of HCTC to HCGP

Under the current HCTC program, a maximum value of the credit is declared in advance based upon an estimate of incremental taxes at project completion, multiplied by the term, (standard 10 years.) That is, if the Year 1 incremental taxes are estimated to be $10,000, that figure is multiplied by 10 for a maximum value of $100,000. Unfortunately, the use of an estimate in determining Year 1 incremental taxes and the assumption that Year 1 incremental taxes will remain constant over the term can result in imprecise yield if property taxes exceed or do not meet expectations. For example:

1. Year 1 Incremental Taxes = $10,000 (e.g. Year 1 taxes @ 15,000 – Base taxes @5,000)
Maximum Tax Credit = $10,000 x 10 = $100,000

Year 1 – actual taxes – $15,000
Year 2 – actual taxes – $15,000
Year 3 – actual taxes – $15,000
Year 4 – actual taxes – $16,000
Year 5 – actual taxes – $16,000
Year 6 – actual taxes – $16,000
Year 7 – actual taxes – $7,000 (to get to maximum of $100,000)
Year 8 – actual taxes – $0
Year 9 – actual taxes – $0
Year 10 – actual taxes – $0
Total credit received $100,000

In this scenario, the property taxes steadily increase over the term, resulting in the accruance of the maximum value early in year ten, and consequently an 'abbreviated' credit in year 10.

If the opposite happens, and the property taxes 'under perform,' proponents may feel money has been 'left on the table' because they do not attain the maximum credit before the 10 year term is up.

2. Base taxes = $10,000
Maximum Tax Credit = $10,000 x 10 = $100,000

Year 1 – actual municipal taxes – $9,000
Year 2 – actual municipal taxes – $9,300
Year 3 – actual municipal taxes – $9,500
Year 4 – actual municipal taxes – $9,500
Year 5 – actual municipal taxes – $9,700
Year 6 – actual municipal taxes – $9,700
Year 7 – actual municipal taxes – $9,800
Year 8 – actual municipal taxes – $9,800
Year 9 – actual municipal taxes – $9,900
Year 10 – actual municipal taxes – $10,000
Total credit received $96,200

Beyond the somewhat unpredictable nature of the tax credits' performance and return to proponents, the HCTC program also presents a level of risk to the City. As the issuance of credits is based on estimates of property tax performance over a decade or more, projected balances may not reflect reality in the Heritage Reserve Incentive Fund (HRIF) which funds the program. Property owners do not remit any payment on the municipal portion owing annually; instead the amount is taken from the HRIF. This fund is a self-perpetuating fund, meaning incremental taxes from maturing credits fund credits of new credits. As such, projected incoming funds are vital to being able to accept new credits. However, when estimates do not match reality, shortfalls can arise. This is one factor that has contributed to the current state of the HRIF.

By comparison, under the HCGP, no estimates would be provided other than a maximum term time, meaning proponents would have certainty in amounts granted back for the duration of the term. They would remit payment for their municipal property taxes annually, and have 80% of the incremental amount subsequently granted back. The funding reserve, (if one were used at all – not necessarily required) would have precise balances and outputs, with absolute certainty on ability to take on new grants, resulting in no risk to the City. Additionally, because only 80% of incremental taxes would be granted back, the City would retain 20% to cover basic service costs.

The twelve year term at 80% incremental taxes granted back would be akin to 10 years at 100% as used in HCTC. For example, using the scenario from #1 above:

3. Base Taxes (taxes before redevelopment) = $5,000

Year 1 – 15000 – 5,000 = 10,000 x 80% = 8,000
Year 2 – 15000 – 5,000 = 10,000 x 80% = 8,000
Year 3 – 15000 – 5,000 = 10,000 x 80% = 8,000
Year 4 – 16,000 – 5,000 = 11000 x 80% = 8,800
Year 5 – 16,000 – 5,000 = 11000 x 80% = 8,800
Year 6 – 16,000 – 5,000 = 11000 x 80% = 8,800
Year 7 – 16,000 – 5,000 = 11000 x 80% = 8,800
Year 8 – 17000 – 5,000 = 12000 x 80% = 9600
Year 9 – 17000 – 5,000 = 12000 x 80% = 9600
Year 10 –17000 – 5,000 = 12000 x 80% = 9600
Year 11 – 18000 – 5000 = 13,000 x 80% =10400
Year 12 – 18000 – 5000 = 13,000 x 80% =10400
Total amount granted back $108,800