Standing Committee on Environment and Sustainability Development

Number 071 | 1st Session

Evidence – Tuesday September 19, 2017

Ms. Natalie Bull (Executive Director, National Trust for Canada):

Madam Chair, members of the committee, thank you so much for this opportunity. Thank you for your interest in historic places and for undertaking this milestone study.

I'm here today representing the National Trust for Canada, a national membership-based, not-for-profit, non-government organization and registered charity established in 1973. As part of a global network of national trusts, we provide tools and resources to citizens to help them save places that matter, and we inspire Canadians with great places to live, work, and play. We are a proud partner with government in programs including Young Canada Works and Canada Historic Places Day.

In the 30 years between 1970 and 2000, Canada lost more than 20% of its historic buildings. Losses continue apace today. Provinces, territories, and municipal governments are doing their part. Federal leadership is urgently needed.

In this presentation I will do my best to provide an overview of historic places in Canada, review the challenges faced by those who try to save and renew them, and offer recommendations for federal leadership. We are talking about a broad range of places owned or managed by at least four different types of owners. Taken together, the places owned by NGOs and charities, private owners, provincial and municipal governments, and the federal government make up a potential universe of many thousands of historic places, perhaps half a million or more. Some of these places are already designated, usually by a municipal bylaw established under a provincial heritage act. Thirteen thousand are currently listed on the Canadian register of historic places, an important national databank and reference.

Designation often brings with it some access to financial incentives—grants, tax measures, and other sweeteners—offered as a carrot to compensate for the inconvenience or extra cost associated with heritage compliance. Indeed, the carrot and the stick are at the heart of most jurisdictions' heritage strategies. We know that incentives are rarely available in amounts sufficient to influence an unwilling owner's decision to invest or demolish, and heritage designation generally does not bring absolute protection against demolition. The protection of historic places is a challenging business.

Why would a parliamentary committee be concerned with the state of historic places in Canada? I think there are lots of great reasons. For a start, there is the potential for positive impacts on climate change. Canada's buildings are the third-largest greenhouse gas emitting sector, and the reuse and renewal of heritage buildings capitalizes on materials and energy already invested, reduces construction and demolition waste, and avoids the environmental impact associated with new development.

In addition to climate change benefits, historic places can contribute to a strong economy. Rehabilitation projects generate up to 21% more jobs than the same investment in new construction. They're a great stimulus measure, and they typically use local labour and materials, such that 75% of the economic benefits of heritage rehabilitation projects tend to remain in the communities where these buildings are located. This is a great stimulus measure. A related economic impact comes from cultural tourism. For example, U.S. travellers seeking heritage experiences in Canada are expected to reach 12 million by the year 2025.

These places also matter to our national identity, and they have a social value, often as the last bastions of affordable housing or a low-cost base for start-ups. However, there are many barriers and disincentives that make it difficult for private sector owners to save and renew historic places, including rising land values in big cities that encourage owners to demolish existing buildings in order to maximize development on the site, and an often unpredictable bottom line, which can deter developers and even lenders. There are insufficient incentives to counteract these barriers, so we lose buildings like the 1898 Etzio building in Edmonton's Old Strathcona district, the landmark Stollery's department store at Yonge and Bloor in Toronto, and Ottawa's Somerset House, where we witnessed demolition by neglect.

NGOs and charities working to maintain and renew historic places also face financial barriers. Competition for grant funding is fierce. Just last week, after decades of effort, the building rehabilitation society in Guysborough County, Nova Scotia, was forced to accept the demolition of the 1888 Hazel Hill Commercial Cable Building, where the message of the sinking of the Titanic first reached land.

The only federal funding program dedicated to historic places is the cost-share program for national historic sites, federally designated railway stations, and lighthouses, as Joëlle described, but it is limited to just a few hundred places and they're not-for-profit owners. The funding available has ranged from zero dollars for many years to as little as $1 million a year, and the current $20 million over two years has been a really important boon, but we're very concerned about the notion of it returning to just $1 million next year.

What is the federal role in heritage conservation? Canada needs policies that create a strong economy, protect the environment, and avoid climate impacts. Recycling and reusing existing buildings, our largest consumer good, offers a great opportunity for the federal government to achieve these goals. Interjurisdictional collaboration is needed with the province and territories to develop pan-Canadian standards and explore the opportunity for stackable grants and incentives. Many instinctively look to the Department of Canadian Heritage to lead this charge with its many programs that fund, stimulate, and support a vast network of museums, culture, and heritage organizations, but historic places are not generally accommodated in its programs. According to its agency act, it is Parks Canada that has responsibility for historic places in Canada, reporting to the Minister of the Environment. It is confusing for the average heritage advocate, and frankly I would be very happy to see both ministries increasingly embrace the challenges and offer solutions for historic places.

In closing, I would like to offer the Government of Canada a series of priority actions that would do much to support the conservation of historic places inside and outside the federal family, and this is the framework that I think Joëlle referred to as well.

Number one, the federal government can join municipalities, provinces, and territories in offering much needed incentives to attract investment. A range of approaches may be appropriate to reflect the different ownership types and property types. For example, a predictable go-to source of federal matching funds like the cost-share program works well for heritage properties owned by charities and non-profits. Consideration might be given to a mechanism where donations by private individuals and corporations are matched by the federal government as an interesting way to encourage philanthropy. A federal rehabilitation tax incentive like measures recently proposed in Bill C-323 is a proven way to attract corporate investment to revenue-generating historic places, and gives older buildings vibrant, new uses. There's a range of mechanisms available to consider.

Number two, the government can implement two simple federal measures that would have broad benefit for historic places inside and outside the federal inventory. First, a “heritage first” policy requiring government departments to give priority to federal heritage buildings, or even those owned by others, before opting for new construction or leases to fill federal space needs. These measures could help create a new market for heritage buildings overnight. I know a local developer who says that such a measure would really transform the landscape for historic places in Canada. Second, a “do no harm” policy would be interesting to consider the impact of federal actions on all places in the Canadian register of historic places, regardless of ownership. This would help ensure that when the federal government spends infrastructure dollars, for example, they aren't used to the detriment of existing cultural resources. We know that funding for new convention centres, new roads, and infrastructure can sometimes displace important historic places.

Number three, the government can get the federal House in order and be an exemplary heritage steward. Canada is the only G8 nation without laws to protect historic places owned by its national government. As Joëlle mentioned again, in November 2003, the Auditor General of Canada assessed heritage protection practices within several federal departments and agencies and reported that built heritage under federal control will be lost to future generations unless action to protect it is taken soon. Very little has changed since that date. I refer you to the Auditor General's report and urge you to consider a range of measures including statutory protection of historic places on federal lands, national historic sites, and world heritage sites in the federal inventory, and statutory protection of archaeological resources on or under federal lands and waters.

Number four, the federal government can facilitate full participation of indigenous peoples in the identification and protection of their historic places.

Finally, the government can ensure that the Canadian register of historic places and the “Standards and Guidelines for the Conservation of Historic Places in Canada” are enshrined in legislation and adequately funded because they are the essential building blocks and underpinning for all of the recommendations listed above.

Thank you so much for your interest and for your action on historic places.

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Evidence – Thursday September 28, 2017

Mr. Chris Wiebe (Manager, Heritage Policy and Government Relations, National Trust for Canada, As an Individual):

Thank you very much for this opportunity, and thank you for your interest in historic places. The heritage field is diverse, with different ownership circumstances, and the threats and potential solutions are various. I can see that you are grappling with the question of where the federal government can make the greatest difference.

This morning I want to hone in on two areas that haven't really been explored as much in these hearings. Those are commercial heritage properties and properties owned by charities and non-profits. To assist, I have provided a handout detailing some of the existing incentives, and I'll refer to that throughout my presentation.

There are 440,000 pre-1960 commercial buildings in Canada. If we assume that about 5% to 15% of these could potentially be of heritage interest, there would be 22,000 to 66,000 buildings in this class across Canada. This is a substantial group of community-defining buildings on Canada's main streets.

But why do they need incentives in the first place? What are the disincentives that hamper their survival? First let me run through a few of them. Return on investment: heritage rehabilitation is often considered risky because there are unknowns, unlike for construction on bare ground. Construction costs: while some heritage rehabilitation projects cost less, others cost more, and then these ambiguities serve to suppress demand. Then there's financing. The big banks for the most part do not want to be involved in "staged" investments and are not prepared for the risks that come with adapting older buildings. There's some discussion around rural areas, in that they will not invest in older buildings in smaller communities at all. The fourth reason is lack of ease of property development. Investors are often discouraged by real or perceived restrictions on altering heritage properties. Fifth, there is the current federal tax system itself, which presents problems, including the inability to get a clear explanation from tax officials about which types of rehabilitation work are immediately expensable in a given tax year and which must be capitalized. There are also new-construction biases within the GST rules themselves.

So are there good examples of places where incentives have tipped the balance away from these disincentives? As Julian and others have mentioned, in the United States there has been a booming and competitive industry over the past 40 years because of the establishment of federal tax credits there for the rehabilitation of heritage buildings at a 20% level. This program stimulates private investment in abandoned and underperforming properties. Over the years, $24 billion in credits have generated more than $28 billion in federal tax revenue, and leveraged $131 billion in private investment, an impressive number. This is a 5:1 ratio of private investment to tax credits, and it has created 2.5 million jobs and preserved 42,000 historic properties.

It's important to note that there has been tremendous rural impact from this program over the past 15 years. Over 40% of U.S. tax credit projects are located in communities with populations of less than 25,000.

If you refer to the chart I provided, the one with the five circles on it, you can see that the larger projects typically have a limited ratio of incentives available as a result of caps on programs. I've chosen the $2.2 million level for a commercial project because that was the average cost of the CHPIF, commercial heritage properties incentive fund, projects back in the mid-2000s.

By comparison, have a look at the pie on the right; with all three levels of government in the United States contributing, the picture is very different. Federal tax credits of 20% can be stacked with state credits for a combined 40% to 45%. You should note that 34 states out of the 50 have these stackable credits.

My consultation across the country has shown that it is on these larger projects, those of two and a half million dollars and things of that nature, that a tax credit is needed. For example, the Farnam Block on Broadway Avenue in Saskatoon was demolished in 2015. Repair costs were estimated at $700,000. The city was able to bring forward only $150,000, and the building came down. Or take something like the Calgary Brewing and Malting site, which is sort of like the Distillery District in Toronto in the making. It's languishing for lack of a substantial incentive to give it some velocity.

What can the federal government do? Essentially there are only two mechanisms for the federal government to intervene in the commercial property market, and those are income tax measures or grants and contributions. You've heard about the CHPIF fund and its success as a pilot program for a tax credit program. Analysis by Deloitte and Ernst & Young concluded that refundable tax credits would be more effective than would a grant program. A refundable tax credit offers a number of advantages to the private sector that a contribution program does not. It offers predictability and timeliness. Contribution programs often require more than double the time for approvals on the front end. It leverages existing familiarity with the tax system, creating investor confidence. It also offers flexibility: it works well for large or small projects.

Understandably, the potential cost of implementing a tax credit has been raised at this committee. Deloitte's analysis of the estimated cost of a historic rehabilitation tax credit in Canada found that, far from being a cost to government, these tax credits for commercial properties would create net revenue growth from corporate income tax, GST, and additional personal income tax stemming from new employment.

When we model for a universe of 22,000 commercial properties, we see that these tax credits cost $3.8 million in year two and $55 million in year five. However, these credits generate net revenue growth of $3.4 million in year two, rising to $14 million by year five. The modelling for a universe of 66,000 commercial properties follows a similar trajectory. For broader impact, the government could consider extending a rehabilitation tax credit to heritage homeowners, like that introduced by Bill C-323.

Let's shift quickly to not-for-profit and residential buildings. Tens of thousands of heritage buildings in Canada would not benefit from a tax-based measure because they are not used for revenue-producing purposes. Such heritage buildings include places of worship, historic house museums, and former residential schools.

If you look at the other side of my handout, with the three circles on it, you'll see a sample of incentives from a number of cities. Let me remind you that each of these shows the best-case scenario for grants or tax breaks, but these are often limited by annual budgets for granting programs, such as in Nanaimo, where there is a limited amount every year, and in Halifax, where there is the same situation. We wanted to be fair, so we wanted to have the best possible scenario there.

At current levels, these incentives are not game-changing or behaviour-changing. We are hearing that they are helping already-willing owners but not pushing others. You will notice that the federal government is missing from this incentives picture, and there is no dedicated fund for places outside of the national cost-sharing program for historic places, as these are only for national historic sites, including heritage railway stations and lighthouses.

Competition for mainstream federal funding is fierce. For example, the Canada 150 community infrastructure program requires not-for-profits with modest heritage projects to compete with those with projects for arenas, pools, and sports fields. Earlier this year, FedDev's website reported 1,100 applications, requesting more than $260 million in funding, for their first intake—almost six times more than the available funding. It's a difficult environment for heritage places to get heard in.

Here are the two things the federal government can do to ameliorate the situation for non-profit buildings. The first is to create a source of federal matching funds to leverage investment by other governments. Corporations and individuals could actually help encourage this kind of philanthropy. Funding could be distributed using modern approaches like crowdfunding, which is currently being used successfully by places like National Trust for Canada under the banner of This Place Matters. Over the past three years, the trust's investment of $300,000 has leveraged over $1.1 million in donations for heritage sites. Similarly, Save America's Treasures was a decade-long program in the United States that invested $318 million in federal funds to leverage $400 million from private sources, resulting in the preservation of 1,200 important historic structures and 16,000 jobs. There are also Canadian precedents for using federal matching funds in this way, including the Department of Canadian Heritage's existing matching donations program, which is restricted to endowment matching and for which only arts organizations are eligible, or the government's response to Syrian refugees or disasters and crises.

The second thing the government could do is to provide steady increased funding for the national cost-sharing program for heritage places. I think this has been mentioned on other occasions. The available funding has ranged from zero dollars for some years to as little as $1 million for other years. The current $10 million per year for this year and next year is an important piece of the puzzle, but there are more than 700 properties eligible, and many have been underfunded for decades, so $10 million per year is really a drop in the bucket. The program is already heavily oversubscribed, as Parks Canada mentioned the other day. By contrast, the Canada cultural spaces fund recently received $84 million a year for two years, so there's an order of magnitude there.

In summary, we would recommend the following. First, we would recommend implementation of a federal heritage rehabilitation tax incentive, such as the measures recently proposed in Bill C-323. That is a proven way to attract private and corporate investment to privately-owned historic places and to give them vibrant new uses. Two, the government could consider extending a rehabilitation tax credit to heritage homeowners to get more impact. Three, federal investment in seed funding for creative financing mechanisms like crowdfunding could help many more charities and not-for-profits attract private donations and would save and renew some of the thousands of other heritage buildings that make up the fabric of our communities. Finally, an increase in federal cost-shared funding available for the national historic sites heritage places program would help turn the tide of neglect for these important national icons as well.