

October 3, 2018

The Honourable Catherine McKenna, P.C., M.P.
Minister of Environment and Climate Change
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Subject: Additional Input from the National Trust to ENVI Report #10, *Preserving Canada's Heritage: The Foundation for Tomorrow* (December 4, 2017) and ENVI Report #9, *Bill C-323, An Act to amend the Income Tax Act (rehabilitation of historic property)* (November 28, 2017)

Dear Minister:

I am writing today on behalf of the National Trust for Canada to offer additional comments on the recommendations in *Preserving Canada's Heritage: The Foundation for Tomorrow*. This is further to the coordinated Heritage Sector's Response dated December 21, 2017, which was endorsed by twenty-four national, provincial, and territorial heritage organizations. A copy of that letter is provided as Appendix 1 to this letter for your convenience.

Following the publication of the Report and the Sector's original response in December 2017, we were disappointed to see that Budget 2018 included no funding for historic places outside federal ownership, further compounding disappointment about the fate of Bill C-323, which had proposed long-awaited tax incentives for rehabilitation.

Today's letter does two things over the course of the following pages:

- A. It confirms our continued support for the position expressed in the sector's response from December 2017 - that the immediate priority for government action should be those recommendations that would encourage private sector investment in historic places, and help charities, not-for-profits and Indigenous groups save and renew places of significance. These priorities are reflected in the sector's subsequent recommendations for Budget 2019, provided to the House of Commons Standing Committee on Finance in August 2018 and attached as Appendix 2 to this letter.
- B. It provides additional commentary on particular recommendations in the Report.
- C. It foregrounds the need for federal leadership for historic places.

FEDERAL LEADERSHIP

Minister, your action is urgently required to close longstanding gaps in federal leadership for historic places, and ensure Canada's compliance with international commitments as a signatory to the **UNESCO Convention Concerning the Protection of the World Cultural and Natural Heritage** which requires State Parties to ensure that "appropriate financial measures" are in place for the protection and rehabilitation of this heritage (Article 5). The Parks Canada Agency Act includes broad responsibility for "historic places in Canada" as well as "the design and implementation of programs that relate primarily to built heritage" (4.1.b-c). Provinces, municipalities and heritage NGOs are doing their part, but need federal leadership and assistance. All levels of government must work together so that historic places can be kept out of landfill and play their part in anchoring our culture and identity, and fighting climate change.

While all 17 recommendations are valid, we continue to urge your Government to take action on the recommendations noted below as priorities for the sector, because these would have the most tangible and immediate positive impact for the greatest number of rural and urban places in Canada, and generate a dramatic and proven spin-off effect for the environment and our economy.

There are longer term needs for leadership as well: historic places and ownership types are varied, and exist in a complex context of regulation, economic circumstances and attitudes to heritage conservation – ranging from places owned by charities and operated as museums and historic destinations who are motivated to preserve and invest, through to heritage homes, barns, industrial structures and commercial buildings whose owners may have little or no interest and little or no means to protect heritage character. Further research and data collection are essential to understand the various classes of heritage buildings and the mechanisms that would make a difference in society's ability to ensure places of significance have the best chances of survival – as well as their impact on climate change and on the Canadian economy. This work requires national coordination, leadership and investment. The National Trust has completed scoping studies and would be pleased to work with your office and with Parks Canada colleagues to move this work forward.

PRIORITY RECOMMENDATIONS AMONG THE 17 IN ENVI 10

Priority Recommendation 10 – Restore Adequate Funding for National Cost-Sharing Program for Heritage Places Funding

In its August 2018 Submission for Pre-Budget Consultations for the 2019 Budget, the sector recommended the following:

\$33 million over 3 years in matching grant funding for National Historic Sites, Heritage Lighthouses, and Heritage Railway Stations – with an estimated leverage effect of 5 times the federal contribution.

This allocation of funding will serve to bridge urgent gaps in funding until the Government can formulate a more fulsome response to ENVI Report 10.

***Additional Recommendation re: Make Funding Cycles for National Cost-Sharing Program for Heritage Places More Flexible**

An important adjustment is required to address a major shortcoming of the Cost Sharing program: It is essential that funding cycles and end-dates become more flexible to accommodate the realities of short construction seasons, complex projects, scarce specialized labour and other factors that don't always allow a funded project to be completed within a single fiscal year.

Priority Recommendation 11 - Establishing a tax credit for the restoration and preservation of buildings listed on the Canadian Register of Historic Places

There is widespread support in Canada for a federal income-tax-based incentive to attract corporate investment to revenue-generating heritage property. There is deep disappointment that the Government nevertheless chose to vote down Bill C-323. However in the interest of addressing the urgent need to stimulate investment without delay, the sector has come together behind a Budget 2019 ask for **\$35 million in federal grant funding over 3 years to attract corporate investment and bring new productive uses to revenue-generating commercial heritage properties.**

In the interim, the sector will continue to pursue tax incentives. Minister McKenna, a new tax incentive for historic places will need a political champion, and the heritage sector urges you, as the Minister responsible for historic places, to be that champion in the same way that a previous Liberal Minister, the Hon. Sheila Copps and the Hon. Stéphane Dion - once championed new financial measures for historic places.

***Additional Recommendation re: Capital Cost Allowance**

The *Income Tax Act* contains a number of measures that can act as a disincentive to heritage investment. One is the ongoing lack of clarity as to which types of rehabilitation work can be expensed in the current tax year, versus those that must be capitalized and depreciated over many decades under the Capital Cost Allowance (CCA) rules. This confusion can have a major impact on the after-tax cost of a project, thereby discouraging rehabilitation and making it more difficult for owners to develop a balance sheet and obtain financing for a project.

Accordingly, two additional tax-related measures where federal action could help level the playing field and attract investment to historic places should be considered: 1) Clarifying which types of rehabilitation work can be expensed in the current tax year versus those which must be capitalized and depreciated over many decades; and 2) Introducing accelerated capital cost allowance to encourage heritage property owners to invest.

***Additional Recommendation re: Supporting Philanthropy to expand the universe of funding available for historic places.**

We note with interest references in the ENVI Report Summary regarding the potential for philanthropy to play a role in conserving historic places. Federal governments in other countries have seen the benefit of investing in capacity building and seed funding to build a culture of philanthropy for heritage: *Save America's Treasures* was a partnership between the US National Trust, the National Park Service and other federal agencies, with the US National Trust leading efforts to secure \$55 million in matching corporate donations and offer technical support to funding recipients. Accordingly, the sector's 2019 Budget Submission recommends **a total of \$8 million in new funding** to create a transformative culture of philanthropy for historic places, to encourage public and corporate donations to heritage places that matter to Canadians, including Indigenous Peoples. The vast majority of this funding would be delivered to participating organizations for use as "challenge grants" or matching funds to kick-start their donation campaigns and/or leverage corporate funding.

Priority Recommendation 14 - Launching an initiative modelled after "Main Street America" to encourage public and private investment in commercial historic buildings in rural areas and small cities

The National Trust for Canada was pleased to see the Main Street program appear as a recommendation in the ENVI report. The National Trust (then the Heritage Canada Foundation) launched the Main Street Canada Program in 1979 with funding from the federal Department of Regional Industrial Expansion (DRIE) that was disbursed in communities across the country. An economic development approach that uses heritage as its principal building block, Main Street yields results that can be measured in new business starts and new jobs, increased business volume, increased tourism revenue, and greater public and private sector investment.

Main Street Canada's first decade chalked up impressive results, including:

- 700 major building renovations.
- 6,000 jobs and 1,500 new business starts.
- \$90 million invested in participating communities.
- Each dollar invested by Main Street Canada generated \$30 in private investment in the community.

The Main Street approach is particularly relevant and effective in smaller towns and rural regions and its impact can still be seen in place like Fort McLeod, AB; Moose Jaw, SK; Nelson, BC; Charlottetown, PEI; and Shediac, NB. The approach is as relevant now as it was in 1979, and the National Trust for Canada continues to be active, currently delivering a Main Street project for the Cape Breton Regional Municipality. We have also been in discussion with Princes Trust Canada over the last 5 years about potential collaboration with heritage-led regeneration methodologies in the UK.

We have also followed the US Main Street Program with interest: and worked with their past and present staff. While the US and Canadian versions of Main Street are largely identical, the US program has benefited from decades of subsidy during which it was able to build up its tools, resources and reputation; it has a market for its services that includes thousands of cities and

towns in 52 states; and its client municipalities exist in a context where rehabilitation tax incentives are in place at the federal level and often even at the state level. That context makes the US program's more recent emphasis on cost recovery increasingly attainable. The market in Canada is more limited, compounded by the longstanding dearth of financial incentives. Together, those realities make a cost-recovery model even more challenging (confirmed by our own recent efforts to operate Main Street as a social enterprise).

However we continue to have 100% confidence in the value of the program.

Further, we believe the Main Street approach could be made widely available following a model like the Federation of Canadian Municipalities' Green Municipal Fund, where a substantial federal endowment (or at least a multi-year allocation) funds program infrastructure as well as grants for participating municipalities. We estimate that it would take an investment of \$250,000 per year to produce and deliver remote training, coaching and knowledge products and manage a granting program for participating communities, plus a "Main Street Canada Fund" to provide a portion of the estimated \$200,000 per participating community per year (to fund a local full-time Main Street coordinator, and seed funding for bricks and mortar improvements - both essential to ensure economic and cultural outcomes). These costs could be shared by local, provincial and federal governments in partnership.

Priority Recommendations 15, 16, 17 – Tools and Approaches for Indigenous Heritage Places

The Federal Government's response to the Truth and Reconciliation Commission of Canada's Calls to Action must not fail to include substantial funding to support the efforts of Indigenous Peoples to save and renew their heritage places, and commemorate their contributions to Canada's history. The sector's 2019 Budget Submission recommends an additional **multi-million dollar fund for heritage places of significance to Indigenous Peoples**. The dollar value, terms and conditions - including contribution matching ratios - should be established in accordance with the collaborative approach called for in TRC Call to Action 79.

Priority Recommendation 8 – Requiring federal departments/agencies to give preference to existing heritage buildings when considering leasing or purchasing space

This measure was given priority status because it would help create a market for historic places and therefore attract private investment. Property owners face many disincentives for investing in historic places – indeed the federal government's own leasing policies typically disadvantage historic buildings – so this modest policy measure on the part of the Government could help level the playing field.

OTHER RECOMMENDATIONS

The following recommendations from ENVI Report 10 are perfectly valid but will have a less tangible and immediate positive impact than those outlined above.

“Government House in Order Recommendations” 1, 2, 3, 4, 5, 6, 7, 9

The Auditor General said in 2003 that heritage in the hands of federal departments will be lost to future generations unless action is taken soon. A strengthened regime for managing federal heritage that satisfies the recommendations of the Auditor General would have the added benefit of avoiding high-profile controversial issues such as the Victims of Communism Memorial siting, the transfer of 60 acres of the Central Experimental Farm National Historic Site for development by the Ottawa Hospital, and more recently the inappropriate stone choice for La Citadelle National Historic Site.

Recommendation 12: Adapt the Building Code to facilitate restoration and rehabilitation

The National Building Code (NBC) is a model document adopted by each province and territory, either as written or modified to enact a code that meets the requirements of that jurisdiction. The adopted code is then enforced through by-laws created by local authorities.

The NBC is primarily designed for new buildings to ensure that all building construction meets an acceptable standard of fire safety, structural soundness, accessibility, and a healthy environment. It does not readily allow for the reuse and renovation of existing buildings, including historic buildings.

At least three provinces have included compliance alternatives for heritage buildings (and existing buildings within heritage districts) as part of their provincial building codes (Ontario, Nova Scotia and British Columbia). Code compliance alternatives (based on understanding the performance objective rather than applying a rigid rule) allow for a more effective, economical adaptation of existing/historic buildings to new uses without negatively impacting the fire and life safety standards of those buildings.

Unfortunately, even these objective-based codes are often still administered at local government and regional district levels by those schooled in a more proscriptive performance-based environment. The result is often a lack of willingness to accept alternative compliance approaches. This increases costs, deters developers and investment, and perpetuates a perception that historic buildings are problematic and expensive.

Modernizing the Code will help Canadian property owners take important steps toward a low-carbon economy, through rehabilitating existing buildings and capitalizing on their sunk carbon and natural resources. Another recent ENVI report – *Better Buildings for a Low-Carbon Future* (June 2018) – underscores this opportunity when it calls on the government to “take into account the net carbon emissions avoided through adaptive reuse of existing buildings”(Recommendation 8); and (2) “as the federal take steps to recognize the value of

embedded carbon in existing construction, it should take into account the unique characteristics of heritage buildings and the public interest in their protection” (Recommendation 9).

Minister, we would be pleased to discuss these matters with you in more detail, and to assist you in any way. We especially urge you to share the sector’s priorities around funding for historic places with your Cabinet colleagues, and ensure that Budget 2019 includes measures that will encourage investment in the revitalization of historic places, and fund the efforts of charities and not-for-profits to save and regenerate places of significance – including those of significance to Indigenous peoples.

Thank you for your consideration of these important issues.

Yours sincerely,



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C.c.

The Honourable William Francis Bill Morneau, P.C., M.P., Minister of Finance
Mr. Jonathan Wilkinson, M.P., Parliamentary Secretary to the Minister of Environment and Climate Change
Ms. Deborah Schulte, M.P., Chair, House of Commons Standing Committee on Environment and Sustainable Development
The Honourable Ed Fast, P.C., M.P., Vice-Chair, House of Commons Standing Committee on Environment and Sustainable Development
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