

The Building Owners and Managers Association of British Columbia (BOMA BC) welcomes the opportunity to provide the Standing Committee on Finance and Government Services with its recommendations for the 2010/2011 provincial budget.

Introduction

BOMA BC, is a not for profit organization, representing over 400 corporate and business member firms, as well as more than \$7 billion in commercial real estate throughout the province. Established in 1911, we are the largest commercial real estate industry association in British Columbia. This includes over 17,000 buildings and over 290 million square feet of floor space. BOMA BC Members own or manage the majority of space occupied by an estimated 1 million workers. The effectiveness of BOMA BC is that through leadership, education and advocacy, it is the principal voice of the commercial building industry in British Columbia

BOMA BC appreciates the challenges caused by the recent global financial crisis and the effect this downturn will have on British Columbians and all regions of the province. We feel that on the positive side, BC's economy is better positioned than many of our competitors to meet these challenges.

"The key to a strong economy is an environment which is attractive to investment and ready to weather the challenges."¹

BOMA BC also believes that one of the primary goals of government must be to create an economic environment that will attract investment. To become one of the best places in North America to invest and do business, BC needs competitive taxation. This does not require having the lowest taxes, but does mean keeping taxes within the range of those imposed by major competing jurisdictions. We recognize that government has, in the past, made significant changes to BC taxation policies for business. However, our industry remains under significant pressure from competitors such as Alberta and Western United States to ensure that our tax system remains competitive.

British Columbia School Tax

Next to the municipal tax, the school tax is the second major component of the property tax rate. The school tax rate is set by the province. For residential properties, the province sets individual school tax rates by municipality based on the circumstances of the school district. In the case of business properties, one uniform tax rate is set across the province for all business class properties. Though residential rates vary by municipality, when averaged, businesses in BC pay over two dollars in school tax for every one dollar paid by residential properties.

Recommendation

The provincial government introduce a tax credit of 50% of all school taxes for those commercial buildings who meet the requirements for, and achieve BOMA BEST™ and/or equivalent building certification.

Why this recommendation?

Commercial buildings in Canada have a significant impact on energy use and the environment. They account for approximately 14% of the end-use energy consumption and 13% of the country's carbon emissions, according to the Office of Energy Efficiency. Energy consumption by commercial buildings will continue to increase, primarily because new buildings are added to the building stock faster than old buildings are retired. Most commercial buildings, once constructed are expected to last for decades.

The commercial building industry in British Columbia is very complex and diverse as it comprises a number of stakeholders whose interests are sometimes competing. This represents unique challenges, since motivations for energy efficiency are different depending on which party is paying for energy consumption. In the construction phase for example, capital costs for equipment is the primary concern, so buildings are constructed to inefficient standards. In the case of existing buildings, operational costs take priority. Despite the availability of technologies to increase the energy efficiency of BC's commercial buildings, their adoption has been limited. Industry consultation reveals that other, non-technical barriers exist that prevent the uptake of these technologies. As a result, these buildings operate with energy efficiency well below what is possible.

Energy use in offices has also risen as a result of the growth in information technology, air conditioning requirements, density of use and a competitive market where tenants see high value in a comfortable workplace. Two-thirds of all energy consumed in an average office building is electricity. Lighting, office equipment and HVAC account for 90% of this usage.

While incentive programs such as Power Smart have greatly slowed this increase, the industry needs to do more. Building Owners Managers Association (BOMA) BC members have long recognized that energy efficiency and load management reduces operating costs, helps attract and retain tenants and enhances building asset values and in the process, also fosters a healthy environment. BOMA BC believes that its members can play a vital role in helping to reduce energy consumption and carbon emissions and help the Province meet its Energy Plan targets by 2020. It should also be noted, that as members reduce their energy costs, savings are spent elsewhere, thus creating a positive economic impact.

In order to assist our members in overcoming some of the barriers, BOMA BC has recently signed an Memorandum of Understanding with the Province and BC Hydro Power Smart. The purpose of this MOU is to establish a framework and set of principles which will guide the Parties as they work collaboratively to increase the level of energy conservation initiatives and reduce green house gas (GHG) emissions in commercial buildings across British Columbia.

As a result of this MOU, BOMA BC in partnership with BC Hydro Power Smart has hired a full time Energy Manager. His role will be to Act as the primary point of contact within BOMA BC for members and other stakeholders for all initiatives that relate to the Energy Conservation and Green House Gas Reduction MOU

The Energy Manager will act as a subject matter expert for Members that do not have sufficient energy management knowledge or expertise within their own operations. Helping members understand the benefits of, and key strategies for incorporating energy related DSM initiatives into their existing building operations.

This government can play a vital role in advancing energy efficiency within our industry, as policy makers who help shape the marketplace and reduce barriers to action. Tax incentives promote investment in energy efficiency, and help to encourage the adoption of more environment-friendly technology, goods and service. It is time to change the current school tax policy so that it promotes energy efficiency in commercial buildings, thus reducing energy use and carbon emissions, and providing economic benefits to building owners and tenants.

In order for our industry to increase investment in energy efficiency, changes to the current school tax policy are required. Especially in the retrofitting of existing buildings, significant investment is required in order to update inefficient technologies and improve the energy intensity of the building. We recommend that this government consider offering a tax incentive to building owners and managers who operate and/or inhabit energy efficient spaces. Eligible building owners and managers would be required to achieve BOMA BEST[™] and/or equivalent certification. They would need to submit proof of performance with their tax return in the form of a certificate and third-party verification.

A tax credit of 50% would provide our industry members with the additional capital to make investments in energy efficiency, especially with technologies where first costs are a major barrier. This recommended change is in line with the tax credit program provided to class 4 and 5 industrial businesses in BC in 2008. That program was enacted to help industrial businesses reduce their costs, and allow for reinvestment and maintaining or increasing employment. If adopted, this recommendation will result in long-term policy certainty for our industry, which is crucial for making investment decisions.

Similar tax credits are used as policy tools to increase investment in energy efficiency in Oregon and New York State. Oregon provides two tax credits for efficient buildings: a Sustainable Building Tax Credit for buildings achieving certification, which is based on the gross square footage of the project space; and the State Business Energy Tax Credit, which is also available to projects that fulfill certain energy conservation, equipment efficiency and renewable energy systems requirements. New York State has a Green Building Tax Credit program based on a dollar amount per square foot for commercial buildings larger than 20,000 square feet.

What is BOMA BEST[™]?

BOMA Best[™] is a national environmental certification program for commercial buildings and facilities that have attained a specific best practices standard. It requires the completion of energy audits for commercial buildings to become certified and provides tools so building owners can reduce energy consumption and operating costs, while also improving waste management.

BOMA BEST[™] certification provides firms and their tenants with concrete proof of a commitment to the environment. The information involved in a building's application is verified by a third-party assessor before the certification is issued, and a re-certification is required to be undertaken by the building owner or manager every three years.

The program helps building owners draft comprehensive, realistic, long-term energy-use and waste-reduction action plans to establish a baseline and move forward with continual improvement. These elements of the program help to drive measurable performance improvement. Benchmarking helps

managers solidify targets, evaluate options, and implement them. Energy-efficient buildings yield bottom-line savings while providing the comfortable, productive, and healthy environments businesses rely on.

According to a recent report, BOMA Best™ certified highrise office towers:

- Use 11 per cent less energy.
- Use 18 per cent less water.
- Create 17 per cent less waste per year, along with significant recycling of paper

The strength of BOMA Best™ is anchored in a simple concept; concentrate environmental improvements on the existing space and the people who use it.

Why only BOMA BEST™ or an equivalent certification?

Given the current levels of industry awareness and energy efficiency technology deployment, it is unrealistic to implement immediate sector-wide taxation credits on all existing commercial buildings. Neither the building industry nor governments are prepared for a scenario in which all buildings have to be immediately retrofitted. Time is required to ensure that skilled workers, information resources, and technologies are available in the required quantities, etc. A phased approach to buildings being certified will be required, to insure that buildings meet the criteria and have established internal processes to maintain the improved energy and water conservation equipment and processes.

Who benefits from implementing this recommendation?

This tax credit will benefit our province with energy savings translating into lower green house gas emissions, slower peak power demand growth, enhanced grid reliability, and improved environmental protection. Energy efficiency, clean, renewable energy will mean a stronger economy, a cleaner environment, and greater energy independence for British Columbia.

Building owners and managers will certainly benefit. But, as building owners and managers reduce their operating costs, they will spend this money elsewhere, spurring investment in energy efficient and carbon reducing technologies and equipment, thus creating a positive economic impact. The Standing Committee on Finance and Government Services has on many occasions supported using tax credits to facilitate economic growth².

Tenants, comprised mostly of small businesses, will benefit, as the working environment will improve as a result of increased investment in energy efficient buildings, which will contribute to creating a healthier and more productive workplace.

While most tax credits can have a negative impact on provincial general fund resources, analysis³ shows that tax credits can increase the economy output, create new jobs, increase wages and increase tax revenues

² Select Standing Committee on Finance and Government Services 38th Parliament 2008 -4th session

³ An analysis of Green Building Tax Incentives by ECONorthwest Consulting

What are the financial impacts of this recommendation?

Currently, the commercial building industry (class 6) contributes an estimated \$651,307,000 in school taxes province wide.

Based on an analysis from Burgess Cawley Sullivan & Associates (appendix A) it is estimated that based on the current level of BOMA Best™ certified buildings, a 50% tax credit would result in a reduction of the school tax of \$29,684,305 or less than 5% of the total school tax paid by the commercial building industry. This analysis also provides the cost of this tax credit for the current BOMA Best™ certified buildings in the City of Vancouver. The analysis also estimates the impact of a tax credit for 1,000 certified buildings.

APPENDIX A

BOMA BEST Certified Buildings in BC
Analysis of Green Building Incentive of Discounted School Tax

The purpose of this analysis is to provide an overview of the potential reduction in levy school tax to promote BOMA BEST certification to a better environmental building standard.

There are currently 208 BOMA BEST Certified buildings in British Columbia.

	2009 Asmt	Total School Tax	Proposed Tax Savings	
			50%	per sq.ft.
Ex. #1	\$10,000,000	\$70,000	\$35,000	\$0.88
Ex. #2	\$15,000,000	\$105,000	\$52,500	\$0.88
Ex. #3	\$25,000,000	\$175,000	\$87,500	\$0.88

Assumes value of \$250 per sq.ft.

Chart 2-A: Current BOMA BEST certified in City of Vancouver

# Prop	2009 Asmt	Total School Tax	50%	Tax Savings per sf rentable
64	\$5,601,230,000	\$39,208,610	\$19,604,305	\$0.88

Chart 2-b: BOMA BEST all properties currently certified

# Prop	Est. Value	Est. School Tax	50%	Tax Savings per sf rentable
208	\$8,481,230,000	\$59,368,610	\$29,684,305	\$0.88

Assumes avg size 80,000 sq.ft. at avg. value of \$250 per sq.ft for 144 bldgs. Plus Cov

Chart 2-C: Probable maximum BOMA BEST certified in BC

# Prop	Est. Value	Est. School Tax	50%	Tax Savings per sf rentable
1,000	\$24,321,230,000	\$170,248,610	\$85,124,305	\$0.88

Assumes avg size 80,000 sq.ft. at avg. value of \$250 per sq.ft for 792 bldgs. Plus current