Agenda - Council – September 28, 2005

Report - Executive Policy Committee – September 14, 2005

Item No. 2 Heritage Conservation Tax Credit - former Birks Building, 276 Portage Avenue File G-3.1.5

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 14, 2005, the Executive Policy Committee concurred in the administrative recommendation and submits the following to Council:

1. That a Heritage Conservation Tax Credit of up to a maximum of $320,000.00, be approved to 4804954 Manitoba Ltd., to undertake conservation and rehabilitation work on the former Birks Building, 276 Portage Avenue and to be utilized by the owner over a maximum ten-year period following completion of the project, subject to the owner beginning the work on or before January, 1, 2006 and completing the work on or before January 1, 2007.

2. That the owner be required to retain and preserve original and significant material as a condition of the grant.

3. That the Heritage Investment Reserve be approved as the source of funding.

4. That the Heritage Conservation Tax Credits be approved pending further approval by the City's Historical Buildings Committee on the exact means for rehabilitating the building as outlined in the applicant's Conservation Report.

5. That no work proceed without design/heritage approval and/or prior to the issuance of all relevant development permits.

6. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council.

7. That the Proper Officers of the City do all things necessary to implement the intent of the foregoing.

Report - Executive Policy Committee – September 14, 2005

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On September 14, 2005, the Executive Policy Committee concurred in the administrative recommendation and submitted the matter to Council.

RE: REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR THE FORMER BIRKS BUILDING, 276 PORTAGE AVENUE

For submission to: **Executive Policy Committee**

Original report signed by: **Director of Planning, Property and Development**

Report date: August 30, 2005

Recommendation(s):

1. That City Council:
   a) approve a Heritage Conservation Tax Credit of up to a maximum of $320,000, to 4804954 Manitoba Ltd., to undertake conservation and rehabilitation work on the former Birks Building, 276 Portage Avenue and to be utilized by the owner over a maximum ten-year period following completion of the project, subject to the owner beginning the work on or before January, 1, 2006 and completing the work on or before January 1, 2007;
   b) require the owner to retain and preserve original and significant material as a condition of the grant;
   c) approve the Heritage Investment Reserve as the source of funding;
   d) approve the Heritage Conservation Tax Credits pending further approval by the City's Historical Buildings Committee on the exact means for rehabilitating the building as outlined in the applicant's Conservation Report; and;
   e) require that no work may proceed without design/heritage approval and/or prior to the issuance of all relevant development permits.
2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,
3. That the Proper Officers of the City do all things necessary to effect the intent of the foregoing.

REPORT SUMMARY

Key Issues:

- The owners, (4804954 Manitoba Limited), of the former Birks Building, 276 Portage Avenue, wish to rehabilitate this currently vacant heritage building at an estimated cost of $4.2 million.
- The administration estimates that the owner will undertake $2,720,000 in eligible conservation and renovation work on the structure normally allowing for a Heritage Conservation Tax Credit (HCTC) up to a maximum $1,360,000 under the By-law.
- The assessed value of the property will be positively influenced following restoration while there are other attribute policy benefits as a result of this project including; the support for residential development within the downtown, as well as the preservation of this heritage building at a prominent location on Portage Avenue.

- The owners are currently negotiating with a large tenant that may lease the entire building. The award of the HCTC will assist greatly with the negotiations.

- The administration recommends an HCTC of up to a maximum of $320,000 based upon the estimated future municipal portion of realty taxes (estimated at $31,838 annually) following restoration.

Implications of the Recommendation(s):

General implications:

	None
	For the organization overall and/or for other departments
X	**For the community and/or organizations external to the City of Winnipeg**
	Involves a multi-year contract

Comment(s):

- This Report recommends a Heritage Conservation Tax Credit to 4804954 Manitoba Limited.
- Heritage Conservation Tax Credits may be allocated over a maximum ten-year period.

Policy implications:

X	**No**
	Yes

Comment(s):

-

Environmental implications:

X	**No**
	Yes

Comment(s):

-

Human resources implications:

X	**No**
	Yes

Comment(s):

-

Financial implications:

X	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s):

- The Heritage Conservation Tax Credit (HCTC) as shown within the Financial Impact Statement can be accommodated within the Heritage

Investment Reserve.

- The HCTC would be available for use by the applicant over a ten-year period (2007-2016).
- Per Council policy, the incremental portion of the Municipal portion of the tax received from this project will be redirected to the Heritage Investment Reserve until the investment is repaid.

REASON FOR THE REPORT:
In January 2005, 4804954 Manitoba Limited made an initial application to the Planning, Property and Development Department for a Heritage Conservation Tax Credit (HCTC) under By-law 7155/98 (as amended) for the former Birks Building, 276 Portage Avenue. A finalized copy of the application was received on May 18, 2005.

City Council retains sole responsibility for accepting or rejecting applications and for approving the amount of tax credit to be allocated to each authorized project.

HISTORY:
In October 1999, the City of Winnipeg, recognizing the major significance of this structure, listed the former Birks Buildings on the Buildings Conservation List under the terms of the Historical Buildings by-law 1474/77 (as amended) as a Grade II structure despite a request by the Birks Company to demolish the building.

DISCUSSION:
Background:

The elegant façade hides the fact that this four-storey, solid brick building, started out as Winnipeg's first 'permanent' facility for the Young Men's Christian Association (YMCA) built in 1900-01 based on plans by local architect George Browne.

The YMCA set up a Winnipeg branch in 1879 in rented space on Main. It obtained the Portage property in 1890, but devoted several years to planning and fundraising before opening one of the best outfitted YMCAs in Canada in early 1901.

Browne was borne in Montreal and worked briefly with his architect-father and namesake before joining Russell Sturgis, one of New York City's leading designers. Browne subsequently spent more than three years in Europe, including a stint at the South Kensington School of Art. By 1879, he was homesteading in Manitoba's Tiger Hills area, but later moved to Winnipeg where he resumed his architectural career.

The interior held YMCA offices, a public reading room, a 150-seat lecture hall and 600-seat auditorium, a library, meeting and classrooms, boys' quarters (with reading room and parlour), a number of furnished bedrooms throughout the upper levels, and 29 dormitories on the fourth floor. The gymnasium with padded running track and various equipment were in the lower rear section, along with Winnipeg's first indoor pool (or 'plunge bath') and two bowling alleys.

The new YMCA was so popular that there soon was pressure to secure larger premises. Operating expenses for the building also encouraged the association to consider another downtown location. After more planning and fundraising, a site was purchased on 1909 on Vaughan Street, just north of Portage. Construction followed in 1911-12.
Part of the capital for the new project came from the sale of the Portage building to Birks for $290,000 in 1912. Henry Birks established this firm in Montreal in 1879, following a long family tradition in silver work. Three sons also became involved and eventually spearheaded the company's expansion to Ottawa (1901), Winnipeg (1903) and other Canadian cities.

After Birks became an occupant of the YMCA Building, it hired architect J.D. Atchison in 1910 and Percy Erskine Nobbs of Nobbs and Hyde of Montreal in 1914 to convert the facility into a delicate, yet ornately rich show-piece with Italian Renaissance elements.

Some $90,000 worth of alterations were undertaken, including installation of a rear mezzanine; various other interior changes; and the addition of solid bronze and terra-cotta fronts on Portage and Smith highlighted by elaborately designed medallions and a detailed frieze depicting a meeting between King Solomon and the Queen of Sheba. It portrays King Solomon in the company of three wise men and guards presenting a pearl necklace to the Queen of Sheba upon her arrival at Jerusalem. Their entourages are shown in various stages of ceremony and celebration. A ship rests in the Harbour of Tyre, while the King of Tyre and his customs officials take toll.

Major changes again were made to the Birks Building in 1928, 1951-52, the late 1960s and mid-1970s. The 1951 work included installation of a granite base and Tyndall stone facings around solid bronze show windows on the ground floor. Corner columns and vestibule walls were lined with Travertine marble. Over the years, various interior changes were made to provide storage space, opulent showrooms, offices, and work areas for the jeweller. Birks continued in this building until the later 1980s when it became a key tenant in Portage Place.

A request to Council to demolish the building was denied and the property was placed on the Buildings Conservation List. The property remained vacant for a short while but was then sold and the property housed music retailer Musiplex, then CD Plus. The building has been vacant since 2001.

In 1999, the previous owner received a $100,000 Winnipeg Development Agreement, Program 13A grant to upgrade the exterior of the building, including restoring the upper level to original colouring. The owner invested over $500,000.

In September 2000, CentreVenture Development Corporation approved a CentreVenture 2000 Heritage Tax Credit to the former owner of up to $250,000, subject to the expenditure of a minimum of $500,000 in eligible costs. The proposed work was to replace the mechanical systems through the second to fourth floors.

Subsequently, the building was sold to 4804954 Manitoba Limited who intend to invest over $4.2 million to rehabilitate the upper floors of the building and propose to do the same work to

upgrade the mechanical systems as the previous owner. The new owner also agreed to assume all obligations of the original applicant that include a legal agreement and having all eligible work completed by December 31, 2004. Executive Policy Committee approved the transfer on January 14, 2004.

Executive Policy Committee also approved a transfer of an existing CentreVenture 2000 Downtown Heritage Program Capital Grant of up to $50,000 to the new owner of the former Birks Building.

The new owner was not able to initiate the work in the time that was allowed and both incentives were withdrawn.

The Heritage Conservation Tax Credit Program (HCTC)

The HCTC incentive strategy was adopted by City Council in 1998 on a pilot basis for three years with a review during the third year. The purpose of the program was to assist a limited number of projects selected for their ability to:

- Increase property assessment values; and
- Fulfill functions not likely to be displaced from other parts of the city.

Another criteria that had been established previously by Council is that heritage incentives should be used primarily for vacant or underutilized heritage buildings.

Council retains sole responsibility for accepting or rejecting applications and for setting the amount of tax credit to be allocated to each authorized project.

To date, Council has approved the following tax incentives under this program:

Building Name	Work	Amount of Incentive	Status
Former Free Press Building, 300 Carlton St.	exterior restoration	$400,000	work complete
Marshall Wells Building, 136 Market Avenue	interior upgrade	$3 million	work complete
Portage Village Inn, 311 Portage Ave. (A&B Sound)	interior upgrade	$835,000	work complete
146-164 Princess Street (Red River College)	downtown technical campus	$15 million	work complete
211 Bannatyne Avenue (formerly 476 Main Street, J.H. Ashdown Hardware Store	commercial offices, studios, and artists live / work spaces	$1.715 million	work complete
222 Broadway, Hotel Fort Garry	interior upgrade	$2.68 million	work underway
500/504 Main Street, Union Bank Tower and Annex	restoration & rehabilitation	$2 million	work pending
361 Hargrave Street, former Film Exchange Building	rehabilitation & construction of addition	$800,000	work complete
167 Lombard Avenue, Grain Exchange Building	rehabilitation & restoration	$765,000	work complete
228 Notre Dame, The Lindsay	rehabilitation and	$110,000	work complete

Building Name	Work	Amount of Incentive	Status
Building	restoration		
283 Bannatyne Avenue, Travellers Building	conservation and rehabilitation work	$250,000	work underway
130-132 James Avenue, Victor Fox Foods Building	conservation and rehabilitation work	$250,000	applicant not proceeding
331 Smith Street, Ramada Marlborough Hotel	renovations and redevelopment	$405,300	work completed
275-281 McDermot Avenue, Bedford Building	conservation and rehabilitation work	$500,000	tax credit withdrawn
319 Elgin Avenue, former Scott Fruit Company Warehouse	conservation and rehabilitation work	$140,000	work completed
234 Portage Avenue, Former Oldfield, Kirby, & Gardner Bldg.	conservation and rehabilitation work	$100,000	work underway

Scope of Work

The program is intended to support work that:

- conserves significant architectural or other heritage elements; and/or
- repairs and stabilizes City-designated structures;
- extends the life of such structures;
- rehabilitates space to meet contemporary requirements, but in the process makes minimal changes to a structure's historical integrity, including its defining design characteristics, site and environment.

Based on a submitted Conservation Report, the applicants advise that subject to an HCTC and a lead tenant, that they will invest approximately $4.2 million to upgrade the former Birks Building.

The current vacancy rate is 100%. The HCTC is needed to redevelop the existing premises to current state-of-the-art standards.

The work that the owners propose will ensure that the building is stabilized and will have a long-term life expectancy while having minimal impact on the historical integrity of the building.

Eligible Work

The applicants propose to rehabilitate the Birks Building to provide a completed base building for tenant improvement by individual users. Work is to start on or before January 1, 2006 and be complete by January 1, 2007.

Exterior Work:

- roof replacement
- Universal Accessibility
- windows replacement at rear of building

Interior Work:

- all original ceilings to be exposed
- new heating system
- new plumbing system that is environmentally friendly
- mechanical and electrical upgrade
- new elevator
- new fire safety upgrade
- interior structural repair

FINANCIAL IMPLICATIONS:

The owners propose to invest approximately $4.2 million to restore this building with eligible heritage work estimated at $2.72 million. Under the HCTC Program, the owner would therefore be eligible for an HCTC of up to 50% of the value of the eligible work or $1.36 million. The administration recommends a lesser HCTC of $320,000 based upon our estimates of the future municipal portion of property taxes for the restored and fully occupied building. The HCTC's are available for a maximum 10-year period.

Existing 2005 Tax Year information

Total Assessment	Portioned Assessment	Municipal Portion Realty Taxes
$ 460,000	$ 299,000	$ 8,876

Tax Information following Redevelopment

Total Assessment Estimated	Portioned Assessment Estimated	Municipal Portion Realty Taxes Estimated
$ 1,650,000	$ 1,072,500	$ 31,838

Incremental Tax Information following Redevelopment

Incremental Assessment Estimated	Incremental Portioned Assessment Estimated	Incremental Municipal Portion Realty Taxes
$ 1,190,000	$773,500	$22,962

Business Taxes following Redevelopment[1]

Annual Rental Value	Business Tax Rate	Business Tax
$ 320,600	7.75%	$24,847

[1] Business Taxes would be payable for non-government tenants. The single large tenant that the owners are negotiating with is a government tenant so Business Taxes may not be applicable.

The estimated assessed value of the property and the estimated municipal portion of realty taxes will therefore increase by approximately 3.6 times.

The proposed total heritage incentive package is up to a maximum of $320,000, which is approximately 7.6% of the total estimated value of the project ($4.2 million). The project provides a leverage of approximately 13:1 private investment to public support, which is within a very favorable range of support. If you were to include the purchase price for the building and holding and soft costs for the property in addition to the cost of the rehabilitation ($ 6.3 million), then the HCTC would represent an approximate 20:1 private investment to public support.

The Administration also recommends that the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council. This project is being proposed without a future tenant in place. The Administration wishes to ensure that the restoration work begins and ends in a timely manner so that the Tax Credit authority within the Heritage Investment Reserve is not held indefinitely. In this regard, the Administration will prepare a Heritage Agreement that requires the Applicant to begin and complete the work within a twelve-month (12) month timeframe; that is, the work must be started on or before January 1, 2006 and completed on or before January 1, 2007. In the event of nonperformance by the Applicant, the HCTC would expire.

The future property taxes as estimated will provide for some new incremental revenues to the City of Winnipeg. Council policy requires that incremental taxes attributable to this project be redirected to the Heritage Investment Reserve until its capacity is restored. As such, the HCTC recommended within this Report can be accommodated within the Heritage Investment Reserve.

Financial Impact Statement

Date: August 24, 2005

Project Name: Heritage Conservation Tax Credit for The Former Birks Building, 276 Portage Ave

First Year of Program 2007

	2007	2008	2009	2010	2011 & Beyond
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
External	-	-	-	-	-
Grants (Identify)	-	-	-	-	-
Reserves, Equity, Surplus, Other		-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ 31,838	$ 31,838	$ 31,838	$ 222,866
Less: Incremental Revenue/Recovery	22,962	22,962	22,962	22,962	226,532
Net Cost/(Benefit)	$ (22,962)	$ 8,876	$ 8,876	$ 8,876	$ (3,666)
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (22,962)	$ 8,876	$ 8,876	$ 8,876	$ (3,666)

Additional Comments:

It is assumed that revenues will begin accruing to the City in 2007 and corresponding expense in 2008. Direct costs consist of the heritage tax credits paid by the City while incremental revenues represent estimated municipal realty taxes in excess of the 2005 amount of $8,876. The total tax credit of $318,380 will be paid over a 10-year period (2008-2017) while the incremental tax revenue accruing to the Heritage Investment Reserve Fund would occur over a 14-year period (2007-2020). All calculations are based on the assumption that the portioned assessment and municipal mill rate are constant for the timeframe of this analysis. Given the uncertainty surrounding potential business tax revenues generated by this property, no amounts have been included in this analysis. As such, over the course of the period of this analysis, net revenues are equally offset by net expenditures so there is no impact on the current budget. The tax credit of up to approximately $320,000 will be financed by the Heritage Investment Reserve Fund.

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

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:
Legal Services
Corporate Finance (Taxation)
Property Assessment

THIS REPORT SUBMITTED BY:

Planning, Property and Development Department
Division: Planning and Land Use / Office of the Director
Prepared by: Giles Bugailiskis / Jim Paterson
PPD File #: HTC 21-2005

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