Report of the Executive Policy Committee dated September 4, 2002

Heritage Conservation Tax Credit for the new Hargrave Building (former Film Exchange Building) - 365 Hargrave Street
File G-3.1.5 (Vol. 3)

9. On August 7, 2002, Shelter Canadian Properties Limited (Shelter) as sole shareholder for the Carlton Call Centre Inc. and on the basis of a revised development proposal, re-applied to the Planning, Property and Development Department for a new Heritage Conservation Tax Credit (HCTC) under By-law No. 7155/98 (as amended) for the New Hargrave Building (former Film Exchange Building), 365 Hargrave Street.

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

On February 27, 2002, Council approved an HCTC for the heritage portion of the project only (for the adaptive reuse of the former Film Exchange Building itself), for a total estimated HCTC of $136,000.00.

On February 5, 2002, the Standing Policy Committee on Property and Development approved the listing, as a Grade III building, of the New Hargrave Building (former Film Exchange Building), 365 Hargrave Street on the Buildings Conservation List under the Historical Buildings By-law No. 1474/77, with the following element: 1) ramp.

On January 23, 2002, the Report titled, Request for a HCTC for the New Hargrave Building, 365 Hargrave Street, was tabled with the Executive Policy Committee. Executive Policy Committee recommended;

> "That the matter referred back to the Chief Administrative Officer for further analysis from an economic development aspect, including utilization of other programs, and report back to Executive Policy Committee".

Responding to the changes requested by their lead tenant, the Federal Government Department of Indian and Northern Affairs (DIANC), together with the National Resources Canada (NRC), Shelter, have significantly revised their plans for the adaptive reuse of the former Film Exchange Building at 365 Hargrave Street. The new plans call for additional office space to be located within the original heritage building displacing previously planned indoor parking stalls. The building design revisions reflect the tenant's request for an additional 10,000 sq. ft. of leaseable space, which brings the total project to 74,339 sq. ft. leaseable, versus the original submission which proposed 64,000 sq. ft. Shelter have therefore re-applied for a new Heritage Conservation Tax Credit based upon their revised development proposal.

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Council had previously approved a total estimated HCTC of $136,000.00 based upon the projected municipal portion of realty taxes for the heritage portion of the total project only. Council exercised its discretion and did not approve any tax credits for the proposed new addition. Council expressed concern that the Federal Government was simply "shuffling" from their current Portage Avenue location, that the City would be, in effect, subsidizing a Federal Government lease, and that this project was essentially a new building built onto an adjacent heritage structure.

Shelter has presented their case that their entire project should be eligible for an HCTC as follows:

- The Federal Government had stated its intention to leave the Kensington Building on Portage Avenue as the property was not adequate for modern office purposes. Although the Federal Government's Expression of Interest required that the accommodation offered must be located within the downtown, in the absence of quality submissions, the Federal Government had the option to re-locate external to the downtown, where it is easier to assemble land for new development, receipt of development approvals is typically easier, and construction is less expensive.

- The Federal Government currently occupies approximately 55,000 sq. ft. within the Kensington Building, while their new premises will be 74,339 sq. ft., approximately 35% larger. The expanded office will allow for an increase in employment for the subject departments.

- Section 6 of the By-law lists eligible renovations, which includes (in subsection 6(c)) "measures to restore, upgrade or convert a designated structure to a functional state for contemporary occupancy and use, including:…(ii) modern additions where the addition is sympathetic to the original historic building; …". HCTC's have been previously awarded to two projects that include substantial new additions including, the Former Free Press Building and the Union Bank Tower. In both cases, the additions are necessary for the new use.

  By excluding the new addition from tax credits in this circumstance, it creates an environment whereby business does not have a clear understanding of Council's intent under the By-law. Furthermore, the City has been advised that this lack of clarity will hinder both new proposals and downtown development as a result.

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- The Federal Government Expression of Interest required a minimum floor plate of 865 useable square meters (approx. 9,300 sq ft). Only a very few buildings within the downtown have floor plates of the size necessary to accommodate modern office use. The costs associated with new construction are excessive and resultant lease rates are unacceptable to virtually all tenants. This is a major reason why 200 Waterfront Drive is one of the only new rental office buildings constructed within the downtown within the last decade. Shelter would not have been able to respond to the Federal Governments Expression of Interest were it not for the proposed addition onto the existing heritage structure.

- Of the seven responses to the Expression of Interest that were received, five proposals were for existing Heritage Structures. It is likely that any of the five would have applied for Heritage Conservation Tax Credits. One of the five proposals (the Union Tower) already had received Council approval for HCTC's.

- The Federal Government lease represents only 10 years out of the effective 60-70 year lifespan for the building. The property is currently vacant, pays minimal property taxes, and the only other viable option for the site may be demolition of the building to accommodate surface parking (as has happened with the former YMHA building adjacent to this site).

  Shelter's proposal calls for the expenditure of $7,980,000, with an estimated $3,800,000 of eligible expenses. The new development will have an estimated assessed value of $4,360,000 for which the municipal portion of realty taxes has been estimated at approximately $84,000 per annum.

Generally, the administration concur with Shelter's case as presented. Furthermore, the proposed office re-location remains convenient to the major downtown retail district (i.e. Portage Place, the Bay). Downtown retail generally must rely on downtown office workers to remain viable.

Should Council choose to exercise its discretion to award an HCTC of less than that recommended based upon its previous decision (tax credits for the existing building and not for the proposed addition), then the administration would recommend that the Heritage Policy and the HCTC By-law be revisited to provide clarification as to Council's intent. The administration and CentreVenture are currently planning a Council Seminar on the subject of Heritage Incentives. This project entails several of the important issues that Council needs to consider in the formulation of new and improved City Policy as well as Heritage Programs that are specifically targetted towards those policy objectives. The Seminar is planned for early within the new Council's mandate.

FINANCIAL IMPACT (Shown on Attachment "A"):

Phase 1- Existing Structure (former Film Exchange Building)

33,797 sf Leaseable

13 Parking Stalls

Realty Assessment $1,800,000 @ 65 % portioning = $1,170,000.00

Municipal Portion of Realty Taxes $ 34,732.00

Phase 2- New Addition

40,988 sf Leaseable

35 Parking Stalls

Realty Assessment $2,560,000 @ 65% portioning = $1,664,000

Municipal Portion of Realty Taxes $ 49,398.00

Total Municipal Portion of Realty Taxes = $ 84,130.00 (say $84,000.00)

Maximum HCTC over ten years would be $84,000 X 10 years = $ 840,000.00

Assumptions and Limiting Conditions:

2002 Value estimates are given without review of detailed construction plans, projected cost information, rental information, and property inspection. Values are subject to change upon actual completion and subsequent inspection of property.

Presently, the municipal portion of taxes for this property are approximately $4,700 annually. There are no business taxes currently being assessed on this property. The current assessment on this property is $226,000 for 2002.

Shelter have estimated the total project cost to be $7,980,000 with total eligible heritage expenses of $3,800,000. Based upon their estimates, Shelter would be eligible for a maximum $1,900,000 HCTC at 50% of eligible expenditures.

The Administration recommends a significantly lower HCTC (than the project's eligibility would allow), that is equal to Shelter's request and marginally less than the projected municipal portion of taxes over a ten year period. The recommended HCTC of $800,000 represents

approximately 10 % of the total value of the project. The HCTC therefore levers a private investment of almost 10 : 1. This leverage is within the more favourable range as compared to other HCTC projects.

The property taxes attributable to this project will largely be 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 it's capacity is restored. As such, the HCTC recommended within this Report can be accommodated within the Heritage Investment Reserve.

Should Council approve a new HCTC for this property, it would not be in addition to the previously approved HCTC on the property. The existing $136,000 HCTC would be rescinded and replaced with the new HCTC based upon Council's direction.

The project will have a positive economic impact on the property within the immediate vicinity of 365 Hargrave Street. However, as a result of the Federal Governments move from their current Portage Avenue location, unless the owners of the property are successful in backfilling the vacancy, the increase in assessed values around the 365 Hargrave Street site will likely be offset somewhat by the potential for reduced assessed values on Portage Avenue.

The Executive Policy Committee recommends:

I. That Council approve a new Heritage Conservation Tax Credit to Carlton Call Centre Inc. to a maximum of $800,000.00 for rehabilitation work and construction of an addition onto the New Hargrave Building (former Film Exchange Building), subject to the owner retaining and preserving original and significant material.

II. That the application for tax credits be subject to further approval by the Historical Buildings Committee and Downtown Design Board on the exact means for repairing the building's exterior deficiencies and the proposed design for the addition.

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

IV. That Council approve the Heritage Investment Reserve as the source of the project funding

V. 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.

VI That the Proper Officers of the City do all things necessary to effect the intent of the foregoing.

Attachment "A" referred to in Clause 9 of the Report of the Executive Policy Committee dated September 4, 2002

Financial Impact Statement

Date: August 28, 2002

Project Name: New Request for a Heritage Conservation Tax Credit for the New Hargrave Building (Former Film Exchange Building) - 365 Hargrave Street

First Year of Program 2003

	2003	2004	2005	2006	2007
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	$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 84,000
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 84,000	$ 84,000	$ 84,000	$ 84,000	$ 84,000
Less: Existing Budget Amounts	84,000	84,000	84,000	84,000	84,000
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments:

The above amounts represent the estimated heritage tax credits that would be applicable to the property at 365 Hargrave (an amount equal to the estimated annual municipal realty taxes after project completion). A large portion of this amount (an estimated $79,300) represents incremental taxes, and as such will be returned to the Heritage Investment Reserve to assist with the funding of other heritage projects.

Gord Courage, Manager
Support Services Division

Attachment "B" referred to in Clause 9 of the Report of the Executive Policy Committee dated September 4, 2002

SHELTER CANADIAN PROPERTIES LIMITED

Arni C. Thorsteinson
President

2600 Seven Evergreen Place
Winnipeg, Manitoba
R3L 2T3

Telephone: (204) 475-9090
Fax: (204) 452-5505

August 7, 2002

RECEIVED
AUG 0 9 2002
OFFICE OF THE DIRECTOR

Mr. Jim Paterson
Planning, Property & Development Department
City of Winnipeg
3rd Floor, 65 Garry Street
Winnipeg, Manitoba, R3C 4K4

Dear Jim:

Re: Heritage Conservation Tax Credit (HCTI)
365 Hargrave Street

As requested in your July 3, 2002 memorandum, Carlton Call Centre Inc. requests a $800,000 HCTI for the renovation and re-development of the above-captioned.

As discussed, the revised building plan and design allows for total renovation of the existing structure as office space. No indoor parking will now be provided on the 1st and 2nd floor of the existing building. However, the grade level of the building addition to the north will now include indoor parking (17 stalls). The indoor parking area at grade would provide future office expansion space for our tenant. The building design revisions will increase total costs to $7,980,000. The building design revisions reflected the tenant's request for additional space of 10,000 rentable sq. ft. compared to the original 64,000 sq. ft.

Total eligible expenses are $3,800,000.

The square footage figures forwarded July 9, 2002 are correct.

Please advise if you require any further information for the September 4, 2002 approval meeting.

Yours truly,

SHELTER CANADIAN PROPERTIES LIMITED

for ARNI C. THORSTEINSON
President

ACT/mm

Enclosure

cc A. Stenning, Centre Venture Development Corporation
E. Gilroy, City of Winnipeg
H. Finnigan, City of Winnipeg

SHELTER CANADIAN PROPERTIES LIMITED

Investor Services

2600 Seven Evergreen Place
Winnipeg, Manitoba
R3J 3T3

Telephone: (204) 475 [illegible]
Fax: (204) [illegible]

July 9, 2002

The City of Winnipeg
Planning, Property & Development Department
3rd Floor, 65 Garry Street
Winnipeg, Manitoba
R3C 4K4

Attention: Jim Paterson

Dear Jim:

Re: 365 Hargrave Street

As per your request, we are pleased to confirm the leaseable (enclosed) floor areas and parking facilities for this project.

Location	Leaseable (Enclosed) Sq. Ft.	Parking (Stalls) Exterior	Parking (Stalls) Enclosed
Existing Building	35,139	-	6
Addition	39,200	13	29
Total	74,339	13	35

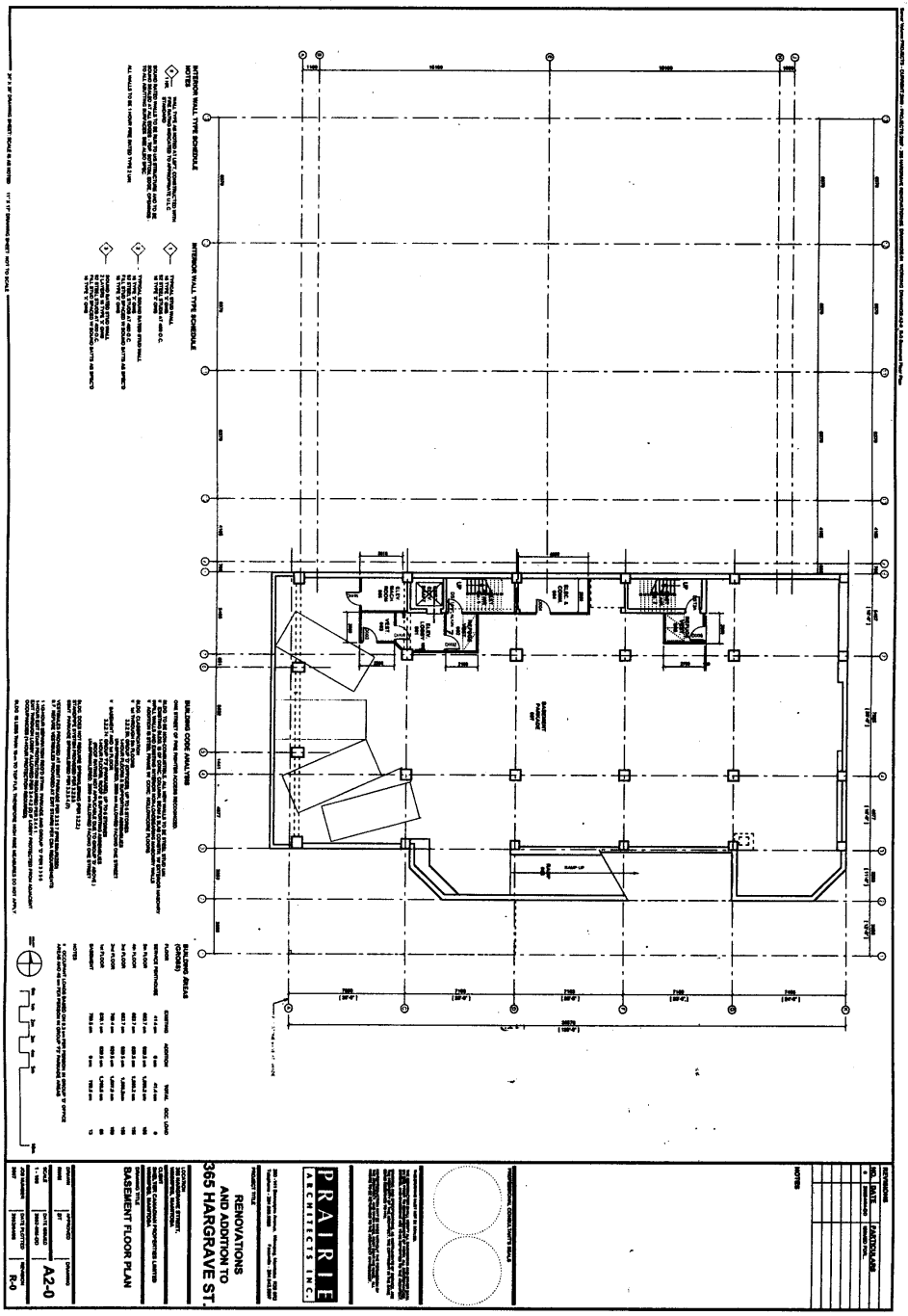
Yours truly,

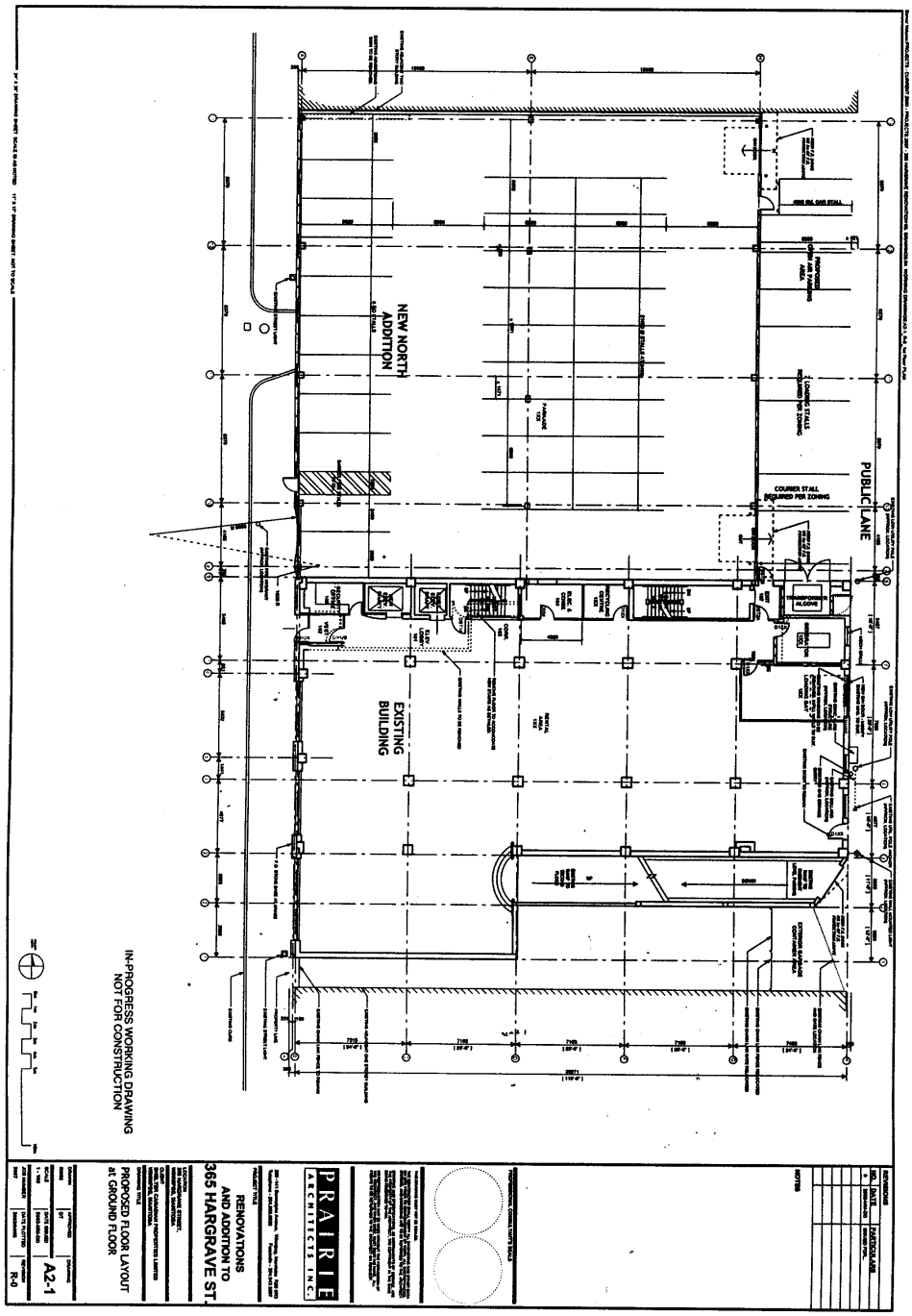
SHELTER CANADIAN PROPERTIES LIMITED

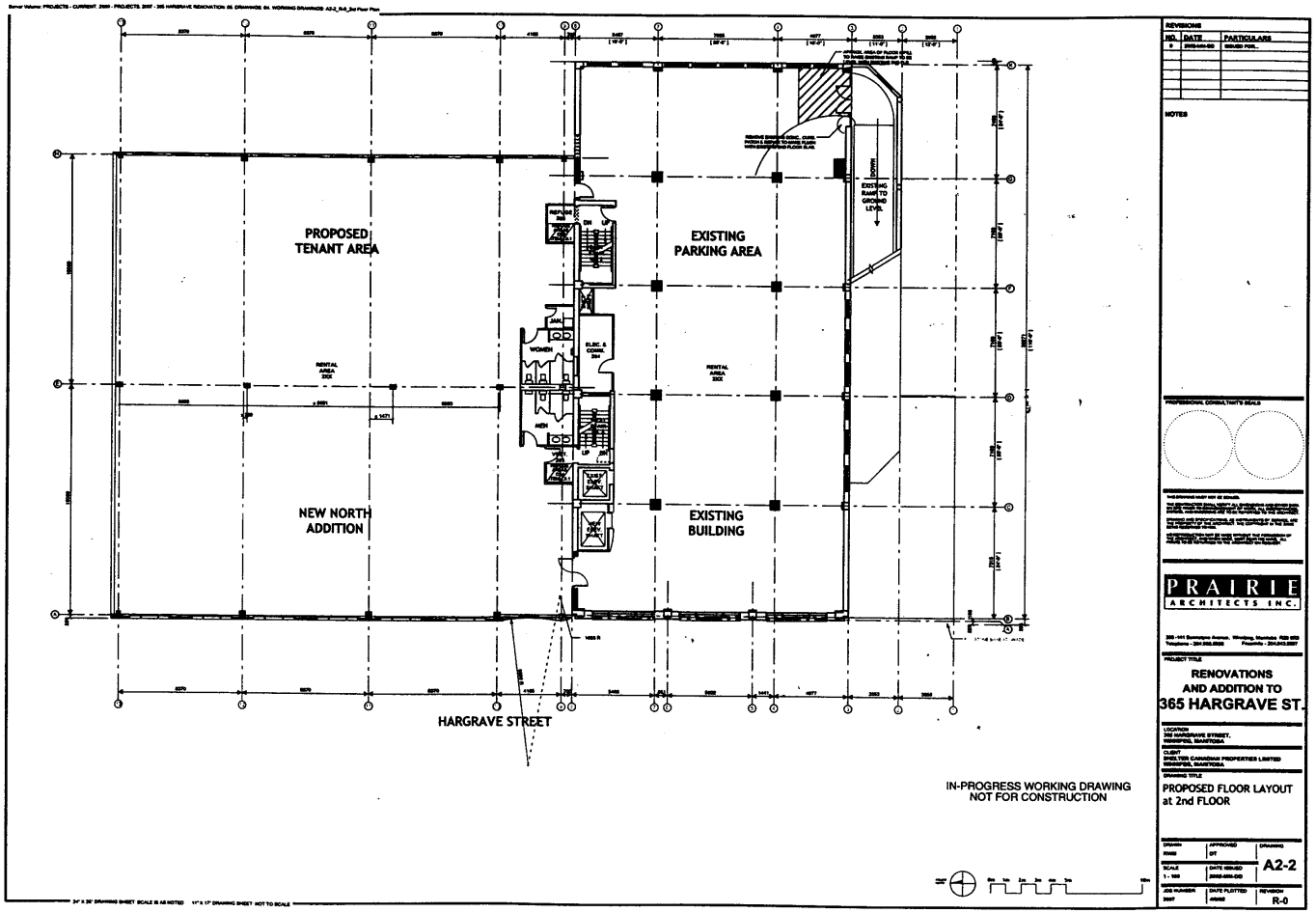
R. J. MATHIESON
Vice President
Design & Construction

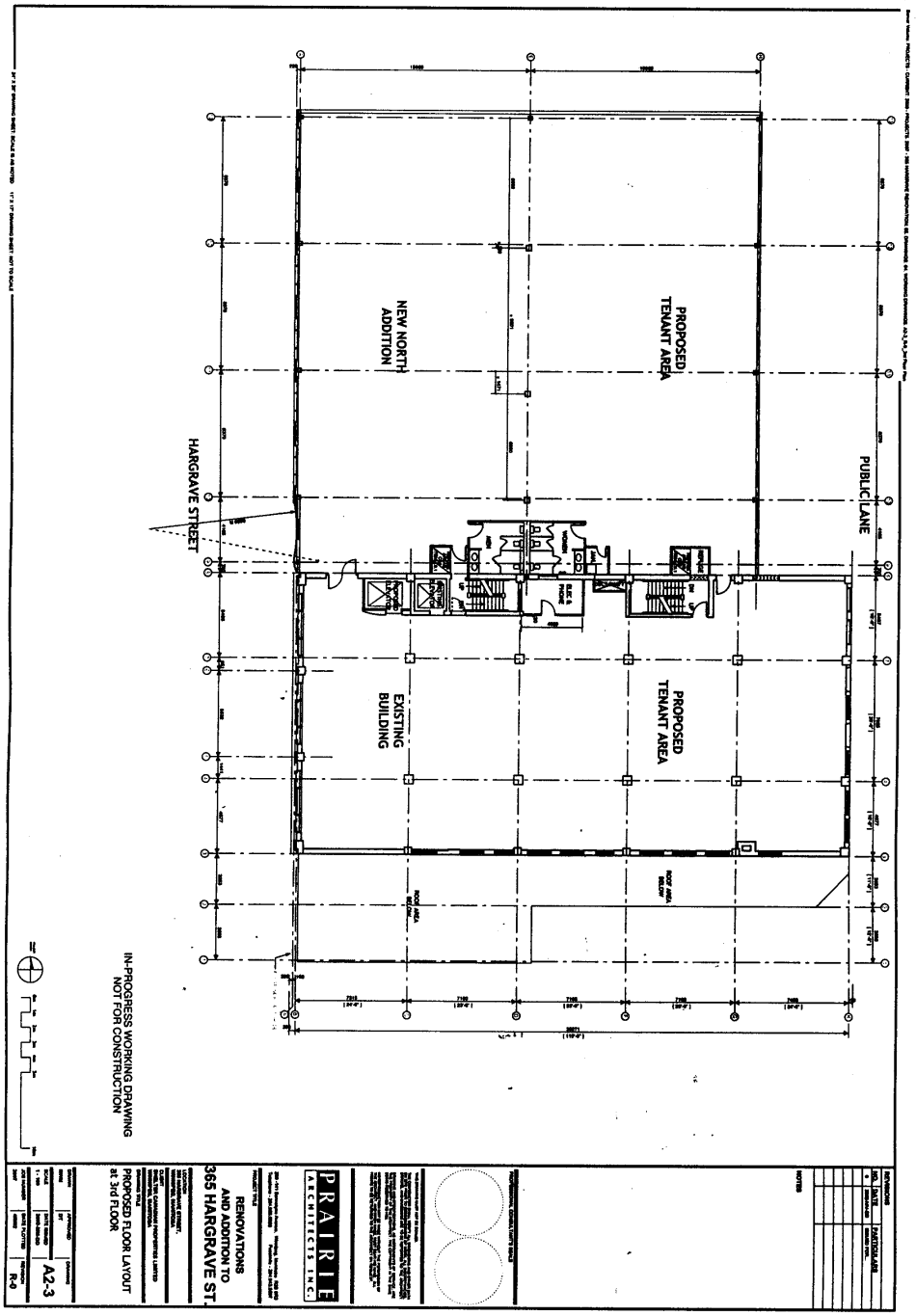
RJM/mm

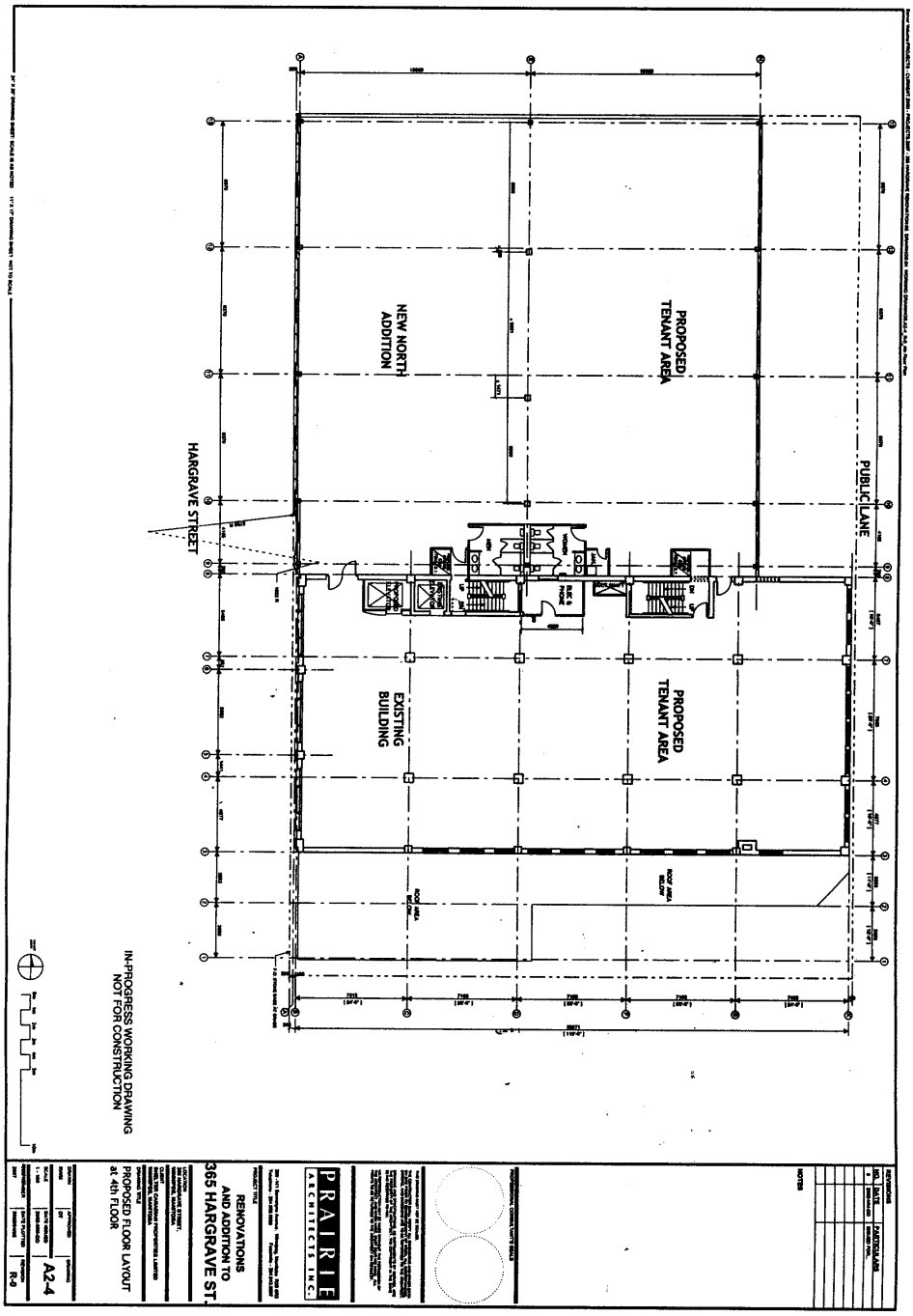
Enclosure


PRAIRIE
ARCHITECTS INC.
RENOVATIONS
AND ADDITION TO
365 HARGRAVE ST.
BASEMENT FLOOR PLAN
A2-0
R-0


NEW NORTH ADDITION
EXISTING BUILDING
PUBLIC LANE
IN-PROGRESS WORKING DRAWING
NOT FOR CONSTRUCTION
PRAIRIE
ARCHITECTS INC.
RENOVATIONS
AND ADDITION TO
365 HARGRAVE ST.
PROPOSED FLOOR LAYOUT
at GROUND FLOOR
A2-1


PROPOSED TENANT AREA
EXISTING PARKING AREA
NEW NORTH ADDITION
EXISTING BUILDING
RENTAL AREA
WOMEN
MEN
HARGRAVE STREET
IN-PROGRESS WORKING DRAWING
NOT FOR CONSTRUCTION
REVISIONS
NO. DATE PARTICULARS
NOTES
PRAIRIE ARCHITECTS INC.
PROJECT TITLE
RENOVATIONS AND ADDITION TO 365 HARGRAVE ST.
LOCATION
365 HARGRAVE STREET, WINNIPEG, MANITOBA
CLIENT
SHELTER CANADIAN PROPERTIES LIMITED WINNIPEG, MANITOBA
DRAWING TITLE
PROPOSED FLOOR LAYOUT at 2nd FLOOR
DRAWN
APPROVED
DRAWING
SCALE
A2-2
JOB NUMBER
DATE PLOTTED
REVISION
R-0


HARGRAVE STREET
PUBLIC LANE
NEW NORTH ADDITION
PROPOSED TENANT AREA
EXISTING BUILDING
PROPOSED TENANT AREA
IN-PROGRESS WORKING DRAWING
NOT FOR CONSTRUCTION
PRAIRIE
ARCHITECTS INC.
RENOVATIONS
AND ADDITION TO
365 HARGRAVE ST.
PROPOSED FLOOR LAYOUT
at 3rd FLOOR
A2-3
R-0


NEW NORTH ADDITION
PROPOSED TENANT AREA
HARGRAVE STREET
PUBLIC LANE
EXISTING BUILDING
PROPOSED TENANT AREA
ROOF AREA BELOW
IN-PROGRESS WORKING DRAWING
NOT FOR CONSTRUCTION
PRAIRIE
ARCHITECTS INC.
RENOVATIONS
AND ADDITION TO
365 HARGRAVE ST.
PROPOSED FLOOR LAYOUT
at: 4th FLOOR
A2-4
R-3