Report – Executive Policy Committee – November 9, 2005

Item No. 4 Heritage Conservation Tax Credit – former Fairchild Building, 110 Princess Street
File G-3.1.5

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On November 9, 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 $1.3 million be approved to undertake conservation and rehabilitation work on the former Fairchild Building 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 December 1, 2005 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 that no work may 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 affect the intent of the foregoing.

Report – Executive Policy Committee – November 9, 2005

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On November 9, 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 FAIRCHILD BUILDING, 110 PRINCESS STREET

For submission to: **Executive Policy Committee**

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

Report date: October 3, 2005

Recommendation(s):

1. That City Council:
    a) approve a Heritage Conservation Tax Credit of up to a maximum of $1.3 million to undertake conservation and rehabilitation work on the former Fairchild Building 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 December 1, 2005 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 affect the intent of the foregoing.

REPORT SUMMARY

Key Issues:

- Fairchild Loft Company, the owners of the former Fairchild Building, wishes to rehabilitate this currently vacant heritage building at an estimated cost of $5.5 million.
- The administration estimates that the owner will undertake $3.8 million in eligible conservation and renovation work on the structure normally allowing for a Heritage Conservation Tax Credit (HCTC) up to a maximum $1.9 million under the By-law.
- The administration recommends a reduced HCTC of up to a maximum of $1.3 million based upon the estimated future municipal portion of realty taxes of approximately $130,000/annum.
- 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.

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**
X	**Involves a multi-year contract**

Comment(s):

- This report recommends a Heritage Conservation Tax Credit to the Fairchild Loft Company.
- 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 June 2005, the Fairchild Loft Company 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 Fairchild Building, 110 Princess Street.

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:
On May 29, 1985, the City of Winnipeg, recognizing the major significance of this structure, listed the former Fairchild Building on the Buildings Conservation List under the terms of the Historical Buildings By-law 1474/77 (as amended) as a Grade II structure.

DISCUSSION:
Background
Historian Leonard K. Eaton has written that "in most respects the warehouse district of Winnipeg, Manitoba, is architecturally the finest on the North American continent." The Fairchild Building, located in the western boundary of the district, serves as a magnificent example of the new approach to warehouse design that occurred across North America after the turn-of-the century.

In 1877, two Winnipeg businessmen, Henry S. Wesbrook and Frank A. Fairchild, established a farm implement retail firm on the Market Square. By 1881, they expanded their enterprise into a wholesale business representing such firms as the John Deere Plow Company, J.I. Case Company, and the McCormick Harvesting Machine Company. By the late 1880's, F.A. Fairchild became the sole owner of the business and established a showroom in the Grain Exchange Building on Princess Street. Continued prosperity enabled the company to buy a vacant lot on Princess Street in 1904.

John D. Atchison, a Chicago-trained architect, who set up his very successful Winnipeg office in 1905, designed the building and another relocated Chicago designer, H.B. Rugh, who had come to Winnipeg in 1904, supervised the project. Atchison became one of Western Canada's most renowned architects and Rugh established himself as a specialist in the design of luxurious residences.

In a district where the Richardson Romanesque tradition in warehouse ornamentation predominates, Atchison designed the Fairchild Building using stylistic motifs established by renowned Chicago architect Louis Sullivan (1856-1924), who developed a unique form of ornamentation using an intricate weaving of linear and geometric forms with stylized foliage in a symmetrical pattern. He employed sculptural ornamentation in terra cotta that was unequaled. Atchison designed the six-storey pressed brick building using an internal steel frame structure with cast iron columns and wood joists. While Winnipeg's earlier warehouses had small window openings due to simpler methods of construction and to limit the amount of daylight on dry goods and food products, the display of farm machinery required that ample windows be provided. The rear elevation is largely composed of wire glass fenestration and is a unique feature in Winnipeg's warehouse district. The main façade of the building replicates a form of warehouse that was common in the American mid-west. The Fairchild Building's main façade is symmetrical and features a ground level punctuated by large windows that are framed by projecting brick pilasters with terra cotta capitals and a terra cotta string course. The capitals, in a tribute to Louis Sullivan, feature low relief foliage in a symmetrical pattern with the company's

initials incised into the center. The main entranceway is identified by a delicate segmental arch. The ornamentation of the upper floors of the building continues the projecting pilaster motif and terminates in broad segmental arches. Terra cotta plaques are used as capitals and paired incised plaques embellish the outer edges of the building.

Within a year after its completion, the Fairchild Company was sold out to the John Deere Plow Company, who remained in the building until 1953. The building was then sold to the Sterling Cloak Company who converted it into a garment factory. The property has remained vacant for a number of years.

The Heritage Conservation Tax Credit Program (HCTC)

The HCTC incentive strategy was adopted by City Council in 1998. 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 criterion that was 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 Building	rehabilitation and restoration	$110,000	work complete
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	renovations and	$405,300	work complete

Building Name	Work	Amount of Incentive	Status
Marlborough Hotel	redevelopment		
275-281 McDermot Avenue, Bedford Building	conservation and rehabilitation work	$500,000	application expired
319 Elgin Avenue, Scott Fruit Company Wholesale	conservation and rehabilitation work	$140,000	work complete
234 Portage Avenue, Former Oldfield, Kirby, & Gardner Bldg.	conservation and rehabilitation work	$100,000	work underway
276 Portage Avenue, Birks Building	rehabilitation work	$320,000	work pending

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 that they will invest approximately $5.5 million to upgrade the former Fairchild Building.

The current vacancy rate is 100%. The HCTC is needed to redevelop the existing premises to current 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 Fairchild Loft Company proposes to rehabilitate the warehouse structure into 50 residential condominium units ranging from one or two bedrooms, with or without dens. They also propose to develop five commercial condominiums for office and retail use. There will be 31 heated parking stalls in the building and an additional 37 exterior spots.

Exterior Work:

- repair, restore or replace any damage to terra cotta, brick and cornice
- repoint masonry joints
- roof replacement
- provide universal accessibility
- restore all storefront windows
- replace west façade windows based on approval of Historical Buildings Committee
- new exterior doors

Interior Work:

- refinish all existing floors

- insulate the ceilings
- install new elevator and restore existing
- new central cooling and heating system
- new plumbing throughout
- new sprinkler system
- new electrical system

FINANCIAL IMPLICATIONS:
The owners propose to invest approximately $5.5 million to convert their vacant building to residential and commercial condominiums.

Eligible costs are estimated at $3.8 million. Under the HCTC program, the owner would therefore be eligible for a HCTC of up to 50% of the value of the eligible work or $1.9 million. The administration recommends a lesser HCTC of $1.3 million based upon our estimate 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
$278,500	$52,325	$6,272.26

Tax Information following Redevelopment

Assessment Estimated	Portioned Assessment Estimated	Municipal Portion Realty Taxes Estimated
$8,834,000 (10T)	$3,975,300 (@ 45%)	$130,167.18
$ 630,000 (60T)	$ 409,500 (@ 65%)	

Business Taxes following Redevelopment

Annual Rental Value	Business Tax Rate	Business Tax
$95,000	7.75%	$7,362.50

The estimated assessed value of the property will therefore increase by approximately 34 times while the estimated portion of realty and business taxes will increase by approximately 22 times. The proposed total heritage incentive package is up to a maximum of $1.3 million, which is approximately 24% of the total estimated value of the project ($5.5 million). The project provides a leverage of approximately 4:1 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. 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 seventeen (17) month timeframe; that is, the work must be started on or before December 1, 2005 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 significant 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: September 27, 2005

Project Name:

REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR THE FORMER FAIRCHILD BUILDING, 110 PRINCESS STREET

First Year of Program 2007

	2007	2008	2009	2010	2011-2016
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	$ -	$ 131,257	$ 131,257	$ 131,257	$ 918,799
Less: Incremental Revenue/Recovery	131,257	131,257	131,257	131,257	787,542
Net Cost/(Benefit)	$ (131,257)	$ -	$ -	$ -	$ 131,257
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (131,257)	$ -	$ -	$ -	$ 131,257

Additional Comments:

For the purposes of this FIS, it is assumed that incremental municipal realty and business tax revenues of $131,257 will be credited to the General Revenue Fund beginning in 2007 with a corresponding expense to replenish the Heritage Investment Reserve Fund beginning in 2008. Over the 11 year period from 2007 to 2016, the net effect on the tax-supported budget will be nil. However, from the perspective of the City as a whole, the effect of the tax credit will be foregone revenues of $1,312,570 over ten years. This analysis is based on the assumptions that the assessed value, portioning rate, mill rate, and business tax rate remain constant throughout the 2007 to 2016 timeframe.

"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 22-2005

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