Report – Executive Policy Committee – July 19, 2006

Item No. 14 Heritage Conservation Tax Credit – former Northern Electric Building, 65 Rorie Street / 140 Bannatyne Avenue
File G-3.1.5

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 19, 2006, 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 $1.9 million, to undertake conservation work and to develop an addition on the former Northern Electric Building, and to be utilized by the owner over a maximum ten-year period following completion of the project be approved, subject to the owner beginning the work on or before April 1, 2006, and completing the work on or before December 31, 2008.

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

3. 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.

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

5. That the owner retain and preserve original and significant material as a condition of the Heritage Conservation Tax Credit.

6. That the owner construct the building in accordance with the approved plans.

7. That the owner satisfy the requirement that the project fulfill functions not likely to be displaced from other parts of the city.

8. 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.

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

Report – Executive Policy Committee – July 19, 2006

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 19, 2006, 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 NORTHERN ELECTRIC BUILDING, 65 RORIE STREET/140 BANNATYNE AVENUE

FOR SUBMISSION TO: **Executive Policy Committee**

ORIGINAL REPORT SIGNED BY: Director of Planning, Property and Development

REPORT DATE: July 14, 2006

RECOMMENDATION:

1. That City Council:
    a) Approve a Heritage Conservation Tax Credit of up to a maximum of $1.9 million, to undertake conservation work and to develop an addition on the former Northern Electric 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 April 1, 2006, and completing the work on or before December 31, 2008; and,
    b) Approve the Heritage Investment Reserve as the source of funding; and,
    c) 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,
    d) Require that no work may proceed without design/heritage approval and/or prior to the issuance of all relevant development permits; and,
    e) Require the owner to retain and preserve original and significant material as a condition of the Heritage Conservation Tax Credit; and,
    f) Require the owner construct the building in accordance with the approved plans; and,
    g) Require that the owner satisfy the requirement that the project fulfill functions not likely to be displaced from other parts of the city; and,
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 (140 Bannatyne Ltd.) of the former Northern Electric Building, 65 Rorie Street/140 Bannatyne Avenue, wish to rehabilitate, in two phases, this under-utilized heritage building at an estimated cost of $10.5 million.
- *Phase 1 is the development of a two-storey addition above the existing heritage building and a new entrance and elevator lobby to serve both phases of the redevelopment. Phase 1 started with construction in winter 2005.*

- *Phase II is an eight-storey addition adjoining the heritage building and includes two levels of enclosed parking. Phase II is scheduled to start construction in May 2007.*
- The Administration estimates that the owner will undertake $8.1 million in eligible conservation and renovation work on the structure normally allowing for a Heritage Conservation Tax Credit (HCTC) up to a maximum $4.05 million under the By-law.
- The Administration recommends a reduced HCTC of up to a maximum of $1.9 million based upon the estimated future municipal portion of realty taxes (estimated $189,397 annually).
- The assessed value and the municipal taxes on the property will be positively influenced while there are other attribute policy benefits as a result of this project including; the support for the re-use of underutilized buildings within the downtown and the Exchange District, the replacement of surface parking with structured parking, as well as the conservation of this heritage building.
- *As the original intent of the HCTC incentive strategy was to assist a limited number of projects selected for their ability to both increase property assessment values as well as to fulfill functions not likely to be displaced from other parts of the city, the owner will be required to demonstrate that they have leased the space to predominantly new businesses that are not currently located within the City, and/or to existing businesses that are relocating and significantly expanding their leased space as well as their number of employees within the City.*

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

( ) Involves a multi-year contract

Comment(s):

- This Report recommends a Heritage Conservation Tax Credit to 140 Bannatyne Ltd.
- Heritage Conservation Tax Credits may be allocated over a maximum ten-year period.

Policy Implications

(x) No

( ) Yes

Comment(s):

Regulatory Implications

(x) None

( ) Eliminates or reduces regulatory impact

( ) Proposes regulatory impact

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 (2010-2019).
- 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.

Report

REASON FOR THE REPORT:
On February 24, 2006, 140 Bannatyne Ltd. (the owners), completed an application for a Heritage Conservation Tax Credit (HCTC) under By-law 7155/98 (as amended) for the former Northern Electric Building, 65 Rorie Street/140 Bannatyne Avenue.

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 January 2005, 140 Bannatyne Ltd. (the owners), 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 Northern Electric Building, 65 Rorie Street/140 Bannatyne Avenue. The submission did not contain sufficient information for the application to be processed.

On April 1, 1985, the City of Winnipeg, recognizing the major significance of this structure, listed the former Northern Electric Building on the Buildings Conservation List under the terms of the Historical Buildings By-law 1474/77 (as amended) as a Grade III structure.

DISCUSSION:
Located at the intersection of Bannatyne Avenue and Rorie Street, the Northern Electric Building has played an important part in the current revitalization of the eastern section of the Exchange District. The building was erected in 1928 as an office and depot for Northern Electric, a large Montreal-based firm that manufactured and distributed a broad range of products: telephone components; wire and cable; electrical apparatus; and radio sets. A small branch office had been established in Winnipeg in 1908 but the phenomenal growth of the city and the Prairie Provinces in the latter 1920s necessitated larger facilities.

The plans for the new office and warehouse were drawn up by the company's own architect J.O. Despatie, in association with the Winnipeg architectural firm of Pratt and Ross. Carter-Halls and Aldinger were the general contractors for the $150,000 building. The design of the building points out what was considered to be "most modern" in warehouse construction. Fireproof steel construction rising three storeys was veneered in dark brick with Tyndall stone trim. The 90 feet square warehouse was originally planned to be four storeys. The concrete foundation is finished in rusticated stone that rises a few metres above the ground level. The large main doorway is emphasized by a limestone surround. Projecting brick pilasters, providing a vertical bay-by-bay division, contain the uniformly arranged windows with limestone lintels and sills. A substantial belt course of stone defines the limits of the main floor and the upper stories. The parapet, which has segmental gables at the corners, is trimmed with copper coping, now oxidized to a deep green shade.

The minimal decoration of the building, with few historical details acting as links to the styles of the past, was an attempt by the architects to present a modern look to the warehouse. This modest structure stands out from the numerous Richardsonian influenced warehouses that make up Winnipeg's historic district.

The formal opening of the building was attended by company officials from across Canada. The top floor of the building was artistically decorated for the occasion and the Capitol Theatre orchestra provided entertainment for the evening.

In the late 1950s Northern Electric relocated to an industrial park and the building became home to a garment factory. Vacant in 1975, the building was then purchased and attractively renovated by its owner Richardson Realty. The newly restored ground floor was converted into a popular nightclub – The Rorie Street Marble Club and has continued to be occupied as an entertainment facility until recently.

The owners of the building, 140 Bannatyne Ltd., applied for and received a CentreVenture 2002 Heritage Tax Credit of up to $30,998 subject to spending $135,995 for work to repoint portions of the exterior façade and to upgrade an elevator to meet current building codes. This work was completed and the tax credit was issued.

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 mostly complete
222 Broadway, Hotel Fort Garry	interior upgrade	$2.68 million	work underway
500/504 Main Street, Union Bank	restoration &	$2 million	work pending

Building Name	Work	Amount of Incentive	Status
Tower and Annex	rehabilitation		
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 Marlborough Hotel	renovations and redevelopment	$405,300	work complete
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 complete
276 Portage Avenue, Former Birks Building	rehabilitation work , office building	$320,000	work underway
110 Princess Street, Sterling Cloak Bldg. (Fairchild Bldg.)	conservation work to convert property into residential condos	$1,300,000	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 the approval of an HCTC, that they will invest approximately $10.5 million to upgrade the former Northern Electric Building.

The vacancy rate at the start of the project was 40%. The HCTC is needed to redevelop the existing premises to current state-of-the-art standards.
The redevelopment of the former Northern Electric Building is to be undertaken in two phases (refer Architects Elevation):

Phase 1: Two-Storey Addition and Restoration
Phase 1 is the development of a two-storey addition above the existing heritage building and a new entrance and elevator lobby to serve both phases of the redevelopment. Phase 1 started with construction in winter 2005.

Features of the addition include the two-storey addition to match the original brick colour, with a cornice to be simpler than the original with classical lines. The detailing of the sills and headers is to match the existing pre-cast concrete.

The new entry façade is to be a curtain wall and setback from the street with a less dominant appearance. The entry is slightly raised above grade with a ramp to the front entrance.

The redevelopment of the building assumes that the shell of the existing building will be retained and incorporated into the overall new project. All interior systems will be deconstructed and re-used as possible. The existing exterior form of the building will be retained.

Phase 2: Eight-Storey Addition
Phase II is an eight-storey addition adjoining the heritage building and includes two levels of enclosed parking. Phase II is scheduled to start construction in May 2007.

Features of the Phase II addition include a 6-storey base to match the original brick colour. The ground level arcade brick pilasters are to match the rhythm of the bays of the existing building. The cornice is to be simpler than the original with classical lines. The detailing of the sills and headers is to match the existing ones done in pre-cast concrete.

The two-storey curtain wall addition on the top two floors will tie in with the style of the Phase 1 entry façade addition. The curtain wall will be stepped back from the existing façade with a simple design so as not to detract from the presence of the original building.

Proposed Work
Phase 1:
Exterior Work:

- clean brick and tyndall stone
- repoint brick
- replace several windows based on heritage approvals
- prepare east façade to allow new addition
- install 3-storey addition to existing building and a new central entranceway

Interior Work:

- entire interior to be destructed and re-used
- new interior atria
- new heating, plumbing, mechanical, electrical and elevator system

Phase 2:

- new 8-storey 146,560 sq. ft. addition which includes two levels of parking

FINANCIAL IMPLICATIONS:
The owners propose to invest approximately $10.5 million to redevelop this property by adding three stories to the existing heritage structure and by developing a new eight-story structure with two levels of parking attached to its east elevation.

Phase 1
The owner's preliminary budget is $2.6 million; eligible costs that would be approved by the City would be $2.2 million.

Phase 2
The owner's preliminary budget is $6.9 million; the eligible costs that would be approved by the City would be $5.9 million.

2006 Tax Year Information

Total Assessment	Portioned Assessment	Municipal Portion Realty Taxes
$1,468,000	$954,200	$24,282.48

Estimated Assessment/Taxes following Redevelopment (based on 2006 mill rates)[1]:

Total Assessment Estimated	Portioned Assessment Estimated	Municipal Portion Realty Taxes Estimated
Phase I: $ 2,000,000	$1,300,000	$ 33.082.40
Phase II: $ 9,450,000	$6,142,500	$156,314.34
Total: $11,450,000	$7,442,500	$189,396.74

The existing Business taxes generated within this property are $ 9,619 while the estimated Business taxes following the redevelopment are $ 103,075.

The estimated assessed value of the property will therefore increase by approximately 8 times while the estimated municipal portion of realty and business taxes will increase by approximately 8.6 times. The proposed total heritage incentive package is up to a maximum of $1.9 million, which is approximately 18% of the total estimated value of the project ($10.5 million). The project therefore provides a leverage of approximately 5.5:1 private investment to public support (under the normal target of 8:1 private to public investment).

[1] Assumptions and Limiting conditions:

- The author did not inspect the subject property and all area and use estimates are based on information provided by the developer.
- This estimate of assessment value as of 2006 with a reference year of 2003 is for a tax impact report being prepared by Property Planning and Development and is not to be used for any other purposes without written consent.
- 2006 Realty value estimates are based on a 2003 reference year using 2003 market parameters and are subject to change upon actual completion of proposed work and subsequent inspection of property.
- The subject commercial property component of this estimate is based on 2003 Market parameters.

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 thirty-two (32) month timeframe; that is, the work must be started on or before April 1 2006 and completed on or before December 31, 2008. In the event of nonperformance by the Applicant, the HCTC would expire.

As the original intent of the HCTC incentive strategy was to assist a limited number of projects selected for their ability to both increase property assessment values as well as to fulfill functions not likely to be displaced from other parts of the city, the owner will be required to demonstrate that they have leased the space to predominantly new businesses that are not currently located within the City, and/or to existing businesses that are relocating and significantly expanding their leased space as well as their number of employees within the City.

The future property taxes as estimated will provide for 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: July 6, 2006

Project Name: **First Year of Program** **2009**

REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR THE FORMER NORTHERN ELECTRIC BUILDING, 65 RORIE STREET/140 BANNATYNE AVENUE

	2009	2010	2011	2012	2013-2021
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	$ 190,000	$ 190,000	$ 190,000	$ 190,000	$ 1,140,000
Less: Incremental Revenue/Recovery	-	259,000	259,000	259,000	2,331,000
Net Cost/(Benefit)	$ 190,000	$ (69,000)	$ (69,000)	$ (69,000)	$ (1,191,000)
Less: Existing Budget Amounts	190,000	(69,000)	(69,000)	(69,000)	(1,191,000)
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Direct costs beginning in 2009 represent the estimated annual municipal property tax credit to be applied to the tax roll. This is assumed to be constant for the 10-year period 2009-2018. Annual revenues, beginning in 2010, consist of incremental municipal property taxes of $166,000 + incremental business taxes of $93,000. For the purposes of this FIS, it is assumed that this $259,000 in incremental tax revenue will be constant for the 12-year period 2010-2021. Incremental municipal property tax will be credited to the Heritage Investment Reserve from 2010-2021 to replenish the Fund. Incremental business tax revenue will accrue to the General Revenue Fund.

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

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
Legal Services
Property Assessment
Corporate Finance

External Consultation With:
N/A

THIS REPORT SUBMITTED BY:

Department: Planning, Property and Development
Division: Planning and Land Use / Office of the Director
Prepared by: Giles Bugailiskis / Jim Paterson
PPD File No. HTC 23-2005

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