Report – Executive Policy Committee - April 18, 2007

Item No. 8 Purchase and Re-development of the Downtowner Hotel – 330 Kennedy Street, for Hostelling International Canada-Manitoba Region
File G-8

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On April 18, 2007, the Executive Policy Committee concurred in the administrative recommendation and submits the following to Council:

1. That subject to Hostelling International developing the lands located at 330 Kennedy Street for the purposes of a youth hostel facility the following be approved:

   A. A Downtown Development Incentive Grant in an amount equivalent to the municipal portion of realty tax paid annually in respect of the subject property over a period not exceeding 10 years and in a total amount not exceeding $165,000.00.

   B. The source of funding to come from the Economic Development Investment Reserve.

   C. The Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as approved by Council.

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

Report – Executive Policy Committee - April 18, 2007

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On April 18, 2007, the Executive Policy Committee concurred in the administrative recommendation and submitted the matter to Council.

RE: The Purchase and Re-development of the Downtowner Hotel – 330 Kennedy Street, for Hostelling International Canada-Manitoba Region

FOR SUBMISSION TO: Executive Policy Committee

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

REPORT DATE: March 26, 2007

RECOMMENDATION:

That subject to Hostelling International developing the lands located at 330 Kennedy Street for the purposes of a youth hostel facility, City Council approve:

a) **A Downtown Development Incentive Grant in an amount equivalent to the municipal portion of realty tax paid annually in respect of the subject property over a period not exceeding 10 years and in a total amount not exceeding $165,000;**
b) **The source of funding to come from the Economic Development Investment Reserve;**
c) **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**
d) **That the proper Officers of the City do all things necessary to effect the intent of the foregoing**

Report Summary

Key Issues:

- Hostelling International (HI) is an international membership-based youth hostel organization, with over 3 million members, 4,000+ hostels and active in over eighty countries around the world. HI – Manitoba is the regional affiliate of Hostelling International. HI – Manitoba has a local membership of 2,000.
- HI – Manitoba has estimated the total cost of acquiring and renovating the hotel is $2,412,839. The re-development plan would include eliminating the existing beer vendor and the traditional hotel beverage room
- North Portage Development Corporation has committed to fund the $1,400,000 first mortgage as well as fund $300,000 of the grant financing through a land lease structure for the hostel. HI – Manitoba proposes to contribute $100,000.
- The Province of Manitoba has committed $200,000 through the Winnipeg Partnership Agreement (WPA).
- The City grant may be a candidate for credit under the WPA.

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

(x) Involves a multi-year contract

Comment(s):

This report recommends a Downtown Development Incentive Grant to Hostelling International – Manitoba. The Downtown Development Incentive Grant would be based on the actual municipal portion of the property taxes created by the project, estimated at $16,500.00 annually, which would be provided for a ten-year period to a maximum amount of $165,000.00.

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):

This project may be a candidate for credit under the Winnipeg Partnership Agreement.

Report

REASON FOR THE REPORT:
North Portage Development Corporation has facilitated a partnership with Hostelling International (HI) that will trigger the re-development of the existing Downtowner Hotel into a superior class hostelling facility.

This report recommends City participation in the project through an Economic Development Incentive Grant requiring the approval of City Council.

HISTORY:
In the fall of 2006, North Portage Development Corporation (NPDC) submitted a conditional offer of $1.7 M to purchase the Downtowner Hotel located at 330 Kennedy Street for the establishment of a youth hostel facility. The offer was conditional upon the satisfactory completion by NPDC and HI of the property due diligence and the securing of project financing. It is intended that NDPC will complete the sale and simultaneously lease the facility to HI for a 55-year period.

By letter dated February 28, 2007, the Planning, Property and Development Department received a request for financial assistance in the form of tax abatement.

DISCUSSION:
Hostelling International is an international membership-based youth hostel organization, with over 3 million members, 4,000+ hostels and active in over eighty countries around the world. Due to the age and physical attributes of the existing hostel currently located at 210 Maryland Street, it was difficult to meet the national facility standards. Typical hostels in Provincial / State capital cities range in size and capacity of between 2- 30 rooms with 80 – 120 beds.

The Downtowner Hotel is a 40 room full service hotel located at 330 Kennedy Street in the Downtown area. The facility also houses a 108 seat beverage room and off-site alcohol sales (beer vendor). Crime, vandalism and aggressive panhandling have been attributed to the beverage room and off-site alcohol sales.

HI-Manitoba with the assistance of North Portage Development Corporation is proposing to acquire the existing hotel with the intention of converting the facility to a superior class Hostelling International-Canada Hostel facility. They would utilize approximately 20 of the 40 rooms for the youth hostel and market the remaining as student housing accommodations. The existing restaurant and beverage room would be completely remodeled to cater to the backpacker/student market. All off-site alcohol sales would be abated. It is the goal of both HI-Manitoba and North Portage to re-brand the existing building image through the physical upgrade of property as well re-orienting the target market to the youth tourism sector and student housing.

It is assumed that in the initial years of operations, 50% or 20 of the hotel rooms will be used as hostelling units. The 20 rooms would provide the hostel with a maximum

capacity of 29,000 bed nights, approximately 50% larger than their existing facility. The new size and capacity is in keeping with other newer hostels located in the Canadian capital cities. The remaining 20 rooms will be used for student housing during the university fall/winter semester or as regular hotel or private hostel units in the peak spring/summer period.

Overnight hostel bed rates are expected to be $22.00 per night, student housing units at $550 per month, and general hotel units at $50.00 per night. It is expected that it will take 3 years for the hostel component to reach its 65% occupancy level. The refurbished restaurant and beverage room will be either leased or operated internally as an additional source of revenue.

The majority of the funding is expected to be provided by a low interest loan funded by North Portage Development Corporation. Amortization of the mortgage is to begin when the facility reaches its target of 18,900 overnight stays per annum.

The Administration views the HI- Manitoba project as having a great deal of policy merit as follows:

- Neighbourhood Safety (removal of Beer Vendor and Hotel Beverage room);
- Support of Downtown Retail;
- Youth/Student Housing;
- Adjacency to Entertainment area; and
- Neighbourhood Revitalization

FINANCIAL IMPACT

Current Downtowner Hotel Tax Information (2006)

Total Assessment	Municipal Portion Realty Taxes	Business Taxes
$1,270,000	$21,023	$13,519

Tax information following site redevelopment

Total Assessment (Estimated)	Municipal Portion Realty Taxes (Estimated)	Business Taxes (Estimated)
$1,000,000	$16,541	$0[1]

Hostelling International has approached the City of Winnipeg with regard to financial support for the project. The Province is prepared to provide an allocation of $ 200,000 from the Winnipeg Partnership Agreement.

The Administration recommends that on the basis of the policy merit as noted above, that a Downtown Development Incentive Grant of up to a maximum of $165,000 be provided. The Grant would be payable over a ten year period and would be based on

[1] Based on the City of Winnipeg Charter the business is not operated for the preponderant purpose of earning a profit and therefore is not liable for business assessment.

the actual amount of the municipal portion of realty tax, estimated at $16,500 annually to a maximum amount of $165,000.

Although municipal revenues will be impacted, the proposed use will provide substantial policy benefits, all of which may help to trigger additional private investment in the neighbourhood.

The Administration also recommends that the Chief Administrative Offer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council

Financial Impact Statement

Date: March 23, 2007

Project Name:

First Year of Program **2009**

Downtown Development Incentive Grant for Hostelling International – 330 Edmonton Street

	2009	2010	2011	2012	2013-2018
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	$ 16,500	$ 16,500	$ 16,500	$ 16,500	$ 99,000
Less: Incremental Revenue/Recovery	-	-	-	-	-
Net Cost/(Benefit)	$ 16,500	$ 16,500	$ 16,500	$ 16,500	$ 99,000
Less: Existing Budget Amounts	16,500	16,500	16,500	16,500	99,000
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: For the purposes of this analysis, it is assumed that the site redevelopment will be completed at the end of 2008, with tax credits flowing beginning in 2009. Tax credits totaling $165,000 are to be financed from the Economic Development Reserve Fund.

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

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

External Consultation With:

THIS REPORT SUBMITTED BY:

Department Planning, Property and Development
Division Office of the Director
Prepared by: Barry Thorgrimson, A/Manager of Economic Development
PPD File No.

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