Report of the Executive Policy Committee dated December 5, 2001

Tax Credit to Standard Aero – "Project Lighthouse"

File FI-1.2 (Vol. 1)

9. The Executive Policy Committee has been advised that Standard Aero Limited wishes to expand its operations onto adjoining lands managed by the Winnipeg Airports Authority and adjacent to Standard's properties at 1925 Sargent Avenue. Standard Aero will be making a very significant financial investment in this project and for this reason has requested the support of all three levels of government.

The City of Winnipeg considers support to such a venture as a strategic, long-term economic development investment in Winnipeg's economy, particularly in the aerospace industry, which is one of Winnipeg's key economic sectors. The project in question meets the necessary criteria as laid out in the City's Homegrown Economic Development Strategy.

In the spring of 2001, the City of Winnipeg was informed by officials of Standard Aero that they were bidding on a lucrative yet confidential contract. If Standard Aero were to receive the contract, Standard Aero Winnipeg would be competing with other Standard facilities in the United States for it. If the Winnipeg plant received the contract work, Standard would require assistance from the City of Winnipeg to help offset their estimated investment of $91.9 million in building and equipment costs.

In correspondence dated September 13, Standard Aero President Paul Soubry indicated that Standard Winnipeg had reached a contractual agreement with General Electric and would therefore be developing a new state of the art Engine Maintenance Facility. He indicated that Standard will be investing over $91.9 million in building (approximately 120,000 square feet) and equipment over 10 years, and that this venture is expected to create over 484 new, high-paying technical and skilled positions over those 10 years.

Standard's official request in this letter was for $2 million in tax credits and for the land currently managed by the WAA and owned by the Federal Government. Standard also indicated separately that they required access to an easement owned by the City that had been identified in planning documents as a possible point of expansion for Ferry Road.

1. Proposal

The capital expenditure undertaken by Standard for this expansion is projected to be $56 million in 2001, with the overall expected capital expenditure over the first nine years of the project to be $91.9 million in building(s) and equipment.

The first phase of the project would involve a 40,000 square foot building. A proposed second phase (year five) expansion would increase this to 120,000 square feet.

Job creation is estimated at a minimum of 484 over the first nine years.

2. Support Principles

- The tax credit is in line with other economic incentive precedents in that it is based on a grant to the company accumulated by calculating the total value of their incremental municipal and business taxes on the project in question.

- The incentive provided reflects the strategic importance of the aerospace industry to Winnipeg's economy and is commensurate with the guidelines outlined in the Council-adopted Homegrown Economic Development Strategy.

- Funds approved by Council would be sourced by the City of Winnipeg in a designated account to pay down actual charges (e.g. property and business taxes).

- Under the first phase of construction of this project, Standard's municipal and business taxes will increase by approximately $84,879.00 annually, which is an increase of 28 percent over current levels. If they were to proceed to construct Phase Two of the expansion, their taxes would rise by a further $174,880.00.

Other government support of the Standard Aero expansion is another important fundamental component of the project. The Province has been asked to provide approximately $4 million in training support and $13 million in a repayable, low interest loan. Similarly, Standard has requested the following from the Federal Government: $2.2 million in training, $2 million for equipment, and $10 million in the form of a Technology Partnerships Canada (TPC) loan.

3. Conditions of Support

That an agreement between the City of Winnipeg and Standard Aero for purposes of supporting the expansion of their operations be finalized by the Chief Administrative Officer, subject to the following conditions:

a) That Standard Aero reach an agreement with the Winnipeg Airports Authority/Transport Canada re. the properties in question;

b) The Standard Aero facility to be developed on the attached Schedule "A";

c) That Standard Aero establish and at all times maintain and operate the project in accordance with all laws, bylaws, directions, rules and regulations and obtain any and all necessary permits and licenses of any federal, municipal or provincial authority having jurisdiction as may be required to construct and operate the project;

d) That property taxes are paid in full when due for each taxation year;

e) That, should Standard Aero not proceed beyond the first phase of the project, that the additional phase two grant not be given to them;

f) Any such other terms and conditions as deemed necessary by the City Solicitor/Manager of Legal Services for the purposes of implementing the intent of Council.

4. Benefits of the Proposal

a) It is estimated that the City of Winnipeg's increased annual revenues due to the project will be as follows:

- Phase one incremental municipal and business taxes of $84,879 annually (years one through four);
- Phase two incremental municipal and business taxes of $259,759 above 2000 levels (years five through nine);

b) The creation of at least 484 high-paying technical and skilled positions;

c) This project will serve as a significant long-term, strategic investment in Winnipeg's and Manitoba's economy, particularly in the aerospace industry, which is a key economic sector.

The Financial Impact associated with this proposal is outlined on Appendix "A".

The Executive Policy Committee recommends:

I. That City Council approve the following recommendation as it pertains to a proposed agreement between the City of Winnipeg and Standard Aero Limited with regard to the latter's request for tax credits arising out of its future expansion adjacent to its current facilities.

- That an investment credit in the amount of $1,638,311 be made available to Standard Aero ($339,516 over the first four years, and an additional $1,298,795 if they proceed with phase two of the development);

- That Standard Aero be given access/ownership to/of the portion of land immediately to the east of the site (Sargent at Ferry Road) that is designated as an allowance for the possible future expansion of Ferry Road, with the understanding that Standard Aero will have to sign an easement agreement with the City for this to be realized;

II. That the Proper Officers of the City be authorized to do all things necessary to implement the foregoing.

Appendix "A" referred to in Clause 9 of the Report of the Executive Policy Committee dated December 5, 2001

Financial Impact Statement:

Project Name: Tax Credits to Standard Aero regarding "Project Lighthouse"

Date: November 2, 2001 First Year of Program **2002**

	2002	2003	2004	2005	2006
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	$ 339,516	$ -	$ -	$ -	$ 1,298,795
Less: Incremental Revenue/Recovery					
Net Cost/(Benefit)	$ 339,516	$ -	$ -	$ -	$ 1,298,795
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ 339,516	$ -	$ -	$ -	$ 1,298,795

Additional Comments: The above analysis does not include the incremental tax revenue earned by The City of Winnipeg since it must be transferred to the Economic Development Reserve to repay the $1,638,311. In 2002, Standard has the option to draw upon the total investment credit for phase I, and in 2006, they can draw upon the total investment credit for the second phase.

P. Bodnar
Senior Financial Accountant

Schedule “A” referred to in Clause 9 of the Report of the Executive Policy Committee dated December 5, 2001

