Minute No. 257
Report "A" - Executive Policy Committee - February 27, 2008

Item No. 1 **Heritage Conservation Tax Credit - Merchants Building, 250 McDermot Avenue (Point Douglas Ward) File G-3.1.5**

COUNCIL DECISION:

Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

1. That a Heritage Conservation Tax Credit of up to a maximum of $585,000.00, to undertake conservation and rehabilitation work on the Merchants Building, 250 McDermot Avenue, to be utilized by the owner over a maximum ten (10) year period following completion of the project, be approved subject to the owner beginning the work on or before February 29, 2008 and completing the work on or before December 31, 2009.

2. That the owner be required to retain and preserve original and significant material as a condition of the Heritage Conservation Tax Credit.

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

4. That the Heritage Conservation Tax Credit be approved pending further approval by the City's Historical Buildings Committee on the exact means for rehabilitating the building as outlined in the Application Form.

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

6. That the Acting 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 be authorized to do all things necessary to implement the intent of the foregoing.

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DECISION MAKING HISTORY:

Moved by His Worship Mayor Katz,

That the recommendation of the Executive Policy Committee be adopted by consent.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On February 27, 2008, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

RE: REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR THE MERCHANTS BUILDING, 250 MCDERMOT AVENUE

FOR SUBMISSION TO: Executive Policy Committee

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

REPORT DATE: January 30, 2008

RECOMMENDATION:

1. That City Council:
   a) approve a Heritage Conservation Tax Credit of up to a maximum of $585,000, to undertake conservation and rehabilitation work on the Merchants Building, 250 McDermot Avenue, 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 February 29, 2008 and completing the work on or before December 31, 2009;
   b) require the owner to retain and preserve original and significant material as a condition of the Heritage Conservation Tax Credit;
   c) approve the Heritage Investment Reserve as the source of funding;
   d) approve the Heritage Conservation Tax Credit pending further approval by the City's Historical Buildings Committee on the exact means for rehabilitating the building as outlined in the Application Form; 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 effect the intent of the foregoing.

Report Summary

Key Issues:

- The owners, 250 McDermot Avenue Inc. and 55 Arthur Street Inc., wish to rehabilitate this heritage building at an estimated cost of $1.9 million.
- The Public Service estimates that the owner will undertake $1.9 million in eligible conservation and renovation work on the structure normally allowing for a

Heritage Conservation Tax Credit (HCTC) up to a maximum $950,000 under the By-law.

- The assessed value and the municipal taxes of the property will be positively influenced following conservation 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, as well as the conservation of this heritage building.
- The Public Service recommends a HCTC of up to a maximum of $585,000 based upon the estimated future municipal portion of realty taxes (estimated $58,456.60 annually).

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 Heritage Conservation Tax Credit to the owners, 250 McDermot Avenue Inc. and 55 Arthur Street Inc.
- 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:
In November 2007, the owners 250 McDermot Avenue Inc. and 55 Arthur Street Inc., 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 Merchants Building, 250 McDermot Avenue.

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

HISTORY:

On January 17, 2008 the City of Winnipeg's Historical Buildings Committee, recognizing the major significance of this building, recommended that it be listed on the Buildings Conservation List under the terms of the Historical Buildings By-law No. 1474/77 as a Grade II structure.

DISCUSSION:
Background:

250 McDermot Avenue
This massive brick and stone warehouse has occupied an important corner location in the heart of Winnipeg's Exchange District since its construction in 1898.

The warehouse was built in two sections, the north portion completed in 1898 and the south built in 1902 with construction materials and design consistent with the older section. The two public façades, north facing McDermot Avenue and west facing Arthur Street, begin at grade with a raised rough-cut stone foundation ending at the sills of the ground floor windows. Both façades are divided into bays by plain giant order brick pilasters running from the sills of the ground floor windows to the heads of the top storey openings. The building's original entrance is located on the north façade at the east end while a second door (date of construction unknown) is located further west on the front façade. The upper three storeys are similarly designed with paired window openings in each bay. These openings are separated internally by delicate brick elements and joined externally by stone lug sills and heads. Brick corbelling finishes the openings on the fourth floor. The flat roof is embellished by more brickwork, designed to represent a modest bracketed cornice. The west façade also includes a raised arched loading door in the fourth bay from McDermot Avenue, two metal fire escapes, the large arched opening of the dray way and an arched entrance door near the south end of the building.

The rear (south) elevation includes original elements such as the multi-paned industrial type windows of the ground floor and newer elements – the replacement window units of the upper three floors, the metal fire escape and the painted signage in the upper west corner. The east façade is partially covered by a neighbouring building. The central and rear sections can be observed from back lanes and include the dray way and an unadorned rear section.

The rough textures, flat roofline, stone accenting and arched openings are typical of the Romanesque Revival style, very popular in warehouse districts throughout North America from the 1880s well into the 20th century. The building employs the most common construction method of the time – the mill system – a square timber beam and post support network where beams were attached to the solid brick exterior walls and covered by wood plank flooring and often a hardwood finish – a very popular system because of its sturdiness, the ease of adding additional storeys and its ability to suffer fire damage and not collapse.

The interior of the building has seen numerous alterations, including its conversion into office space. Original elements still in place include wooden banisters and pressed tin ceilings accenting the main staircase and hardwood flooring.

James H. Cadham, Ontario born architect, designed this warehouse and the 1902 addition. Cadham was one of a number of self-trained designers who worked in the city in the late 19th century, Cadham being one of the most prolific. He also was responsible for the design of the R.J. Whitla Warehouse, located across the street at 70 Arthur Street. Well-known local contractor Philip Burnett, built the 1898 warehouse with the Malcom Brothers in charge of the construction of the 1902 addition.

Once completed, the building became the home of hardware dealer George D. Wood, who had come west to open a western branch of his father's successful Eastern Canadian company. Woods, like so many other wholesalers and retailers, saw a huge increase in their business and Woods flourished. He died in 1907 and the company reorganized as Wood Vallance Company under the direction of John C. Falls (1861-1924), long-time vice-president and general manager. The company continued to occupy space in the building until the mid-1920s. Ultimately, North American hardware giant Marshall-Wells Company acquired the Wood Vallance Company. Beginning in the mid-1920s, the building took on a number of smaller tenants, including wholesale stationer John Gibb Company (1929), Michael Butovsky, confectioner (1939), Buffalo Cap and Neckwear (1939-1969) and Brown Fashions (1979). It was owned and occupied by Silpit Industries Limited from the 1970s until recently.

The Heritage Conservation Tax Credit Program (HCTC)

The HCTC incentive strategy was adopted by City Council in 1998 on a pilot basis for three years with a review during the third year. 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.

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
300 Carlton St, Former Free Press Building	exterior restoration	$400,000	work complete
136 Market Avenue, Marshall Wells Building	interior upgrade	$3 million	work complete
311 Portage Ave., (A&B Sound) Portage Village Inn	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 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, former Scott Fruit Company Warehouse	conservation and rehabilitation work	$140,000	work complete
234 Portage Avenue, Former Oldfield, Kirby, & Gardner Bldg.	conservation and rehabilitation work	$100,000	work complete

Building Name	Work	Amount of Incentive	Status
110 Princess Street, Sterling Cloak Bldg. (Fairchild Bldg.	conservation & rehabilitation work	$1,300,000	work complete
65 Rorie Street/140 Bannatyne Avenue, Northern Electric Building	Phase I – 2-storey addition above existing heritage building; Phase II – adjoining 8-storey addition	$1,900,000	work underway
332 Bannatyne Avenue, Henderson Building	Rehabilitation and conservation	$259,000	work underway
352 Donald Street, Canada Building	Rehabilitation for commercial/residential	$1,200,000	work not started
678 Main Street, Dominion Bank Building	Rehabilitation for commercial	$110,000	work underway
40 Osborne Street, Roslyn Court Apts.	Rehabilitation and conservation	$252,000	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 $1.9 million to the building.

The current vacancy rate is about 24%. The HCTC is needed to upgrade the infrastructure and stabilize the exterior masonry of the existing premises to current state-of-the-art standards.

The work that the owners propose will ensure that the exterior architectural elements are repaired and have a long-term life expectancy while having minimal impact on the historical integrity of the building.

Eligible Work

The applicants propose to undertake a major stabilization effort on the property. Work is to start on or before February 29, 2008 and be completed by December 31, 2009.

Exterior Work:

- Shear cracks in exterior wall will be repaired with stainless ties.
- All four façades will be selectively repointed.
- The brick cornice will be repaired.
- The exterior of the building will be cleaned with a gentle water pressure wash and hand scrubbing.
- An accessible upgrade is proposed at the front entry.
- Existing windows will be inspected and repaired as required.

Interior Work:

- A new heat pump system will be installed to provide air conditioning in the building.
- The electrical distribution system will be upgraded.
- A new elevator will be installed.

FINANCIAL IMPLICATIONS:

The owners propose to invest approximately $1.9 million to restore this building with eligible heritage work estimated at the same amount. The owner has requested an HCTC of $950,000 based upon the maximum allowable tax credits under the By-law (i.e. 50% of eligible costs). The Public Service recommends an HCTC of $585,000, based upon our estimates of the future municipal portion of property taxes for the restored and fully occupied building.

Existing 2007 Tax Year information
250 McDermot Avenue

Total Assessment	Portioned Assessment	Municipal Realty Taxes
$642,000	$417,300	$10,619.45

Tax Information following Redevelopment

Total Assessment Estimated	Portioned Assessment Estimated	Municipal Realty Taxes Estimated
$3,534,000	$2,297,100	$58,456.60

The proposed total heritage incentive package is up to a maximum of $585,000, which is approximately 31% of the total estimated value of the project ($1.9 million). The project provides a leverage of approximately 3.5:1 private investment to public support.

The Public Service 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 Public Service 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 Public Service will prepare a Heritage Agreement that requires the Applicant to begin and complete the work within a 2 year timeframe; that is, the work must be started on or before February 29, 2008 and completed on or before December 31, 2009. In the event of nonperformance by the Applicant, the HCTC would expire.

The future property taxes as estimated will provide for some 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: January 18, 2008

Project Name: **First Year of Program** **2010**

REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR THE MERCHANTS BUILDING, 250 MCDERMOT AVENUE

	2010	2011	2012	2013	2014 to 2024
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	$ 58,457	$ 58,457	$ 58,457	$ 58,457	$ 350,742
Less: Incremental Revenue/Recovery	-	47,838	47,838	47,838	441,056
Net Cost/(Benefit)	$ 58,457	$ 10,619	$ 10,619	$ 10,619	$ (90,314)
Less: Existing Budget Amounts	58,457	10,619	10,619	10,619	(90,314)
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Direct costs beginning in 2010 consist of tax credits in the amount of estimated municipal taxes after redevelopment, which are to be paid out from 2010 to 2019. Incremental revenues consist of incremental municipal taxes (i.e. taxes in excess of the base line amount of $10,619), which are to be credited to the Heritage Investment Reserve from 2011 to 2024. The net impact on the Reserve over the 15-year period will be nil.

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

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
Property Assessment Department; Finance Department

External Consultation With:

N/A

THIS REPORT SUBMITTED BY:

Department: Planning, Property and Development
Division: Planning and Land Use/Office of the Director
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PPD File No. HTC 29-2007

Document name: O:\Reports Directive\Planning and Land Use\Heritage\
2008 reports\HCTC request-250 McDermot .doc