Agenda – Executive Policy Committee – November 25, 2009

Report – Standing Policy Committee on Downtown Development – November 23, 2009

Item No. 1 Sale of City Owned Property - Winnipeg Square Parkade - Results of Expressions of Interest (Point Douglas Ward) eFile FI-2.4(32)

STANDING COMMITTEE RECOMMENDATION:

On November 23, 2009, the Standing Policy Committee on Downtown Development concurred in the recommendation of the Alternative Service Delivery Committee, as amended, and in the recommendation of the Winnipeg Public Service, as amended, and submits the following to Council:

1. That the City owned property shown and identified as "City of Winnipeg Property - Winnipeg Square" on Exhibit "A", be declared surplus to the City's requirements.

2. That the sale proceeds be held until such a time as the Winnipeg Parking Authority Special Operating Agency has completed a Downtown Parking Strategy and rationalized the sale in their Business Plan or until May of 2010.

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

Agenda – Executive Policy Committee – November 25, 2009

Report – Standing Policy Committee on Downtown Development – November 23, 2009

DECISION MAKING HISTORY:

STANDING COMMITTEE RECOMMENDATION:

On November 23, 2009, the Standing Policy Committee on Downtown Development concurred in the recommendation of the Alternative Service Delivery Committee, as amended, and in the recommendation of the Winnipeg Public Service as amended, as follows:

Recommendation of the Alternative Service Delivery:

- Amend Recommendation 3. by adding the words "and rationalized the sale in their Business Plan" after the words "parking strategy."

Recommendation of the Winnipeg Public Service:

- Delete Recommendation 2. in its entirely and renumber the remaining recommendation accordingly,

and submitted the matter to the Executive Policy Committee and Council.

STANDING COMMITTEE DECISION:

On November 23, 2009, the Standing Policy Committee on Downtown Development concurred in the recommendation of the Alternative Service Delivery Committee as amended, and approved the following:

1. Subject to Council declaring the City owned property shown and identified as "City of Winnipeg Property – Winnipeg Square" on Exhibit "A" surplus to the needs of the City, that the Public Service negotiate with the proponent(s) short-listed pursuant to EOI #145-2009, for the sale of the Winnipeg Square Parkade, for an unconditional offer of $24 million, which will result in net proceeds to the City of $24 million (less real estate fees).

2. That the offer be accepted and the purchaser be made aware that the land may not be declared surplus until the Council meeting of December 16, 2009.

3. That authority be delegated to the Chief Administrative Officer to finalize the terms and conditions of the agreement of purchase and sale.

Report – Standing Policy Committee on Downtown Development – November 23, 2009

DECISION MAKING HISTORY (continued):

STANDING COMMITTEE RECOMMENDATION:

On November 6, 2009 the Standing Policy Committee on Downtown Development laid the matter over to its meeting on November 23, 2009 and directed the Winnipeg Public Service to further negotiate with the respondent that submitted the highest-ranked response to Expression of Interest No. 145-2009, to obtain an unconditional offer for the subject property in an "as is" condition, and report back to the Standing Policy Committee on Downtown Development on November 23, 2009.

ALTERNATIVE SERVICE DELIVERY COMMITTEE RECOMMENDATION:

On November 2, 2009, the Alternate Service Delivery Committee concurred in the recommendation of the Winnipeg Public Service, as amended, and recommended to the Standing Policy Committee on Downtown Development:

1. That subject to Council declaring the City owned property shown attached and identified as "City of Winnipeg Property – Winnipeg Square" Exhibit "A" to the report of the Director of Planning, Property and Development dated October 26, 2009, surplus to the needs of the City, that the Winnipeg Public Service negotiate with the proponent(s) short-listed pursuant to EOI #145-2009, for the sale of the Winnipeg Square Parkade for net proceeds to exceed $26.5 million.

2. That authority be delegated to the Chief Administrative Officer to finalize the terms and conditions of the agreement of purchase and sale.

3. That the sale proceeds be held until such a time as the Winnipeg Parking Authority Special Operating Agency has completed a downtown parking strategy or until May of 2010.

ADMINISTRATIVE REPORT

ISSUE: **Sale of City Owned Property - Winnipeg Square Parkade**
Results of Expressions of Interest # 145-2009

Critical Path: **Alternate Service Delivery Committee**
Standing Policy Committee on Downtown Development
Executive Policy Committee
City Council

AUTHORIZATION

Author	Department Head	CFO	CAO
R. Klassen	D. Joshi	M. Ruta	G Laubenstein

RECOMMENDATIONS

That the Alternate Service Delivery Committee recommends that the Standing Policy Committee on Downtown Development approve the following:

1. Subject to Council declaring the City owned property shown attached and identified as "City of Winnipeg Property – Winnipeg Square" on attached Exhibit "A" surplus to the needs of the City, that the Public Service negotiate with the proponent(s) short-listed pursuant to EOI #145-2009, for the sale of the Winnipeg Square Parkade for net proceeds to exceed $21 million.

2. That authority be delegated to the Chief Administrative Officer to finalize the terms and conditions of the agreement of purchase and sale.

That the Standing Policy Committee on Downtown Development recommends Council approve the following:

1. That the City owned property shown attached and identified as "Subject City of Winnipeg Property – Winnipeg Square" on attached Exhibit "A", be declared surplus to the City's requirements.

2. That debt due by the Winnipeg Parking Authority to the City be reduced by transferring the net proceeds from disposition to the General Revenue Fund and all such transfers relating to repayments of debt resulting in an increase in revenue in the General Revenue Fund be further transferred from the General Revenue Fund to the Land Operating Reserve Fund.

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

IMPLICATIONS OF THE RECOMMENDATIONS

An Evaluation Committee comprised of the Chief Administrative Officer and the three Deputy Chief Administrative Officers for the City was created to review and assess the proposals submitted. In addition, the Committee evaluated the financial impact that would be associated with the disposal of the City asset.

Three EOI Submissions were received as follows:

- An offer was presented at a gross price, for $21,400,000.00 (net price of approximately $21,039,000 after real estate fees),
- An offer was received for $20,000,000.00 (no real estate fees) that was conditional upon the proponent obtaining approval from the current Lessee permitting a planned development on the site; and
- An offer was also received for $17,100,000.00 or $16,672,500.00 (net price after real estate fees) for the purchase of the City property.

HISTORY

On March 2, 2009, the Standing Policy Committee on Downtown Development concurred in the recommendation of the Winnipeg Public Service and recommended:

1. That the Planning, Property and Development Department be authorized to prepare and issue an Expression of Interest (EOI) for the Purchase of City owned property commonly known as Winnipeg Square, and
2. That the results of the Expression of Interest be reviewed and evaluated by the Alternate Service Delivery Committee; and that the recommendations of the Alternate Service Delivery Committee regarding the disposition of the subject property be referred back to the Standing Policy Committee on Downtown Development for consideration.

On March 20th, 2009, an Invitation for Expressions of Interest for the purchase of the City-owned property at Winnipeg Square, Winnipeg, Manitoba (EOI #. 145-2009) was posted on the City of Winnipeg's website. The said EOI provided information with respect to the site, including among other things; existing improvements, services, assessment, taxes, zoning, lease and parking revenue, and lease agreements pertaining to air rights. The deadline for submissions for the EOI was May 11th, 2009.

As noted above the City received a total of three EOI Submissions for the Subject Property on the EOI closing date of May 11th, 2009.

FINANCIAL IMPACT

The Standing Policy Committee on Downtown Development and the Alternate Service Delivery Committee both requested the Public Service undertake an Expression of interest for marketing the Winnipeg Square Parkade ("Parkade"). There are many factors that require consideration in deciding on the status of the Parkade including the age of the structure and future economic value to the City. In this regard, the Public Service has prepared the following financial analysis for review.

Financial Analysis:

The City engaged the services of PricewaterhouseCoopers (PWC) to support staff in the preparation of the City's financial analysis by providing research and information regarding discount rates and methodology.

The value of the asset is highly sensitive to a number of variables. However, the Public Service believes that the City should be prepared to sell the Parkade and air rights if it receives an offer net of all adjustments over $21 million.

Assumptions:

The following assumptions were developed by the Public Service and used in arriving at the above value:

- Current financial information obtained from the Winnipeg Parking Authority was used as a basis for determining future cash flows.
- Since no estimates were available for repairs beyond 10 years, it was decided to value the property over a 10 year period reflecting the schedule set out for repairs detailed below in the MMM Group reports.
- The Parkade was constructed in 1976 and is currently 33 years old. The Parkade has 932 spaces on three levels. The City amortizes capital assets of this nature over 50 years so it will be necessary at some time in the near future to complete significant repairs to the facility. The City has completed the following reviews of the Parkade over the last two years:

    - MMM Group – Mechanical and Electrical Assessment – May 21, 2009 – The report highlights mechanical and electrical repairs required to the Parkade. In total over 5 years $703,000 of repairs have been documented.
    - MMM Group – 2009 Condition Assessment Report – May, 2009 – The report identifies immediate infrastructure repairs totaling $1.8 million.
    - Read Jones Christoffersen – 2008 Structural Condition Update and Budget Forecast - August 15, 2008 – The report indicates that infrastructure repairs of approximately $12.1 million are required over the next 5 years.

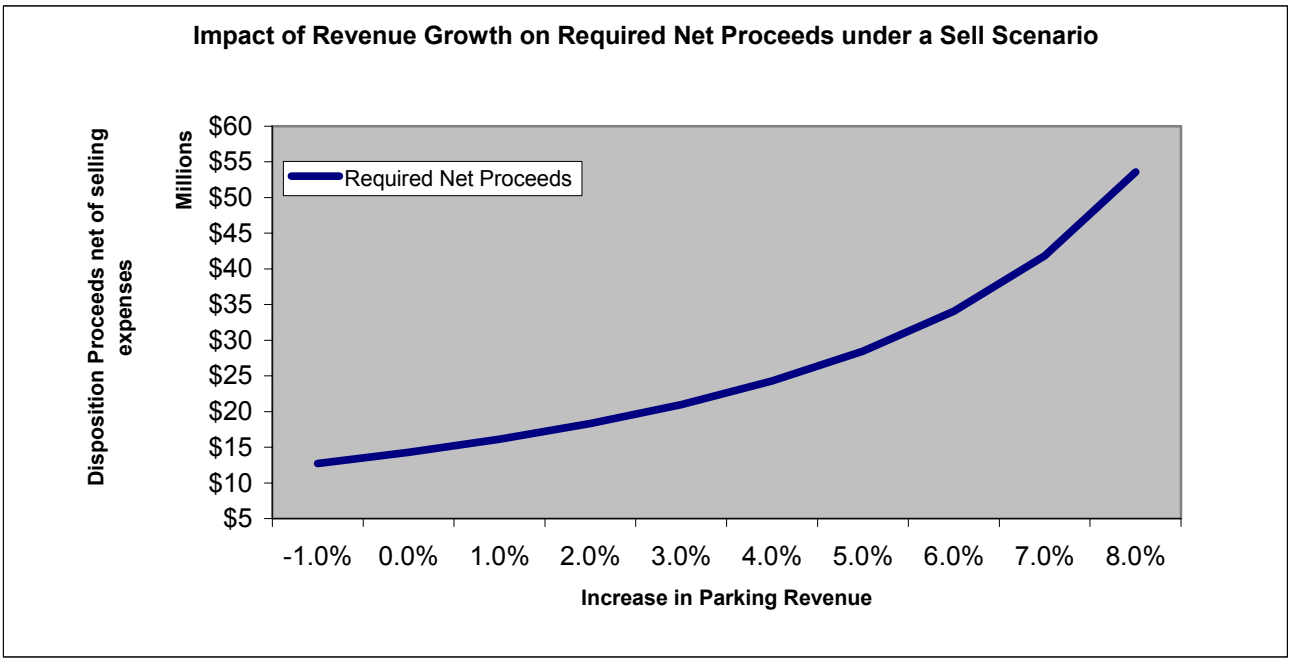
There is a wide disparity in the estimates provided in 2009 by MMM Group and in 2008 by Read Jones Christoffersen. The Winnipeg Parking Authority believes that the lower repair values provided reflect the true amount of repairs required. No estimates were received concerning repair values beyond ten years. However, to acknowledge the repair disparity, an additional nominal repair amount of $0.5 million has been assumed for 2015.

- To reflect future needs for reinvestment in the Parkade a reserve of $40,000, growing by inflation annually, has been included as part of the ongoing operating analysis. This amount was determined through discussions with external advisors. The reserve provides flexibility in terms of achieving current and forecasted operating results.
- Property and business taxes were not included as an expense in the value determination. Property taxes are settled between the Winnipeg Parking Authority and the City with no overall economic advantage. Business taxes are not currently paid. Having said this, an estimate of municipal taxes has been included and discounted back using the City's long-term borrowing rate of 6%. If the City sells the property there would be a financial advantage received by virtue of the municipal property and business taxes that would be earned. These have been estimated to be approximately $196,000 yearly increasing by 2% annually to reflect possible increases in property taxes and market values of the property. The net present value of these receipts is estimated to be $5.0 million.
- The City included growth rates of 3% both for revenues and expenses. On average, rate increases over the last 5 years have been beyond inflation. However, rates are adjusted based on demand and there is evidence that increases may be more moderate in future. This is further supported by information received from Impark concerning estimates of future rates in Winnipeg. Information received indicates that waiting lists have been depleted and Winnipeg Square rates are the highest in Winnipeg. Manitoba Hydro's move into downtown does not appear to have impacted downtown parking. Nationally, Colliers International has determined that the average monthly median parking rate in Canada totals $222.60. The current rate in Winnipeg Square is $265.00 and $225.00 for reserved and unreserved monthly parking. However, in 2010 the Winnipeg Parking Authority anticipates that it will increase rates on reserved and unreserved monthly parking to $275.00 and $240.00 respectively. This represents a 3.8% increase in monthly reserved rates and 6.7% increase in unreserved rates. Gross revenue at the Parkade from 2008 to 2009 is estimated to increase by 2.5% compared to 5.4% in 2008 and 14.9% in 2007. Gross revenue is impacted both by rate increases and demand. Information concerning rate increases and gross revenues from the Parkade are included in Appendix B.
- On December 1, 1980, Trizec signed a lease with the City regarding air rights over the parking structure for a term of 99 years. Current payments are $326,076 annually relating to air rights and structural support rent. The rent agreement is scheduled for review on December 1, 2020, December 1, 2045 and December 1, 2070. The City assigned a discount rate of 9.6% to this stream of income. The rate reflects the City's position as a landlord earning income from the air rights where there are potential risks associated with financial failure and default of the tenant. In this regard, the rate was derived from the perspective of a long-term debt holder so long-term bond rates of large property companies were used as the benchmark for the discount rate.

The City engaged Stevenson Advisors on May 5, 2008 to determine the value of the air rights. At that time, Stevenson valued the air rights at $8.8 million and indicated that expected rent at December 1, 2020 could be $885,000 using a discount rate of 6.5%. This was based on a value for the vacant land of $17.9 million and growth of 2% yearly to 2020. The air rights lease provides that the lease value in 2020 is calculated based on the greater of 7% of ½ of the lessor's cost of acquisition or 7% of ½ of the vacant land value at that time. There is no doubt that the air rights are difficult to value. A recent internal review placed the vacant land values at $8 million today. It has also been stated that increases in value could average between 1% and 2% yearly. Using 2.0% yearly, the land value in 2020 would be approximately $9.8 million which would lead to an estimated lease rate of around $450,000. These projections use the average of the two calculations in determining lease rents in 2020 at $650,000 for the purposes of determining a terminal value. No values were assigned to year 65 and 90, which are the other two dates when the lease will be reviewed, because there is little value adjustment on a net present value basis.

- For the balance of the income stream, the City used a discount rate of 11.85%. This value was determined on the basis of information gathered from private operators in the parking lot management industry.
- In using this discount rate, an assumption is being made that owning and managing off-street parking facilities would be seen as a commercial venture rather than delivering a public service. The discount rates in this analysis reflect the range of discount rates used for real estate enterprises. Simply applying a public debt rate may not be appropriate to capture the return required for the business risks involved. As a result, the City's cost of capital of approximately 6% for 30 year debt was not used in place of the risk determined rate setout above. It should be noted that the City debt rates included in the model are based on estimates of rates relating to future borrowing over a 30 year term.
- Included in the calculation of value is a determination of the termination value of the Parkade in year 10. The City has used a discount rate based on the average noted above reduced by the estimated growth relating to future income of 3% in determining this amount.
- If the City sells the Parkade and air rights, it could be argued that this transaction will permit the purchaser to move expeditiously in constructing another tower where the air rights are positioned. In this regard, there would be a further economic advantage earned by the City if this occurred. This has been estimated to be the value of the associated municipal property and business taxes based on a tower one-half the size of an existing building near-by with the facility operational in 2029. The cash flows have been discounted further by 75% to reflect a conservative probability of construction.

Sensitivity Analysis



The above sensitivity chart reflects the impact of parking revenue changes on the determination of value. As noted above, value is influenced considerably by revenue assumptions over the next 10 years. At 3%, the net sale price would need to be set at an amount over $21 million whereas an expected increase of 4% would result in a net sale price requirement of $24 million. Pricing is also impacted by discount rates and maintenance requirements. Charts demonstrating impacts on value for these assumptions are included in Appendix A.

The Public Service recommends that the Parkade and air rights be sold for a net value exceeding $21 million.

Economic Benefit to the City

Using the assumptions noted above, the following economic benefit would accrue to the City:

Net Proceeds from the sale of the Parkade including air rights	$21.0
Property and business taxes	$ 4.9
Property taxes on new facility – estimate	$ .3
Total	$26.2

The economic benefit to the City is based on net present valuation determinations using the assumptions above. Based on a revenue growth rate of 3% and the discount rates stated, the City would be prepared to sell the parkade if the economic benefit exceeds $26.2 million.

Removing the net present value of property and business taxes that will be earned, the minimum net proceeds required to achieve this result is $21 million.

Proceeds from the sale of the parkade could be used internally by the Winnipeg Parking Authority for other parkade improvements or alternatively to repay long-term debt to the City of approximately $12.2 million and further reduce the operating line due to the City, which totaled $9.2 million at the end of 2008. The recommendation to this report requests Council's approval to transfer net proceeds from the disposition to the General Revenue Fund to reduce debt in the Winnipeg Parking Authority. In addition, Council's approval is requested to transfer any balances resulting in an increase in revenue in the General Revenue Fund to the Land Operating Reserve.

In its 2009 business plan, the Winnipeg Parking Authority has indicated that it expects net income to be in the range of $3.8 million. If the parkade is sold, net income in 2010 would decline by approximately $2.1 million to $1.7 million annually.

Summary:

The City recently issued EOI #145-2009 inviting potential investors to submit proposals for potential acquisition of the property. Based on the above analysis, the Public Service believes that the property should be sold if the purchase price, net of all adjustments, exceeds $21 million. This conclusion is particularly sensitive to changes in assumptions both in terms of revenue growth and capital improvements required. In this regard, there is a question whether the City should continue to hold the property until economic conditions change. Although this represents an option, risks present themselves at various times during the life of ownership and it is difficult to predict future conditions. Based on the above, the Public Service recommends disposition of the parkade within the foreseeable future.

Financial Impact Statement

Date: September 22, 2009

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

Results of Expressions of Interest # 145-2009

Purchase of City Owned Property - Winnipeg Square Parkade

	2010	2011	2012	2013	2014 to 2019
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	$ 361,000	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	21,596,000	200,000	204,000	208,000	1,338,000
Net Cost/(Benefit)	$ (21,235,000)	$ (200,000)	$ (204,000)	$ (208,000)	$ (1,338,000)
Less: Existing Budget Amounts	(2,108,000)	(2,161,000)	(2,219,000)	(2,273,000)	(14,927,000)
Net Budget Adjustment Required	$ (19,127,000)	$ 1,961,000	$ 2,015,000	$ 2,065,000	$ 13,589,000

Additional Comments: Analysis is based on the assumption that the sale is finalized Jan. 1/10. All amounts are in nominal dollars (i.e. are not discounted). Direct costs in 2010 consist of real estate fees related to the proposed sale. Revenues in 2010 consist of gross proceeds of sale of $21.4 million + $196,000 in estimated municipal taxes. Existing budget amount in 2010 represent estimated net revenues that would have accrued to the Winnipeg Parking Authority (WPA). Note that $2 million in required repairs to the Parkade in 2010 + an additional $0.8 million in total from 2011 to 2019, are not currently budgeted. That is, if the Parkade was to be retained, WPA's net revenue in 2010 would decrease to $100,000 while net revenues from 2011 to 2019 would decrease by $0.8 million.

Incremental revenues from 2011 to 2019 represent municipal taxes assumed to increase by 2%/annum. Existing budget amounts from 2011 to 2019 represent estimated net operating revenues assumed to increase by 3%/annum, plus air rights revenue of $326,000/annum, foregone by the WPA. This analysis utilizes a 10-year time span to be consistent with the time period used in calculating the net present value of the property. Municipal tax revenues from the development of a "second tower" have been excluded as it is assumed the building would not be operational until 2029.

"Original signed by"

Mike McGinn, CA
Manager of Finance

CONSULTATION

In preparing this Report there was consultation with:

City Clerk's Department

Corporate Finance Department

Legal Services Division

Winnipeg Parking Authority

SUBMITTED BY

Department: Planning, Property and Development
Division: Real Estate
Prepared by: Ray Klassen, Manager of Real Estate / Paul Olafson, Corporate Controller
Date: October 26, 2009
File No.: 4216 V.2

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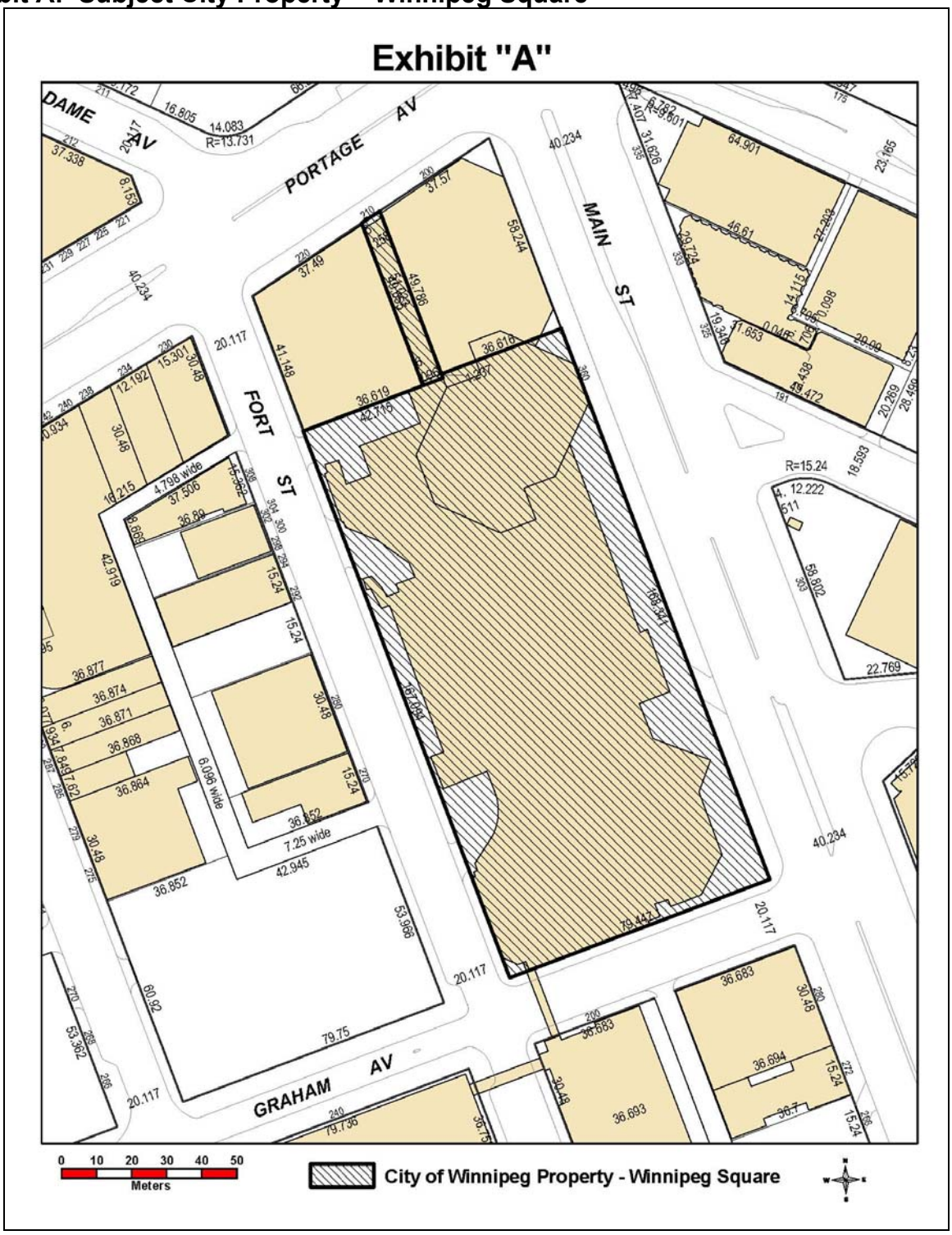
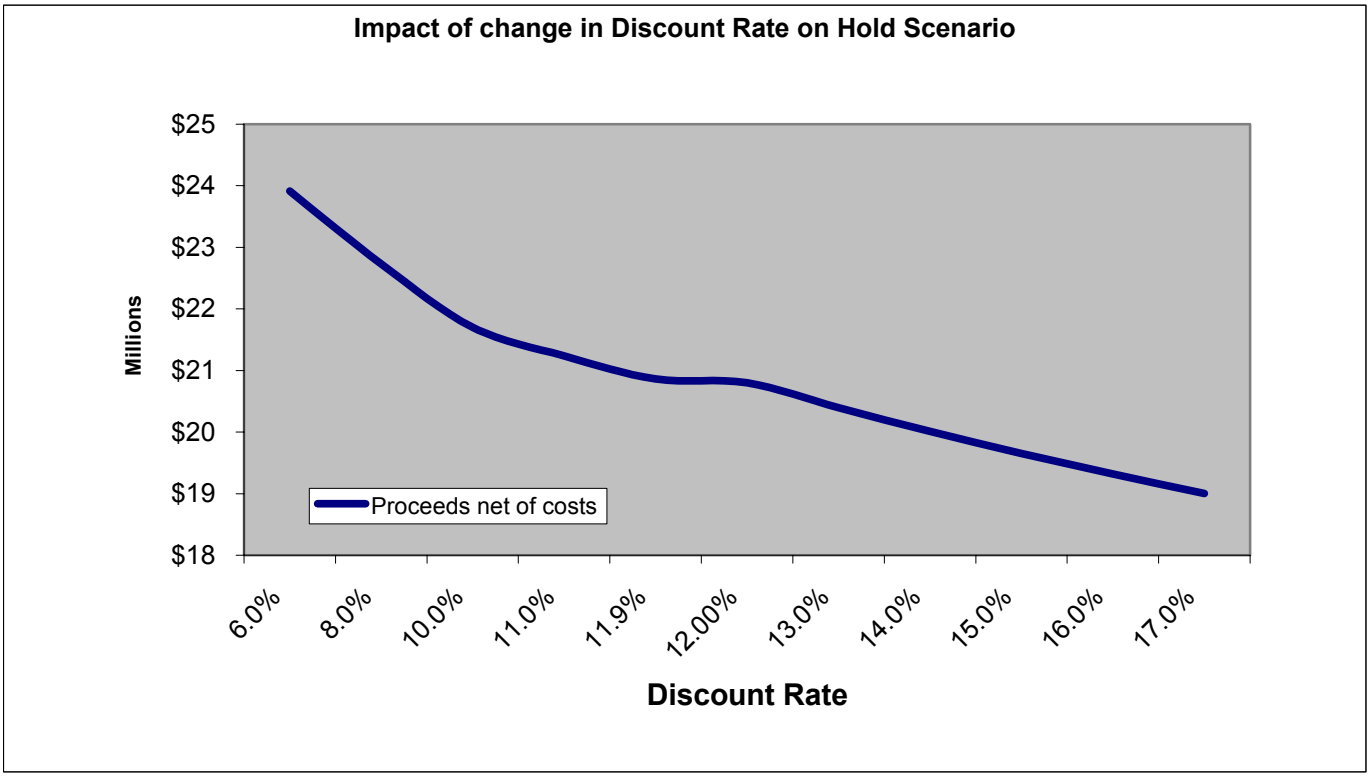
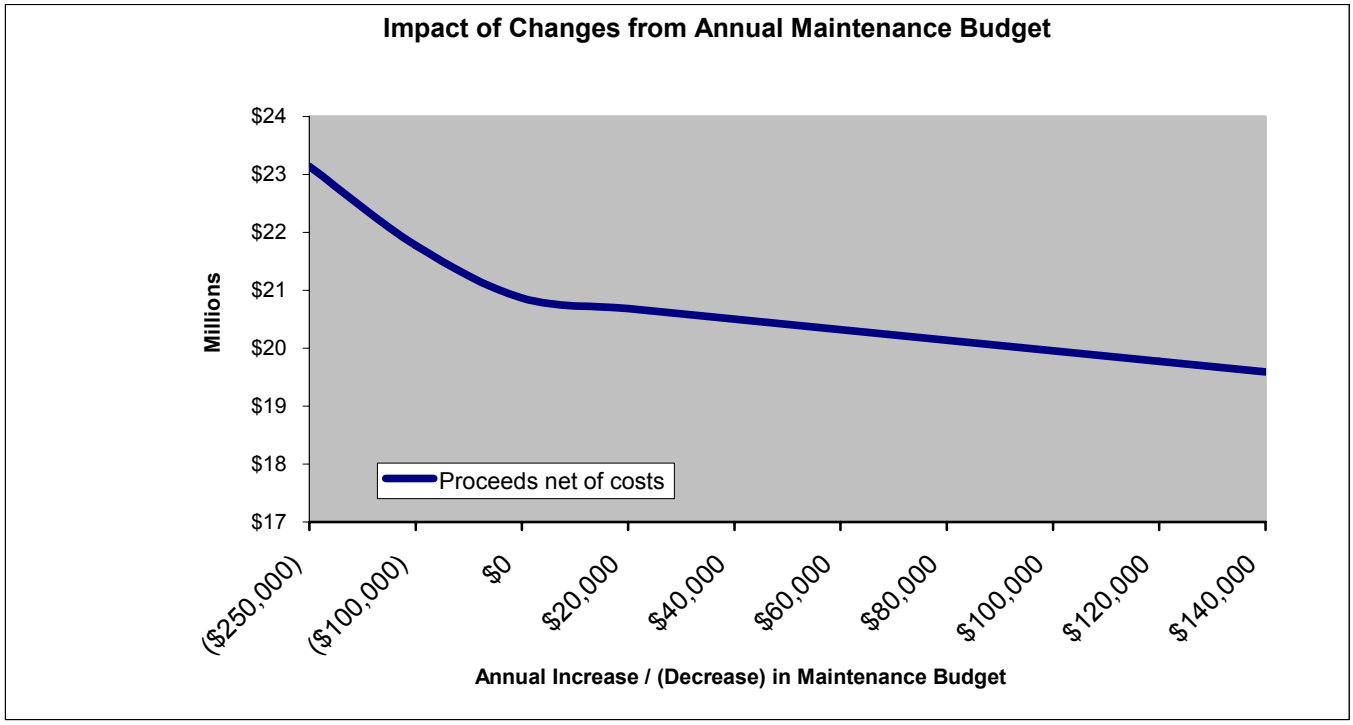
Exhibit A: Subject City Property – Winnipeg Square



APPENDIX A


Impact of change in Discount Rate on Hold Scenario
Millions
$25
$24
$23
$22
$21
$20
$19
$18
Proceeds net of costs
6.0%
8.0%
10.0%
11.0%
11.9%
12.00%
13.0%
14.0%
15.0%
16.0%
17.0%
Discount Rate


Impact of Changes from Annual Maintenance Budget
$24
$23
$22
$21
$20
$19
$18
$17
Millions
Proceeds net of costs
($250,000)
($100,000)
$0
$20,000
$40,000
$60,000
$80,000
$100,000
$120,000
$140,000
Annual Increase / (Decrease) in Maintenance Budget

APPENDIX B

Parking Authority

	2005	2006	2007	2008	2009	2010
Parking fee - Winnipeg Square Parking Garage						
12 hour reserved monthly	$180.00	$180.00	$212.00	$245.00	$265.00	$275.00
Monthly non reserved	$141.00	$148.00	$170.00	$195.00	$225.00	$240.00
Monthly non reserved evenings	$70.50	$74.00	$75.00	$85.00	$95.00	$95.00
Casual daily maximum	$10.00	$10.00	$10.00	$12.00	$12.00	$14.00
Casual evening maximum	$5.00	$5.00	$5.00	$5.50	$7.00	$8.00
Casual each half hour	$1.50	$1.50	$2.00	$2.00	$2.00	$2.00
Casual lost ticket charge	$15.00	$15.00	$15.00	$17.00	$20.00	$25.00
Date of rate change						
12 hour reserved monthly	~Sept 1/05	~Sept 1/06	~Sept 1/07	Sep 1/08	Sep 1/09	Aug 1/10
Monthly non reserved	~Sept 1/05	~Sept 1/06	~Sept 1/07	Sep 1/08	Sep 1/09	Aug 1/10
Monthly non reserved evenings	~Sept 1/05	~Sept 1/06	~Sept 1/07	Sep 1/08	Sep 1/09	Aug 1/10
Casual daily maximum	~Sept 1/05	~Sept 1/06	~Sept 1/07	Aug 1/08	Aug 1/09	Aug 1/10
Casual evening maximum	~Sept 1/05	~Sept 1/06	~Sept 1/07	Aug 1/08	Aug 1/09	Aug 1/10
Casual each half hour	~Sept 1/05	~Sept 1/06	~Sept 1/07	Aug 1/08	Aug 1/09	Aug 1/10
Casual lost ticket charge	~Sept 1/05	~Sept 1/06	~Sept 1/07	Aug 1/08	Aug 1/09	Aug 1/10

~ denotes approximate

	2005	2006	2007	2008	2009
Transient revenue	486,943.64	425,717.87	501,475.01	555,603.42	575,000.00
Event and other revenue	23,600.05	45,460.00	23,949.00	14,272.32	20,000.00
Monthly revenue	1,546,974.13	1,643,298.00	1,905,507.00	1,993,871.99	2,032,000.00
Operational Revenue	**2,057,517.82**	**2,114,475.87**	**2,430,931.01**	**2,563,747.73**	**2,627,000.00**