Agenda – Executive Policy Committee – April 7, 2010

REPORTS

Item No. 4 Downtown Residential Development Grant Program
eFile EX

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That a new Downtown Residential Development Program (Program) be established as per Program parameters outlined in Appendix A and that the Program involve a partnership with the Province of Manitoba in which there would be provincial participation under the structure of the Province's Community Revitalization Tax Increment Financing Act with incremental education-related taxes.

2. That the City's portion of the grant Program be financed through incremental municipal taxes generated by the new developments.

3. That the Program have a maximum subscription limit of $10,000,000 of education taxes and $10,000,000 of municipal taxes (whichever subscribes first).

4. That the Program be established for a three year period of application intake, with a program review after 12 months of implementation.

5. That the City enter into a funding and operating agreement with the Province which includes terms acceptable to the City regarding the Province's funding of its proportional share of these principal and interest expenses, effectively providing the City with a loan guarantee for up to $10,000,000.

6. That the City enters into an operating agreement with CentreVenture for CentreVenture to be the borrowing agent to finance these Payments, with City as the guarantor of the loans.

7. That subject to the establishment of the City's agreements with the Province and CentreVenture, Council approve a loan guarantee for CentreVenture of up to $20,000,000. This loan guarantee would be specific to this Program and subject to the terms and conditions of the operating agreement over the life of the Program.

8. That the CAO be delegated authority to finalize and execute any necessary agreements between the Province and the City and between the City and CentreVenture regarding this Program.

9. That the Public Service employ risk mitigation measures as outlined in Appendix C.

10. That the existing Downtown Multiple Family / Mixed-use Building Grant Program (By-law 123/2007) (DT MFMUBGP) not be renewed after its established three year program period and the deadline for application intake under this program be June 1, 2010.

11. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

ISSUE: **To establish a new Downtown Residential Development Grant Program**

Critical Path: **Executive Policy Committee -- Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
S. Dueck	D. Joshi	N/A	G. Laubenstein

RECOMMENDATIONS

1. That a new Downtown Residential Development Program (Program) be established as per Program parameters outlined in Appendix A and that the Program involve a partnership with the Province of Manitoba in which there would be provincial participation under the structure of the Province's Community Revitalization Tax Increment Financing Act with incremental education-related taxes.

2. That the City's portion of the grant Program be financed through incremental municipal taxes generated by the new developments.

3. That the Program have a maximum subscription limit of $10,000,000 of education taxes and $10,000,000 of municipal taxes (whichever subscribes first).

4. That the Program be established for a three year period of application intake, with a program review after 12 months of implementation.

5. That the City enter into a funding and operating agreement with the Province which includes terms acceptable to the City regarding the Province's funding of its proportional share of these principal and interest expenses, effectively providing the City with a loan guarantee for up to $10,000,000.

6. That the City enters into an operating agreement with CentreVenture for CentreVenture to be the borrowing agent to finance these Payments, with City as the guarantor of the loans.

7. That subject to the establishment of the City's agreements with the Province and CentreVenture, Council approve a loan guarantee for CentreVenture of up to $20,000,000. This loan guarantee would be specific to this Program and subject to the terms and conditions of the operating agreement over the life of the Program.

8. That the CAO be delegated authority to finalize and execute any necessary agreements between the Province and the City and between the City and CentreVenture regarding this Program.

9. That the Public Service employ risk mitigation measures as outlined in Appendix C.

10. That the existing Downtown Multiple Family / Mixed-use Building Grant Program (By-law 123/2007) (DT MFMUBGP) not be renewed after its established three year program period and the deadline for application intake under this program be June 1, 2010.

11. 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

The existing downtown program:

- is an innovative program that has encouraged renewal in the downtown, the use of existing civic infrastructure, the development of new street level commercial activity and greater urban density, all consistent with Plan Winnipeg (see Appendix B, 1);
- has made it possible for previously economically marginal housing projects to proceed, creating employment in the construction industry and more affordable housing in Winnipeg's downtown;
- was approved on the basis of the principle that the nature of the incentive be administered as a grant to the developer rather than subsequent owners to assist with the financial viability and desirability of additional multi-family dwelling developments.

A future program with Provincial involvement would roughly double the grant value for many projects, providing a significant additional incentive to create more residential units in the downtown and a new economic base for retail and amenity development.

The existing program (Downtown Multiple Family / Mixed-use Building Grant Program (By-law 123/2007) was established on June 1, 2007 for a three year period and subject during its third and final year to a program review and recommendation on whether or not it should continue. It is due to expire on June 1, 2010. It is recommended that this program not be continued at that point, with the proposed Program effectively replacing it.

Developer response to the existing program has been positive. However, feedback from this key stakeholder group also indicates the need for cash flows earlier in the development process and increased certainty earlier in the process regarding the actual value of the grant. In fact, all of residential developers within the downtown capitalize on CentreVenture's ability to 'bridge finance' their projects based on the future estimated grant. Developers have further identified the preference for a grant program that would fund a pre-determined amount not tied to the value of future incremental taxes, but this is not feasible given the tax increment financing model.

Key proposed Program changes

- The new Program would be limited to projects within the geographical area of the downtown as defined by the City's Downtown Winnipeg Zoning By-law (100/2004).

- The City would match the proposed Provincial subscription limit of $10M during the life of the Program. That is, the nominal value of incremental taxes used to fund this Program (loans repayment and administration) would be no greater than $10M of incremental municipal taxes generated by the projects initiated, using the 'best estimate approach' previously approved for the existing program. The Program would be considered fully subscribed when either the City's or Provincial subscription limit would be reached (which ever comes first).
  - The existing program has subscribed $5.35M to date out of a total subscription limit of $10,000,000.
- The Program would establish a maximum Payment for each eligible project based on the grid identified in Appendix A. This grid would establish ceilings for rental rates and assessed values eligible for this calculation. (See also Appendix B, 3).
  - Note that unlike the existing DT MFMUBG program, high-end projects with only dwelling units higher than those identified in the grid will no longer be eligible for any grant. They would, however, still be eligible to apply under the existing program until June 1, 2010.
- The program would calculate and finance the grant Payment for rental projects only over a 15 year period compared to the current 10 year period for all condominium and rental projects. This would help 'level the playing field' between condominium and rental projects as condominium projects arguably experience less of an economic gap, yet generate higher incremental taxes and therefore a higher grant. (See Appendix B, 4).
- The program would include a one-time cash Payment to developers upon project completion that is clear and relatively easy to understand. This would be a key difference from the existing City program which provides annual payments of actual incremental taxes for up to 10 years. The one-time grant Payment proposed under the Program would provide more certainty to developers and allow them to realize cash flows sooner than in the existing program structure. (See Appendix B, 5).
- The one-time Payment would be financed by government-backed borrowing.
  - Although the Provincial government supports the one-time Payment of the grant, it has indicated a preference for the City to manage the financing of that Payment. The Provincial government has given indication that it will fully assume its proportional share of responsibility (principal, interest and administration fees, etc.) for any liability associated with the grant. The current plan is to provide this security to the City in the form of a contractual funding agreement.
  - CentreVenture will be the active borrowing agent and secure loans for the full Payment amounts (municipal and education tax portions). The City would provide loan guarantees to CentreVenture for all authorized Payments related to this grant Program.
  - In turn, the Province would provide to the City through its funding agreement the effective loan guarantees of up to $10M as this Agreement between the Province and the City would clearly outline the responsibilities of each party and the eligible expenses the Province would be obligated to fund over the course of the agreement. Eligible expenses would include all principal and interest associated the Province's proportional share of the loan.
  - The Provincial / City agreement would further contain provisions that would be satisfactory to the City regarding payment schedules by the Province for eligible expenses due.
- Provision would be made in the Program to prevent developers and future owners of rental projects from increasing their rents beyond a reasonable amount such as

increases annually set forth by the Residential Tenancies Branch. One option is to have the payment associated with rental projects be treated as a forgivable loan and registered on title in order to have legal recourse in the event of future rent increases. Assuming the current and future property owners adhered to the rental agreement during its term, the loan would be completely forgiven after the term of the agreement..

- The rental and assessment values represented in the grid will be adjusted periodically to reflect changes in assessment reference years and market adjustments.
- The proposed Program would better support mixed-income and mixed-use projects (see Appendix B, 2)

Government risk associated with this Program and its mitigation

Government financing (or loan guarantees) of an up-front grant based on future estimated taxes creates increased municipal financial risk and administrative complexity. However, this risk is likely minimal, and the proposal is for the City to engage in a number of steps to mitigate any associated risk (see Appendix C). .

Timing of the Program

Due to the press associated with the potential Provincial participation in a downtown residential development Program, as well the Province's indication of intention to participate in a downtown housing program in the November 30, 2009 Throne Speech, many potential developers are in a holding pattern, waiting to understand more clearly what the nature of the Program might be and how it would impact their potential projects' scope and design. Significant delays in finalizing a Program might actually therefore impede development rather than achieving the intent of encouraging it. Beyond moving the process forward as fast as possible, one proposed solution is to allow projects that were initiated with building permits after January 1, 2010 to be eligible even though the Program would not be formally in place until a later date.

HISTORY

On March 25, 2009, Council adopted a recommendation "For the Public Service to continue discussions with the Province of Manitoba to expand this program to include a grant in respect of education taxes, as well as the municipal taxes."

On October 29, 2008 the Executive Policy Committee referred to the Public Service a Council motion of October 22, 2008 that read, in part: "BE IT FURTHER RESOLVED that the Winnipeg Public Service work with the Province of Manitoba to expand the program to include a credit on education taxes, as well as the municipal taxes."

Although both this motion and recommendation were in the context of the Neighbourhood Multiple Family / Mixed-use Building Grant Program, it was understood that the commonality of this program and its sister downtown program were to be both under discussion.

The existing (DT MFMUBG - By-law 123/2007) was established May 16, 2007.

The current program grants to developers of rental and non-rental multiple family dwellings 10 years of the incremental taxes to a project maximum calculated on a per-door basis.

The existing program calculates total maximum project grants as follows:

a. $20,000 per rental dwelling unit
b. $10,000 per condo with assessed value higher than $250k (2003 reference year)
c. $20,000 per condo with assessed value lower than $250k (2003 reference year)

Downtown developers have often chosen to finance the future grant cash-flows by assigning these grants to CentreVenture in exchange for bridge and post-project financing loans

As of January 1, 2010, the current DT MFMUBG program has generated the following statistics for conditionally approved projects:

Grant Program	# of Projects	# of Condo Units	# of Rental Units	Private / Other Investment	Estimated Grants	Maximum Grants
Downtown	8	167	242	$60M	$5.3M	$7.7M

In addition to projects funded by this program, some multiple family and/or mixed-use building projects that would have qualified have chosen alternatively to be funded through the Heritage Tax Credit program.

See Appendix D for a full description of the existing DT MFMUBG Program.

FINANCIAL IMPACT

Financial Impact Statement Date: March 25, 2010

Project Name:

New Downtown Residential Development Grant Program

COMMENTS:

The recommendations in this report, if approved, will not result in any direct financial implications (i.e. cash inflows or outflows) for the City of Winnipeg. The Program, as envisioned, will provide a financial incentive to developers of downtown multi-family / mixed-use building projects in the form of an "upfront" grant based on future incremental municipal and eduction taxes to be generated by the project to a maximum subscription of $20 million. CentreVentre Development Corporation will be the "borrowing agent" on behalf of the City of Winnipeg with the City providing a guarantee of any loans associated with the Program. The City will enter into a funding and operating agreement with the Province of Manitoba regarding provincial participation with incremental education-related taxes to a maximum subscription level of $10 million.

"Original Signed By"
Mike McGinn, CA
Manager of Finance

CONSULTATION

In preparing this Report there was consultation with:

Assessment and Taxation Department
Corporate Finance Department
Legal Services Department

External Consultation with:

Province of Manitoba

Local Government

Manitoba Housing and Community Development

CentreVenture Development Corporation

SUBMITTED BY

Department: Planning, Property and Development
Division: Housing Development
Prepared by: Stan Dueck
Date: March 30, 2010
File No.

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Appendix A

Summary of Program and Agreement Parameters

1. The Program is patterned after the City's existing Downtown Multiple Family Mixed-Use Building Grant Program but would be financed by both the municipal and education-related portions of the real property taxes.

2. The Program would be established and administered by the City. The Province's partnership commitments and obligations would be established in a separate funding agreement with the City. Administratively, the Province would need to approve each application and designate the property, by regulation, as a Community Revitalization Property. Conditional approval of the applicant would therefore be subject to this Provincial approval.

3. The Program would be limited to projects within the geographical area of the downtown as defined by the City's Downtown Winnipeg Zoning By-law (100/2004).

4. The Program would establish a 'per project' maximum Payment for eligible projects based on the following grid. This grid may be subject to slight modifications, but would establish ceilings for rental rates and assessed values.

	CONDOMINIUMS					RENTAL / APARTMENTS			
Max. Grant per Dwelling unit	**$40K**	**$35K**	**$30K**	**$25K**		**$40K**	**$35K**	**$30K**	**$25K**
	Max. Assessed Values (2008 Reference year)					**Max. Rent Levels**			
B/Studio	**$150k**	$185k	$220k	$255k		**$500/m**	$550/m	$625/m	$750/m
1 Bedroom	**$175k**	$215k	$255k	$300k		**$650/m**	$725/m	$825/m	$950/m
2 Bedroom	**$215k**	$265k	$305k	$350k		**$825/m**	$900/m	$1,025/m	$1,150/m
3+ Bedroom	**$250k**	$300k	$350k	$400k		**$975/m**	$1,100/m	$1,225/m	$1,350/m

5. The Program would include a one-time cash Payment to developers upon project completion and at the point when the first complete year's incremental taxes have been levied.

   That is, the Program would extend a grant to the developer funded by incremental taxes as follows:

   - Up to 10 years of incremental taxes (based on the assumption that the project's first year's actual incremental taxes remain constant) in the case of residential and/or mixed-use condominium projects

- Up to 15 years of incremental taxes (based on the assumption that the project's first year's actual incremental taxes remain constant) in the case of residential and/or mixed-use rental projects, or
- The maximum project grant as provided in the grid identified above

Which ever is less.

The Payment would be calculated based on the Net Present Value (NPV) of the future incremental taxes on both residential and non-residential elements of the project up to the project maximum. The goal is to have this one-time Payment as clear and easy to understand as possible.

(It is anticipated that a further option may be available to developers that elect to take a series of payments over time at an amount no greater than the incremental taxes established in the first full year after project completion, less an amount associated with administration expenses.)

6. In order to finance this up-front Payment to the developers, CentreVenture would act as an Agent on behalf of the City to secure the appropriate term loan at a rate fixed for the loan period. The loan would be paid back with future, incremental taxes.

7. The CentreVenture loan for the full Payment amount (municipal and education tax portions) would be fully guaranteed by the City. The Agreement between the Province and the City would establish that the eligible expenses that the Province be responsible to fund include all principal and interest associated with its proportional share of the loan, thus effectively guaranteeing its portion of the loan to the City.

8. A funding and program operating Agreement between the Province and the City would be established which clearly outlines the responsibilities of each party and the eligible expenses the Province would be obligated to fund over the course of the Agreement.

9. The Agreement would contain provisions that would be satisfactory to the City in the event that eligible expenses (e.g. loan repayment principal and interest) due to be paid the City by the Province were either late or less than required.

10. The discount rate associated with the NPV calculation of the payment would be based on the actual rate of borrowing, plus an allowance for administration and risk.

11. The calculation of incremental taxes would include all assessed elements of the project including the non-residential (mixed-use) elements, if any.

12. Provision would be made in the Program to prevent developers and future owners of rental projects from increasing their rents beyond a reasonable amount such as those annually set forth by the Residential Tenancies Branch (RTB). (As these projects would be for new rental units, they would otherwise be exempt from RTB restrictions for 20 years.) One option is to have the Payment associated with rental projects be treated as a forgivable loan and registered on title in order to have legal recourse in the event of future rental increases.

13. The City would engage in a Program funding and operating Agreement with CentreVenture which clearly outlines the details of their Agency responsibilities and the City's funding requirements.

14. The City would match the proposed Provincial subscription limit of $10M during the life of the Program. That is, the nominal value of incremental taxes used to fund this program (loans repayment and administration) would be no greater than $10M of incremental municipal taxes generated by the projects initiated. The Program would be considered fully subscribed when either the City's or Province's subscription limit is reached (which ever comes first).

15. Administrative processes will be established to help ensure that at least 10% of the Provincial subscription amount be allocated to grants for 'affordable' units as represented by the shaded areas of the grid.

16. The rental and assessment values represented in the grid will be adjusted periodically (with formal consent from both the Province and City) to reflect changes in assessment reference years and market adjustments.

17. The Program will allow eligible projects with initial building permits issued after January 1, 2010.

18. The final Program would adhere to the structure and constraints of the Province's Community Revitalization Tax Increment Financing Act.

APPENDIX B:

Further Detail and Discussion

1. The Current and Proposed Program is Supported by Plan Winnipeg

Plan Winnipeg 2020 Vision supports:

a. Putting Downtown first under 1A-01 Promote Downtown Development by "iii) encouraging and supporting the adaptive reuse of heritage building, and iv) ensuring … compact urban form in the downtown", in addition, under 1A-02 Encourage Downtown Living by "ii) providing incentives … that encourage the provision of housing including warehouse conversions and new construction throughout the downtown" and "iii) encouraging mixed-use residential development that integrates retail, service businesses, and institutions needed by downtown residents";

b. The creation of healthy neighbourhoods under 1B-01 Support Neighbourhood Revitalization by "iv) encouraging targeted private sector investment in neighbourhoods including the provision of infill housing and local services";

c. Addressing housing needs under 1C-01 Facilitate Provision of Safe and Affordable Housing by "iii) proposing tax increment financing and tax credit programs to facilitate affordable infill development and improve housing stock in older neighbourhoods"; and

d. Planning for growth and change under 3A-02 Promote Compact Urban Form by "iv) encouraging infilling of vacant lands and the revitalization of existing neighbourhoods to maximize the use of existing infrastructure".

2. Program Benefits

a. The grid concept proposed in the Program more directly (inherently) provides incentives for both:
   - mixed-income projects (a mix of lower to higher priced dwellings within the same building), and
   - mixed-use projects (a mixture of residential and non-residential uses in the same building).

   Both concepts contribute to healthy communities.

For example, as with the existing program, a spectrum of project types will emerge under this Program.

- One end of the spectrum will be characterized by the high end of the market (e.g. $300k+ condos). Here, the project grant will likely be a function of the project maximum based on the grid in Appendix A. Developers of these projects will have an incentive to introduce some low-end units **(mixed-income)** into their project to capitalize on those higher 'per door maximums'. Indeed, projects with units that have assessed values beyond those on the grid would only receive a grant if they introduced additional, more moderately-priced units.
- At the other end of the spectrum will be the affordable rental and condo projects. On their own, these projects will likely not generate enough taxes to reach their project maximums and therefore will only receive the NPV of the estimated 10 or 15-year income stream of those taxes. Rather, maximum grant payments are most likely to be achieved when the incremental taxes associated with non-

residential components are leveraged. Developers of these projects, therefore, will have a financial incentive to introduce **mixed-use** (non-residential) components into their projects to increase their effective per-door grant.

b. Increased population in the downtown will provide a more vibrant business environment and create a financial base for the private sector to invest in new retail and amenity opportunities, as well as help bridge the economic gap necessary to regenerate heritage buildings.
c. Increased population in the downtown will improve safety.
d. Increased population in the downtown will create greater municipal sustainability by leveraging existing public infrastructure such as roads, schools, parks, and government services.

3. Why introduce the proposed 'grid' structure with a ceiling on assessment and rental values?

The existing grant program calculates a project maximum based on a single $250,000 assessment threshold. Condominium units assessed less than $250,000 contribute $10,000 to the calculation of the project's maximum grant and those with an assessed value of $250,000 or more contribute $20,000 to the maximum. All rental units contribute $20,000. There are currently no assessment value or rental rate ceilings.

The proposed Program proposes the following grid approach for both rental and condominium units:

	CONDOMINIUMS					RENTAL / APARTMENTS			
Max. Grant per Dwelling unit	**$40K**	**$35K**	**$30K**	**$25K**		**$40K**	**$35K**	**$30K**	**$25K**
	Max. Assessed Values (2008 Reference year)					**Max. Rent Levels**			
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3+ Bedroom	**$250k**	$300k	$350k	$400k		**$975/m**	$1,100/m	$1,225/m	$1,350/m

There are a number of reasons for this change:
a. The Program's goal is to promote affordable and attainable housing in the downtown. This grid approach enhances that both in terms of structure and by creating a ceiling in rental and assessment values that are eligible.
b. Unlike the existing grant program, the grid reflects the differences in the type of dwelling (e.g. the spectrum of bachelor/studio to 3+ bedrooms in size). For example, a $250k studio condominium is clearly less modest than a $250k 2 bedroom unit.
c. The grid creates a more graduated or tiered grant structure compared to a single, dramatic threshold reflected in the existing program. It is contemplated that by

creating more tiers and graduated steps, this Program will limit the concerns of a developer with units that just missed a threshold assessment or rental rate.

4. Why extend the calculation period for the Payment associated with rental projects to 15 years instead of the 10 years in the existing program and for condominium projects?

For many condominium and rental projects within the downtown, there exists an economic 'gap' between the cost of engaging in the development and the future market value (or future revenues) of the project. However, this gap is even higher for rental projects where the market rental rates are most often not great enough to warrant the investment. This gap may also exist in other parts of the city, but is particularly evident within the downtown where the underlying property values are comparatively high, projects typically involve expensive retrofitting of existing buildings (accentuated in the case of heritage status buildings) and building densities require more expensive construction materials and methods (e.g. concrete vs. wood-based construction, and issues associated with infill construction).

The experience of working with the existing program makes it evident that rental projects need a greater grant to become economically viable, and yet a grant paid for by incremental taxes to a rental project would be considerably less its equivalent condominium counterpart. The Provincial government is particularly motivated to participate in this Program to support the creation of housing options for low to middle-income households, and, with a less than 1% vacancy rate throughout the city, the creation of new rental units is key.

It is estimated, however, that while many condominium projects have the potential to reach their project maximum grant over a 10 year period using the proposed grid, it is unlikely that most rental projects will come even close to those maximum grants over the equivalent 10 year period. Thus, the proposal is for the City to match the Provincial plan to extend the grant calculation period to 15 years in order to help 'even the playing field' between rental and condominium projects.

5. Why a one-time grant and not simply grant payments of actual incremental taxes over the 10 or 15 years of the program?

Provincial participation in this Program would be tied to, and therefore be dependent on the structure of the current Community Revitalization Tax Increment Financing Act (CRTIF Act). This legislation's mandated calculation of incremental taxes involves a 'rising base[1]' due to the General Assessment that is complicated and would be complex to explain, market, and administer if the proposed Program was to mirror the existing one in terms of on-going payments of actual incremental taxes over time. Mirroring the existing program in the

[1] Under the Provincial CRTIF Act, a 'community revitalization levy' is determined each year that a 'community revitalization property' is designated. This levy is calculated as the difference between the new taxes and the taxes that the pre-project property would have paid if the improvements had not occurred. While in the City's existing grant program, these 'base' taxes are sealed at their nominal value for the period of the grant, under the Provincial legislation, this base assessment adjusts with each new re-assessment and mill rate adjustment. Apart from being administratively cumbersome (albeit more accurate), this represents an additional level of complexity to explain and predict for program applicants, if the grant was to be paid over a 10 or 15 year period.

context of the CRTIF Act would also result in increased uncertainty to the developer in terms of grant amounts and time-frames of cash flow.

Additionally, making the grant a one-time payment at the time of project completion attempts to minimize the uncertainty of the grant's value (at least the uncertainty of the value of the grant in year 2 and beyond as exists in the current program) and maximize its impact on the development investment decision. That is, it is likely that when establishing an estimated pro-forma income statement for the project, a developer will take conservative estimates of future grant payments and discount them further to account for their uncertainty. Therefore, even though much of this risk is unlikely to materialize, and, arguably, there exists equal potential for the future incremental taxes to be higher than estimated, the net effect of the existing program payment structure is for government to receive less than the full desired incentive impact compared to the actual NPV cost of the grant payments over the grant period.

The proposed Program, therefore, would involve generating a one-time Payment to the developer during the first complete calendar year after the project was fully complete. This would be timed so that both levels of government would know with certainty the post-project's incremental taxes (after the mill rate has been set and after the deadline for any potential assessment appeal). The Payment would be calculated as a net present value over 10 or 15 years of cash flow assuming that this first year's taxes remain constant over the allocated time period (and up to a project maximum). In order to finance this Payment, borrowing would occur with the plan to utilize the current and future incremental taxes to finance the loan over time.

6. Who should finance the grant?

While the Province has indicated a willingness to assume full responsibility for any financing and risk regarding their portion of the up-front grant, structures do not allow it to be the direct borrowing agent, due in part to the fact that they are not directly administrating the Program. This then requires the City to either borrow directly, or, as is being proposed, to provide loan guarantees to CentreVenture to take on this responsibility. Issues associated with these two options are as follows:

- The City is not authorized to borrow directly for a grant program such as this, even if it is directly backed by incremental taxes. Assuming the City would be responsible to generate the up-front payment of the grant, it would have to finance this through seeding a reserve fund, or increasing borrowing associated with its capital budget to free up mill-rate supported money for the grant.
- The proposal is for CenterVenture to play the role of borrowing agent, backed for up to $20M in loan guarantees by the City. The City, in turn, would have the equivalent of loan guarantees from the Province for up to $10M.

Regardless of which entity initiates the borrowing, both levels of government would be mutually responsible in the event that the estimated incremental taxes failed to materialize. A variety of options exist for the City to mitigate any potential risk associated with this borrowing.

Appendix C

Risk and Risk Mitigation

There exist a number of risks within this program and plans to mitigate this risk.

Risk 1: Interest rates could rise during the borrowing period.

Risk Mitigation:

The Agreement between the City and CentreVenture would require borrowing in each year that grant payments are made to be established at fixed rates for the full borrowing period. The grant Payment would then be determined using a discount rate in the NPV calculation that is equal or greater than this fixed rate of borrowing.

Risk 2: The Province will not contribute their portion of the principal and interest payments in a full and timely fashion.

Risk Mitigation:

The Agreement between the City and the Province would fix dates of required payments for eligible expenses and include provisions to fully compensate the City in the event that these payments are short or late.

Risk 3: The borrowing agent would engage in activities that would be covered by the loan guarantee but that would be outside the parameters of the Program.

Risk Mitigation:

The Agreement between the City and CentreVenture would clearly establish the parameters regarding borrowing and loan repayments. The loan guarantee would be specific to this Program and subject to the terms and conditions of this operating agreement over the life of the Program. Additionally, the Provincial funding agreement would include external audit requirements for the Program that would extend to the borrowing Agent.

Risk 4: Incremental taxes associated with the eligible property may not be enough to repay any specific loan taken to pay the grant.

E.g.:

a. Assessment values, as well as mill rates relating to municipal and education taxes are bound to change (upwards or downwards). Future incremental taxes, therefore, may be lower than estimated if taxes are lowered, or future re-assessment increases in the downtown are lower than the city's average. Additionally,

b. There exists the potential for:
   - a future property owner to successfully appeal the assessment to a lower amount,
   - the property to be destroyed (fire),
   - commercial units to be leased to a tax-exempt organization.

- applications for current or future tax credit programs may be approved for these properties which could lower the future taxes and jeopardize the City's ability to repay the loan.

Risk Mitigation:

1. There exists equal potential for the future incremental taxes to be higher than estimated. Mill rates and resulting taxes could rise over the same period. Property owners could make additional investments over the Program period which would increase the assessed values.
2. The Program bases the one-time Payment on the actual amount of the first complete year of incremental taxes, after the amount has fully been determined and there is no further opportunity to appeal that year's assessed values
3. The Program could attempt to tie the grant Payment to the success of future municipal assessment appeals where the appeal lowers the incremental taxes below the level on which the grant Payment was based. This would not be practical in the case of condominium units where the future owners are likely different from the original developer. However, if rental projects are processed as forgivable loans (as referenced in Program parameter #12), consideration will be given to including this condition in the on-going forgivable loan agreement with the property owner. Under this scenario, the developer/future owner would be required to repay the portion of the up-front grant which was based on the higher assessed value.
4. Additionally, the Public Service recommends the following steps to mitigate this risk:

a. That any incremental municipal taxes associated with the year in which the project is completed (e.g. less than complete tax year) be allocated to the Multiple-Family Dwelling Tax Investment Reserve Fund.

- Under the existing program, these incremental taxes are not eligible for the grant and simply flow to the general revenue account. Over the course of a 10 year calculation, this partial year may represent an average of 5% of the Payment – a significant amount to allocate towards any potential risk.

b. That the discount rate used to calculate the grant payment (e.g. the discount rate used in the Net Present Value calculation) be higher than the actual rate of borrowing to cover risk and administration costs.

c. That all approved projects be consolidated into a common 'pool' of incremental taxes, using higher than expected incremental taxes from some projects to fund potential lower than expected incremental taxes from other projects.

- Grouping projects would leverage a commonly used approach to mitigating risk.

d. That incremental taxes associated with projects that reach their maximum project grant (established by the grid) be allocated to the Multiple-Family Dwelling Tax Investment Reserve Fund for the full period of the program (e.g. 10 or 15 years).

- The experience of the existing program is that some projects (e.g. higher-end condominium projects) reach the maximum project grant before the 10 year period is complete. That is, the City experiences increases in general revenues sooner than the full 10 year period. In the event that this would occur within the proposed Program, these additional years of incremental

taxes would be allocated to cover any potential shortfall associated with other projects.

e. That current and future tax credit programs be reviewed to incorporate eligibility requirements and approval processes to ensure that future taxes are not lowered in a way that jeopardizes the City's ability to repay loans associated with this grant Program.

APPENDIX D:

Existing Downtown Multiple Family / Mixed-Use Building Grant Program
Program Description

THIS IS ONLY AN UNOFFICIAL SUMMARY OF THE PROGRAM. FOR AN OFFICIAL VERSION AND DETAILS, PLEASE CONSULT CITY OF WINNIPEG BY-LAW 123/2007

1. **PROGRAM OBJECTIVE:** To encourage additions to, or the new construction, conversion or redevelopment of buildings for residential multiple family or mixed-use occupancy in Downtown Winnipeg.

2. **DESCRIPTION:** The City of Winnipeg provides grants to developers based on incremental municipal property taxes to assist with the construction of additions to, or the new construction, or conversion of qualifying buildings, or redevelopment of vacant existing multiple family buildings that are located in Downtown Winnipeg. For legal description, please refer to City of Winnipeg By-Law 123/2007 (Downtown Multiple Family / Mixed-Use Building Grant By-Law).

3. **ELIGIBILITY CRITERIA**

   - The project must be located in the Downtown area as defined by the Downtown Zoning By-law (see Schedule A).
   - The project must contain four or more residential units upon completion and be defined by one of the following four categories:
     - the development of a new multiple family residential or mixed-use building; or
     - the redevelopment of an existing multiple family residential or mixed-use
     - the addition of developed living space and additional dwelling units to an existing building
     - the conversion of a building with no existing residential component to either a multiple family residential or mixed-use building.
   - The project must be completed within 48 months of conditional approval.

4. **ELIGIBLE ASSISTANCE**

   The applicant/developer of an approved project will receive a grant equivalent to the amount of the incremental municipal taxes payable on the improved property during the period of not more than 10 consecutive calendar years. While the grant is derived from the actual incremental municipal taxes payable during the applicable period, in no case will the maximum cumulative value of the grant exceed the following amount, calculated on a project basis, by dwelling type:

A) $20,000 per newly developed or redeveloped dwelling unit for an approved rental project (determined by the building use for the period of one year subsequent to project completion).

B) $20,000 per newly developed or redeveloped dwelling unit for an approved condominium project, where the resulting condo units have an assessed value of *less than $250,000* determined in the year that project was completed.

C) $10,000 per newly developed or redeveloped dwelling unit for an approved condominium project, where the resulting condo units have an assessed value of *$250,000 or more* determined in the year that project was completed.

The payments of the grant will be made annually for a period of not more than 10 consecutive years. The first year of eligibility for a grant will be the first complete calendar year where incremental taxes were payable. Each grant payment will be made in the year following the eligible year.

The successful applicant to whom a grant is payable may assign the grant to another party, subject to approval by the City. A fee may be charged for this approval. This tool has been used in some projects as a mechanism to obtain project financing.

Schedule A - Map

