Agenda - Council – June 23, 2010

Report - Executive Policy Committee – June 16, 2010

Item No. 6 Downtown Residential Development Grant Program By-law
eFile FG

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 16, 2010, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submits the following to Council:

1. That the by-law establishing the Downtown Residential Development Grant Program, as outlined in the report of the Winnipeg Public Service dated June 11, 2010, be adopted.

2. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

Report - Executive Policy Committee – June 16, 2010

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 16, 2010, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

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

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

AUTHORIZATION

Author	Department Head	CFO	CAO
S Dueck	D Joshi	N/A	P Sheegl, Deputy CAO

RECOMMENDATIONS

1. That the attached by-law establishing the Downtown Residential Development Grant Program be adopted.

REASON FOR THE REPORT

This report establishes the Downtown Residential Development Grant Program By-law and amends the parameters outlined in the report to Council of April 28, 2010.

IMPLICATIONS OF THE RECOMMENDATIONS

The City is in the process of finalizing an operating / funding agreement with the Province of Manitoba and an operating agreement with CentreVenture relating to the responsibilities of each party for this Program.

The By-law incorporates the parameters outlined in the report to Council of April 28, 2010. In addition to those parameters, the following details and clarifications should be noted:

1. The April 28, 2010 report identified the need for a provision 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). The By-law establishes that 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. It has been since identified that the City and Province faces a risk

that proponents of condominium projects that retain ownership of all the units for rental purposes, may, after receiving the grant, move to collapse the condominium structure and apply to assess their properties as rental projects. As such, the incremental taxes may decrease and put at risk the governments' ability to repay borrowing associated with the grant. For this reason, the By-law incorporates provisions to treat the grant as a forgivable loan in some condominium project situations.

2. There existed a lack of clarity regarding the calculation of the grant payable upon project completion depending on the two options available:
    - Annual grant payments up to the project maximum, or
    - A one-time payment up to the project maximum

    The by-law provides for the following payment calculations:

    In the event a proponent opts to receive annual payments, it will receive an annual payment equal to the 1st year's incremental taxes in each year up to 15 years (rental) or up to 10 years (condominium) or when the cumulative amount of the grant payments equals the project maximum grant (whichever comes first)[1]. Note that the amount of the annual payment would not rise in the event that incremental property taxes subsequently increased.

    In the event a developer opts to receive a lump sum payment upon completion, a net present value (NPV) calculation would be completed on the assumed income stream of the annual payments (to the project maximum). (The discount rate would be set annually by Council and include the cost of borrowing and administrative cost). See Appendix A for a sample calculation.

3. Council will be required to approve an annual discount rate to be used in the net present value calculation. This rate will be based on the actual costs of borrowing plus an administration cost / risk factor estimated at 1.00%.

4. It has been identified that since the grant calculation in this Program is based on the incremental taxes determined in the first full calendar following the year of completion, projects which have vacant commercial space (and therefore lower assessed value and lower incremental taxes) will be at a disadvantage. Given commercial vacancy rates and the timeframes generally required to fully lease and complete leasehold improvements, it is proposed that allowance be made for delaying the full calculation of incremental taxes for up to two years on commercial spaces only. This is reflected in the By-law.

5. The Agreement between the Province and City will provide for penalties in the event that the Province provides a short or late payment for their portion of eligible expenses (e.g. loan principal and interest). In the event that the City formally requests CentreVenture to temporarily cover these shortfalls with additional borrowing, CentreVenture will draw on the loan guarantees already approved by Council.

6. Bachelor or studio dwelling units greater than 650 sq. ft will be considered as 1 bedroom units for the purposes of defining a project maximum grant using the grid (Appendix A).

[1] A one-time program administration fee of 2.5% of the nominal value of the total grant would be applied to the first grant payment.

7. The City will subscribe its $10M subscription limit using the ‘best estimate’ approach.

HISTORY

On April 28, 2010 Council adopted a series of recommendations which established the Downtown Residential Development Grant Program. The report to Council also set out parameters to finalize a by-law and operating agreements between the City and the Province, and the City and CentreVenture.

FINANCIAL IMPACT

Financial Impact Statement **Date:** June 11, 2010

Project Name:

New Downtown Residential Development Grant Program By-law with Program Amendments

COMMENTS:

The recommendations in this report are that the attached by-law establishing the Downtown Residential Development Grant Program be adopted and that the program, as outlined in the program parameters adopted by Council April 28, 2010, be amended to consider bachelor or studio dwelling units greater than 650 sq. ft to be 1 bedroom units for the purposes of defining a project maximum grant using the grid included in Appendix A.

The recommendations, if approved, will not result in any direct financial implications (i.e. cash inflows or outflows) for the City of Winnipeg. The recommendations seek to, among other things, provide clarity on grant payment options ("upfront" or annual payments), an amendment to the calculation of incremental taxes on any projects involving commercial space, and the ability to treat grants for certain condominium projects as forgivable loans.

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

CONSULTATION

In preparing this Report there was consultation with:

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: June 11, 2010
File No.

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Appendix A

Example Project:

10 1-bedroom dwelling units (i.e. condominiums)
Each unit has a post-project assessed value of $280,000.
Project Maximum Grant = $25K x 10 = $250,000 (see grid below)

Assume project incremental taxes of $30,000 per year.

NPV Discount rate: 6.5%

Income stream of $30,000 / year reaches project maximum of $250,000 in year 9.

NPV of income stream is $200,578

Project proponent has 2 options:

1. Annual grant payment of $30,000[2] until $250,000 in cumulative payments is reached
2. One-time payment in year one of $200,578.

Program Project Maximum Grid:

	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 up to 650 sq ft	**$150k**	$185k	$220k	$255k		**$500/m**	$550/m	$625/m	$750/m
B/Studio of 650 sq ft or more OR 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

[2] Less initial administrative fee of 2.5% of $250,000