Agenda – Executive Policy Committee – July 11, 2012

Moved by Councillor

That Rule 10(3) of The Procedure By-law No. 50/2007 be suspended in order that the following item, which was received less than 96 hours preceding the committee meeting, be considered by Committee.

ADDENDUM REPORTS

Item No. 14 Approval of Funding Participation - Winnipeg Convention Centre Expansion Project

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council approve:

    I. creation of a new 2012 capital project in an amount of $51 million to consist of and be financed by:
        a) a one-time grant to the Winnipeg Convention Centre Corporation for the Project in an amount equal to, and to be financed by, the balance at December 31, 2012 of the monies in the Destination Marketing Reserve Fund accumulated for the purpose of funding future capital works for the Winnipeg Convention Centre; and
        b) a grant to the Winnipeg Convention Centre Corporation for the Project in an amount equal to $51 million less the grant amount pursuant to Recommendation 1.I.a), to be financed by external debt, with debt servicing payments to be drawn from monies in the Destination Marketing Reserve Fund accumulated for the purpose of funding future capital works for the Winnipeg Convention Centre;

    II. authorization of borrowing authority pursuant to Recommendation 1.I.b) in the amount of up to $51 million;

    III. the issuance by the Winnipeg Convention Centre Corporation in accordance with subsection 6(1)(a) of The Convention Centre Corporation Act of a promissory note in the amount of $33 million in favour of the Royal Bank of Canada upon terms and conditions determined by the Winnipeg Convention Centre Corporation and acceptable to the City of Winnipeg's Chief Financial Officer;

    IV. a $33 million loan guarantee in favour of the Winnipeg Convention Centre Corporation as permitted under subsection 6(2) of The Convention Centre Corporation Act, subject to:
        a) Council approval of Recommendation 1(V) hereof;
        b) commitment from the Board of Directors of the Winnipeg Convention Centre Corporation to service the $33 million loan from the annual operating income of the expanded Winnipeg Convention Centre facility for up to 30 years.

V. an annual grant to the Winnipeg Convention Centre Corporation in an amount equal to the annual incremental municipal property and business taxes, for up to 25 years, on a complementary adjacent property development, subject to the Province of Manitoba designating the property under the Community Revitalization Tax Increment Financing Act (CRTIFA), such that 100% of the incremental municipal property taxes and 100% of the incremental provincial education taxes and levies allowable under the CRTIFA are provided to the Winnipeg Convention Centre Corporation to service a Net Present Value (NPV) of $16 million of the $33 million loan guaranteed by the City; and

VI. in the event that incremental property and business taxes determined under Recommendation1.V are insufficient to service the debt and un-serviced amounts remain after applying Recommendation 1.IV.b), an annual grant to the Winnipeg Convention Centre Corporation in an amount equal to each such annual un-serviced amount to be paid from the monies in the Destination Marketing Reserve Fund allocated for the purpose of funding future capital works for the Winnipeg Convention Centre Corporation;

which approvals shall be subject to confirmation satisfactory to the City's Chief Financial Officer of:

A. funding contributions of $46.5 million from the Government of Canada and $51 million from the Province of Manitoba;

B. successful negotiation of total Project costs not to exceed $181.5 million; and

C. successful negotiation of a provision in the guaranteed maximum price contract between the Winnipeg Convention Centre Corporation and the successful proponent pursuant to Request for Proposal No. 000524 "Request for Proposal for the Expansion of the Winnipeg Convention Centre and Complementary Downtown Development" (the "Proponent") that obligates the Proponent their portion to service the annual debt payments related to the net present value (NPV) of $16 million of the $33 million loan to be guaranteed by the City pursuant to Recommendation 1.IV until such time as the servicing of such debt payments by incremental taxes pursuant to Recommendation 1.V commences.

2. That the City request that the Province amend The Convention Centre Corporation Act to revise the definition of Convention Centre in Section 1 of such Act to include the new building located on the expansion site and to revise Section 6(1) of the Act to provide the Winnipeg Convention Centre Corporation with additional borrowing powers.

3. That the Chief Administrative Officer be delegated authority to negotiate and finalize any necessary agreements between the City of Winnipeg and the Province of Manitoba, the Government of Canada, the Winnipeg Convention Centre Corporation and any other agreements required to implement any matters contained herein.

4. That the City Solicitor/Director of Legal Services be directed to prepare all by-laws required to implement the foregoing.

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

ADMINISTRATIVE REPORT

Title: Approval of funding participation by the City of Winnipeg in partnership with the Province of Manitoba, Government of Canada and the Winnipeg Convention Centre Corporation for the Winnipeg Convention Centre Expansion Project (the "Project").

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
G. Holmes	G. Holmes Acting Director	M Ruta	P Sheegl CAO

RECOMMENDATIONS

1. That Council approve:

    I. creation of a new 2012 capital project in an amount of $51 million to consist of and be financed by:
        a) a one-time grant to the Winnipeg Convention Centre Corporation for the Project in an amount equal to, and to be financed by, the balance at December 31, 2012 of the monies in the Destination Marketing Reserve Fund accumulated for the purpose of funding future capital works for the Winnipeg Convention Centre; and
        b) a grant to the Winnipeg Convention Centre Corporation for the Project in an amount equal to $51 million less the grant amount pursuant to Recommendation 1.I.a), to be financed by external debt, with debt servicing payments to be drawn from monies in the Destination Marketing Reserve Fund accumulated for the purpose of funding future capital works for the Winnipeg Convention Centre;

    II. authorization of borrowing authority pursuant to Recommendation 1.I.b) in the amount of up to $51 million;

    III. the issuance by the Winnipeg Convention Centre Corporation in accordance with subsection 6(1)(a) of The Convention Centre Corporation Act of a promissory note in the amount of $33 million in favour of the Royal Bank of Canada upon terms and conditions determined by the Winnipeg Convention Centre Corporation and acceptable to the City of Winnipeg's Chief Financial Officer;

    IV. a $33 million loan guarantee in favour of the Winnipeg Convention Centre Corporation as permitted under subsection 6(2) of The Convention Centre Corporation Act, subject to:
        a) Council approval of Recommendation 1(V) hereof;
        b) commitment from the Board of Directors of the Winnipeg Convention Centre Corporation to service the $33 million loan from the annual operating income of the expanded Winnipeg Convention Centre facility for up to 30 years.

V. an annual grant to the Winnipeg Convention Centre Corporation in an amount equal to the annual incremental municipal property and business taxes, for up to 25 years, on a complementary adjacent property development, subject to the Province of Manitoba designating the property under the Community Revitalization Tax Increment Financing Act (CRTIFA), such that 100% of the incremental municipal property taxes and 100% of the incremental provincial education taxes and levies allowable under the CRTIFA are provided to the Winnipeg Convention Centre Corporation to service a Net Present Value (NPV) of $16 million of the $33 million loan guaranteed by the City; and

VI. in the event that incremental property and business taxes determined under Recommendation1.V are insufficient to service the debt and un-serviced amounts remain after applying Recommendation 1.IV.b), an annual grant to the Winnipeg Convention Centre Corporation in an amount equal to each such annual un-serviced amount to be paid from the monies in the Destination Marketing Reserve Fund allocated for the purpose of funding future capital works for the Winnipeg Convention Centre Corporation;

which approvals shall be subject to confirmation satisfactory to the City's Chief Financial Officer of:

A. funding contributions of $46.5 million from the Government of Canada and $51 million from the Province of Manitoba;
B. successful negotiation of total Project costs not to exceed $181.5 million; and
C. successful negotiation of a provision in the guaranteed maximum price contract between the Winnipeg Convention Centre Corporation and the successful proponent pursuant to Request for Proposal No. 000524 "Request for Proposal for the Expansion of the Winnipeg Convention Centre and Complementary Downtown Development" (the "Proponent") that obligates the Proponent their portion to service the annual debt payments related to the net present value (NPV) of $16 million of the $33 million loan to be guaranteed by the City pursuant to Recommendation 1.IV until such time as the servicing of such debt payments by incremental taxes pursuant to Recommendation 1.V commences.

2. That the City request that the Province amend The Convention Centre Corporation Act to revise the definition of Convention Centre in Section 1 of such Act to include the new building located on the expansion site and to revise Section 6(1) of the Act to provide the Winnipeg Convention Centre Corporation with additional borrowing powers.

3. That the Chief Administrative Officer be delegated authority to negotiate and finalize any necessary agreements between the City of Winnipeg and the Province of Manitoba, the Government of Canada, the Winnipeg Convention Centre Corporation and any other agreements required to implement any matters contained herein.

4. That the City Solicitor/Director of Legal Services be directed to prepare all by-laws required to implement the foregoing.

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

REASON FOR THE REPORT

Council approval is required to:

i. provide a grant to the Winnipeg Convention Centre Corporation as identified in Recommendations 1.I, V and VI if required;
ii. provide borrowing authority identified in Recommendation 1.II;
iii. approve a loan guarantee identified in Recommendation 1.IV;
iv. assign annual incremental municipal property taxes as identified in Recommendation 1.V,

v. disburse funds from the Destination Marketing Reserve Fund for the purpose outlined in Recommendation 1.I, and;
vi. request that the Province amend the Convention Centre Corporation Act as stated in Recommendation 2.

IMPLICATIONS OF THE RECOMMENDATIONS

- The Winnipeg Convention Centre Corporation (WCC) under the direction of its Board and subject to formally securing all funding requirements, will proceed with a major facility expansion project that will almost double its existing size and result in a convention facility that upon completion would rank fourth in size in Canada, and significantly enhance Winnipeg's ability to compete successfully for national scale events.
- The City of Winnipeg will enter into funding agreements with the WCC and the two senior levels of government in conjunction with the shared funding obligations for the project.
- The City of Winnipeg's funding contribution will be reflected as a liability of $74 million on the City's consolidated financial statements, consisting of $41 million in external borrowing and a $33 million guarantee of the borrowing pursuant to the terms and conditions of the promissory note to be issued by the WCC in favour of the Royal Bank of Canada, as detailed in the following paragraphs.
- The WCC will secure an externally financed Line of Credit during construction, leading to term debt repayable as set out in the recommendations, to be reimbursed according to the negotiated funding agreements with all parties.
- The long-term borrowing of $33 million by the WCC, to be guaranteed by the City of Winnipeg, will be funded as follows:
    - $17 million in Net Present Value represented by new / incremental revenues generated by the expanded facility projected over 30 years;
    - $16 million in Net Present Value represented by annual incremental municipal property and incremental provincial education taxes and levies on a complementary adjacent property development projected over 25 years.

  As a condition precedent to City funding, the WCC shall be required to provide confirmation satisfactory to the City's Chief Financial Officer of successful negotiation of a provision in the guaranteed maximum price contract between the WCC and the successful Proponent that obligates the Proponent to service the annual debt payments related to the net present value (NPV) of $16 million of the $33 million loan to be guaranteed by the City until such time as the servicing of such debt payments by incremental taxes commences. WCC has retained Deloitte to provide financial projections, analysis and assumptions related to the WCC's funding commitments for the expansion project. Operating revenue projections prepared by Deloitte on behalf of the WCC indicate that there should be sufficient other revenue to service the $17 million component of the $33 million loan. The other $16 million will be funded in whole or in part by tax increment financing and incremental business taxes dedicated by the City and Province on a complementary adjacent property development. Because negotiations are yet to be completed, it is not known at this time what the full value of tax collections will represent over the 25 year amortization period of the loan. If projected revenue is not achieved there is a risk that a shortfall in payments may occur which would need to be addressed by the WCC based on its financial surplus position in the year prior to the year of the shortfall, or the City as guarantor. It is recommended that any funding shortfalls that remain unresolved by the WCC be funded from the Destination Marketing Reserve Fund.

These projections also identify existing operating revenues, adjusted annually for inflation, that include the continuation of annual operating grants estimated at $2.9 million in total from the City of Winnipeg and the Province of Manitoba.

- The WCC will secure the services of a full-time owner advocate to oversee the construction project and professional accounting services to oversee the accounting for all costs and reimbursements associated with the overall project.
- OurWinnipeg, Complete Communities – Our Downtown Always a Priority policy platform will be supported and further advanced by a significant renovation / expansion of a Convention Centre facility in downtown Winnipeg. The expanded facility will serve as a place of vibrant, people-oriented extended-hour activity and complement other existing and planned downtown amenities including the Sports Hospitality and Entertainment District and CentreVenture Development Corporation's Portage Avenue Development Strategy.

HISTORY / DISCUSSION

- Since 2001, there have been a number of iterations and past proposals for the expansion of the WCC.
- Business Case analysis by various consulting firms identified the need to expand the current facility in order to sustain the facility's competitiveness with 'Tier 2' convention facilities in other Canadian cities. Tier 2 facilities typically compete for events of a national scale. A number of other 'Tier 2' cities have contemplated, engaged in or recently completed convention centre expansion projects.
- In 2008, Council approved a 5% Accommodation Tax (By-law 70/2008) and a Destination Marketing Reserve Fund. The mandate of this Reserve fund as established includes:
    - an annual operating grant of $1.5 million to the Winnipeg Convention Centre, and
    - …"up to 40% of the annual Accommodation Tax revenue, to a maximum of the estimated annual payments required to service the amount of future debt that will be allocated to the City's portion of construction costs relating to a planned expansion at the Winnipeg Convention Centre, be set aside within the Destination Marketing Reserve Fund, and dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council."
- A letter of endorsement was provided from the Chief Administrative Officer of the City of Winnipeg and the Province of Manitoba, dated July 8th, 2011 identifying a proposed funding structure for the project (Schedule A).
- A letter of endorsement dated June 18, 2012 was provided from the Government of Canada indicating "…that the Government of Canada has identified the expansion and renovation of the Winnipeg Convention Centre as a priority for funding consideration under the Building Canada Fund – Major Infrastructure Component…" (Schedule B). The letter further states that "…this letter does not signify funding approval…" but rather, states the terms under which funding approval will be provided (see also Schedule C).
- The total 'turnkey' cost of the project will be set at $181.5 million, including enhancements to the existing facility. At the time of writing, the WCC is in the process of negotiating a guaranteed maximum price contract of $147 million for the expansion component of the project. The balance of $34.5 million of the total project cost of $181.5 million is attributed to 'owner responsibility' improvements to the existing facility in conjunction with the expansion project. Funding for the project will be derived from the following sources:

Government of Canada (Building Canada Fund)	$46.5 million
Province of Manitoba	$51 million
City of Winnipeg	$51 million

Winnipeg Convention Centre (future operating income)	$17 million
Hotel and other Development (incremental property and business taxes)	$16 million
Total Project Cost	$181.5 million

- The City of Winnipeg
  - Up to $41 million in borrowing, net of the estimated balance dedicated in the Reserve (projected to the end of 2012 to be approximately $10 million) will be secured through annual payments from the Destination Marketing Reserve Fund (DMRF), created by Council in 2008, and identifying in part that…
    "up to 40% of the annual Accommodation Tax revenue, to a maximum of the estimated annual payments required to service the amount of future debt that will be allocated to the City's portion of construction costs relating to a planned expansion at the Winnipeg Convention Centre, be set aside within the Destination Marketing Reserve Fund, and dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council." Projections of the Destination Marketing Reserve Fund using conservative assumptions indicate that there will be sufficient Accommodation Tax revenue to service the annual debt amount for the expansion project within the Reserve mandate previously established by Council (Schedule D)
  - Any shortfall in funding relating to the $33 million loan guarantee unresolved by the WCC will be paid as a grant to WCC from any surplus funding remaining in the amount allocated to the WCC in the Destination Marketing Reserve Fund for this purpose.
  - The City of Winnipeg will also continue to provide an annual operating grant to WCC in the amount of $1.5 million from the Destination Marketing Reserve Fund as previously directed by Council and in addition to funding provided for the facility expansion project,
  - All borrowing by the City has to be approved by the Provincial Minister of Finance.
- The Province of Manitoba
  - The contribution from the Province of Manitoba for the expansion project will be a maximum of $51 million. This investment includes the proceeds from the sale of the provincially-owned land at the southwest corner of York Avenue and Carleton Street which is the site of the expansion project.
- The Government of Canada
  - A $46.5 million contribution will be secured through the Government of Canada's Building Canada Fund program – Major Infrastructure Component (BCF – MIC) through the formal application and approval process required for this program. This funding will flow on a 'reimbursement' basis based on compliance with the program's 'eligible cost' criteria.
- The Winnipeg Convention Centre Corporation (WCC)
  - The WCC will be issuing a promissory note in the amount of $33 million in favour of the Royal Bank of Canada, with respect to the financing detailed in the following paragraphs.
  - A line of credit guaranteed by the City will be acquired to provide financing during the construction project. It is expected that this line of credit will not need to exceed $33 million at any one stage during the construction period.
  - Upon completion of construction (anticipated in 2015), the WCC will roll the above line of credit into a $33 million borrowing facility at a fixed interest rate and guaranteed by the City of Winnipeg. This borrowing facility will be funded as follows:

- $17 million in Net Present Value of the $33 million above will be secured from new revenues raised annually through the expanded operations of WCC with a 30-year amortization period;
- $16 million in Net Present Value of the $33 million above will be secured through annual incremental municipal property, incremental provincial education taxes and levies, and incremental business taxes from a complementary adjacent property development with a 25-year amortization period;
- The WCC has factored debt servicing payments corresponding to the $17 million and $16 million net present value amounts above into their pro forma operating projections for the new facility during and post construction. The WCC has retained Deloitte to prepare financial projections, analysis and assumptions related to the WCC's funding commitments for the expansion project which are to be guaranteed by the City of Winnipeg.

- With respect to ownership, currently the City of Winnipeg holds title to the land and subsection 8(1) of the Convention Centre Act provides that "ownership of the convention centre is vested in the corporation". The Act defines "convention centre" according to specific road boundaries. In this regard, recommendation 3 of this report seeks among other things, an amendment to the Act to account for the expanded boundaries of the "convention centre" as defined.
- Formal confirmation of funding commitments will be sought from each of the senior levels of government as a condition of funding from the City of Winnipeg and prior to commencement of project construction. It is important to note that there are specific requirements that must be followed under the terms of the federal Building Canada Fund (BCF) program (Schedule C). Included in these requirements are eligible and ineligible project cost criteria. In particular, the cost of land acquisition and all costs incurred prior to Ministerial approval in principle are considered ineligible. The letter provided by the Government of Canada dated June 18, 2012 serves as confirmation that the renovation component of the project pertaining to the existing building will be eligible for federal funding.
- Borrowing arrangements will be formalized by the Winnipeg Convention Centre Corporation with terms acceptable to the City of Winnipeg in conjunction with the $33 million loan guarantee.
- Formal agreements will be struck with all funding partners involved with respect to the terms of the monetary contributions to the project.
- The Province of Manitoba has provided formal notification to parking customers currently accessing the property in conjunction with an anticipated project commencement date as early as September 1, 2012, subject to funding and other required approvals being in place.
- An owner's representative has been secured by the WCC to oversee the construction project in accordance with the Guaranteed Maximum Price contract provisions.

The WCC has secured professional accounting services to oversee the project cost accounting, payment and reimbursement process for the project during construction, and under the terms of the agreements with its funding partners.

- The WCC represents a consolidated entity in the City of Winnipeg's financial statements so any outstanding debt guaranteed by the City reflects on consolidation in the City's financial statements. The following is the policy criteria related to requests for loan guarantees as adopted by Council on June 17th, 1992:

A. Requests for loan guarantees shall be submitted to the City Treasurer for review to determine if the request meets the requirements of the policy.

   This report has been submitted to and reviewed by the City Treasurer.

B. The organization requesting the loan guarantee must provide a service, which, in whole or in part, falls within the mandate of the City of Winnipeg.

The mandate of The Convention Centre Corporation is to operate and promote the Winnipeg Convention Centre.

C. The project for which the loan guarantee is being requested must not be in conflict with City policy.

The project for which the loan guarantee is required does not conflict with City policy.

D. The organization's services must be available to the community at large without restrictions based upon ethnicity, religion or race and without unreasonably restrictive membership or user fees.

The services the Winnipeg Convention Centre Corporation provides are available to the community at large.

E. The organization must be non-profit.

The Convention Centre Corporation is a non-profit organization continued without share capital under The Convention Centre Corporation Act.

F. The organization must produce financial records and a business plan that demonstrates the organization's long-term viability and capacity to meet the obligations of the loan that they are asking the City to guarantee.

The Winnipeg Convention Centre Corporation's annual financial statements are consolidated with the City of Winnipeg's audited annual financial statements.

The Winnipeg Convention Centre has provided a pro forma analysis and related assumptions supporting the entity's ability to provide operating income sufficient to offset the $17 million portion of the $33 million loan guarantee by the City of Winnipeg (Schedule C)

The additional $16 million in external borrowing under the loan guarantee is to be offset by incremental municipal property and provincial taxes from an adjacent hotel development for a maximum of 25 years.

G. The organization structure and the principals of the organization must be judged by the City of Winnipeg as competent to independently implement the business plan of the organization.

The Convention Centre Corporation was continued under The Convention Centre Corporation Act and has a 15 member board of which 9 members are appointed by Council, 2 members are appointed by the Province of Manitoba, and 4 members are appointed by the Board.

H. Unless there are very special circumstances, the maximum amount of outstanding loan guarantees for any one organization will be $1.000.000.00.

The loan guarantee request is for up to a total of $33 million, with the condition of a funding contribution of $46.5 million from the Government of Canada and $51 million from the Province of Manitoba , and based on a total project cost of $181.5 million. Council has granted loan guarantees in excess of the $1 million maximum amount in the past.

I. The loan that the City is being asked to guarantee should not represent more than 50% of the total funding of the project. The organization requesting the loan guarantee

must have raised at least 20% of the total project costs from non-City of Winnipeg sources as a down-payment, i.e. if the organization is receiving a City grant for their project, the grant cannot be counted as part of the 20% down-payment.

The total of $33 million on which the City of Winnipeg will be providing a loan guarantee represents approximately 18% of the total funding of the project. Direct funding from senior governments (i.e. non-City sources) represents approximately 53% of the total project costs.

Under the terms and conditions recommended in this report, the Winnipeg Convention Centre Corporation will secure an initial line of credit of up to $33 million during the construction period that upon construction completion will be converted to a 30-year term loan. The loan guarantee by the City of Winnipeg on the $17 million portion of the $33 million in borrowing by the WCC represents approximately 9% of the total project cost of $181.5 million. The remaining $164.5 million is to be funded by equal contributions of $51 million from the City of Winnipeg and the Province of Manitoba, $46.5 million from the Government of Canada, and an additional $16 million loan by the WCC (to be guaranteed by the City of Winnipeg) to be serviced with annual municipal incremental property, incremental provincial education taxes and levies and incremental business taxes from an complementary adjacent property development.

J. The loan that the City is guaranteeing must be related to a capital asset.

The borrowing by the Winnipeg Convention Centre Corporation that the City of Winnipeg is guaranteeing is for the construction of an expanded Convention Centre facility.

K. The capital asset must be insured to the satisfaction of the City Treasurer both during and after construction.

The Winnipeg Convention Centre Corporation will be responsible for all insurance requirements during and after the construction period to the satisfaction of the City of Winnipeg.

- *The Consultant (Architect / Engineer) should provide the title holder with evidence of Professional Liability insurance. The amount required will be dependent upon the value and type of project / use.*
- *Depending on the value of the project and the funding arrangement either the City of Winnipeg or the Contractor will be required to provide a Wrap Up Liability policy and a Course of Construction Policy. If underground work is required to support the additional structure – the title holder may also request a Contractor's Pollution Liability insurance policy be put into place.*
- *Depending on the funding situation –the City of Winnipeg could be added either as a Named Insured or as a Loss Payable on the Course of Construction policy and either as a Named Insured or as an Additional Insured under the Wrap Up Liability policy.*

Debt Strategy Impact and Borrowing Authority

On June 22, 2011, Council adopted the Debt Strategy report for tax supported, utilities and total City borrowing. The project requires $41 million in long-term debt financing and a loan guarantee of $33 million in favour of the Winnipeg Convention Centre Corporation. The impact on the City of Winnipeg's debt position is an incremental $74 million of debt as the

Winnipeg Convention Centre Corporation is consolidated within the City's financial statements.

The impact of this debt financing falls within the City debt limits established in the Council report as outlined in the table below.

- Total City net debt as a percentage of revenue maximum of 85%
- Forecasted peak rate including proposed debt from this report 79.2%

- Total City debt servicing as a percent of revenue maximum of 11%
- Forecasted peak rate including proposed debt from this report 8.0%

- Total City debt per capita not to exceed maximum of $2,050
- Forecasted peak rate including proposed debt from this report $1,836

FINANCIAL IMPACT

Approval of funding participation by the City of Winnipeg in partnership with the Province of Manitoba, Government of Canada and the Winnipeg Convention Centre Inc. for the Winnipeg Convention Centre expansion project

	2012	2013	2014	2015	2016 to 2043
Winnipeg Convention Centre Expansion:					
Facility Expansion	$ 18,800,000	$ 66,100,000	$ 59,100,000	$ 3,000,000	$ -
Upgrades to Exisiting Facility	$ 10,500,000	$ 4,300,000	$ 18,000,000	$ 1,700,000	$ -
Total Expenditures	$ 29,300,000	$ 70,400,000	$ 77,100,000	$ 4,700,000	$ -
Less: Existing Budgeted Costs	$ (6,000,000)	$ (4,000,000)			
Additional Capital Budget Required	$ 23,300,000	$ 66,400,000	$ 77,100,000	$ 4,700,000	$ -
Funding Sources:					
External Debt	$ -	$ 18,500,000	$ 22,500,000	$ -	
Federal Government Contribution	4,800,000	21,300,000	20,400,000	-	-
Provincial Government Contribution	3,223,200	22,876,800	24,900,000	-	-
Other - Loan Guarantee of up to $33M	15,276,800	3,723,200	9,300,000	4,700,000	-
Total Funding	$ 23,300,000	$ 66,400,000	$ 77,100,000	$ 4,700,000	$ -
Total Additional Capital Budget Required	$ 171,500,000				
Total Additional Debt Required	$ 41,000,000				
Current Expenditures/ Revenues					
Direct Costs	$ -	$ -	$ 3,110,000	$ 4,031,000	$ 116,871,000
Less: Incremental Revenue/ Recovery	-	-	3,110,000	4,031,000	116,871,000
Net Cost/ (Benefit)	$ -	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: The FIS has been prepared on the basis of a full costing of the capital project which will be managed by the WCC. Federal, provincial and city grants will be made to WCC, so the City's capital budget will only reflect its grant of $51 million. Facility expansion costs are expected to total $147 M while upgrades to the existing WCC total $34,5 M for an overall total of $181.5M. Existing budget represents $10M in estimated accumulated accommodation tax revenue approved by Council for the expansion of the WCC. The remaining $171.5M is to be financed as indicated - $41M in external debt, $46.5M from the Government of Canada, $51M from the Province of Manitoba and up to $33M in loans taken out by WCC and guaranteed by the City. Direct costs in 2014 represent the first of 30 annual P&I payments on the $41M in external borrowing. Beginning in 2015, in addition to $3.11M in P&I payments, the first of 25 annual grants to WCC of $1,228,500, funded by incremental municipal & provincial taxes from a complementary adjacent hotel property development will be used to repay $16M of the $33M in this FIS.

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

CONSULTATION

In preparing this report there was consultation with:

Province of Manitoba – Canada-Manitoba Infrastructure Secretariat
Manitoba Hotel Association (through the City of Winnipeg Assessment and Taxation Department)
Economic Development Winnipeg (through the City of Winnipeg Assessment and Taxation Department)
City of Winnipeg Corporate Finance Department
City of Winnipeg Legal Services Department
City of Winnipeg Assessment and Taxation Department

SUBMITTED BY

Department: Planning, Property and Development
Division: Economic Development
Prepared by: Gary Holmes
Date: July 8, 2012
File No.

v:\strategic support services team\economic development initiatives - 2011\convention centre\ris report drafts\wcc expansion - july 6-12 version post announcement june 25-12.doc

ATTACHMENTS:

Schedule A: Funding letter from the City and Province dated July 8, 2011
Schedule B: Funding letter from the Government of Canada dated June 18, 2012
Schedule C: Building Canada Fund funding requirements
Schedule D: Summary sensitivity analysis – Destination Marketing Reserve Fund
Schedule E: Sensitivity analysis – WCC funding commitment

Schedule A: Funding letter from the City and Province dated July 8, 2011

July 8, 2011

Mr. Klaus Lahr
President and CEO
Winnipeg Convention Centre
375 York Avenue
R3C 3J3

Dear Mr. Lahr,

On behalf of the Province of Manitoba and the City of Winnipeg we would like to confirm our respective governments' support to move forward with the next steps required to expand the Winnipeg Convention Centre (WCC).

The Province of Manitoba and the City of Winnipeg have agreed to make the Convention Centre expansion a priority for funding under the federal Building Canada Fund (BCF) Major Infrastructure Component based on the following financing structure:

Government of Canada	$51 million	BCF Major Infrastructure Component
Province of Manitoba	$51 million	$13.9 million + $7.1 million value of land
City of Winnipeg	$51 million	Accommodation Tax
Convention Centre	$17 million	NPV of WCC proposed revenue streams
Hotel Development	$18 million	NPV of Tax Increment Financing

$185 million Total Project Cost

The Province of Manitoba and the City of Winnipeg further endorse the WCC moving forward this month with the issuance of a Request for Proposals to the development community.

Subject to the successful outcome of the RFP, federal government approval and City Council approval, the project could be in a position to commence in the late fall.

We are pleased to be able to move to the next steps on this important project that will be a further economic catalyst for downtown Winnipeg and the province as a whole.

Sincerely,

Angela Malbieson
Secretary, CEDC

Phil Sheegl
CAO, City of Winnipeg

Manitoba

Schedule B: Funding letter from the Government of Canada dated June 18, 2012

June 18-2012 Letter from the Government

Government of Canada / Gouvernement du Canada

Ottawa, Canada
K1A 0R5

JUN 18 2012

Klaus Lahr
President and Chief Executive Officer
Winnipeg Convention Centre
375 York Avenue
Winnipeg, Manitoba R3C 3J3

Dear Mr. Lahr:

We are pleased to formally advise you that the Government of Canada has identified the expansion and renovation of the Winnipeg Convention Centre as a priority for funding consideration under the Building Canada Fund – Major Infrastructure Component.

Under this program, the Government of Canada will consider an investment of up to one-third of the project's total eligible costs, to a maximum federal contribution of $46,646,667. Under no circumstances can this contribution be increased. For greater certainty, please be aware that should there be insufficient eligible costs to support this maximum amount, the federal share would be limited to one-third of the total eligible costs.

While the Government of Canada is pleased to consider this project a priority for funding, we must impress upon you that this letter does not signify funding approval. More specifically, any potential federal funding of this project will be conditional upon:

- The Winnipeg Convention Centre must confirm all other funding sources for the project;
- The completion of a federal project review that results in a determination that the project meets the Building Canada plan requirements and allows for a recommendation for federal approval-in-principle. To this end, please provide all of the information necessary for federal officials to undertake this project review;
- Fulfilling, where applicable, the requirements of the *Canadian Environmental Assessment Act* and the requirements for Aboriginal consultations under section 35 of the *Constitution Act, 1982*;

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Canada

- Following any announcement of the project and prior to the start of construction activities and/or other appropriate project milestones, the Winnipeg Convention Centre will ensure that signage is erected, which clearly displays current Government of Canada and Economic Action Plan branding in prominent locations at the project site. The Government of Canada will further confirm and communicate additional requirements and expectations from time-to-time in this respect; and,
- The signing of a contribution agreement that will detail the project elements, schedule, costs and funding parameters.

Finally, we must also inform you that any project costs incurred before federal approval-in-principle are ineligible for federal reimbursement. Furthermore, any construction that begins before federal approval-in-principle could jeopardize the proposed funding. Should you choose to move forward with issuing a bid solicitation ahead of receiving the project's approval-in-principle, the document should clearly state that the awarding of any resulting contract is subject to federal funding being secured. Awarding of all contracts should only take place after you have been informed of federal approval-in-principle of funding for the project. The Government of Canada will have no obligation to enter into a contribution agreement or to reimburse any costs associated with a project for which a contract has been awarded ahead of federal approval-in-principle, as signalled through a letter from us.

Thank you for your collaboration to date, and we look forward to working with you on this important project.

Yours sincerely,

Denis Lebel, P.C., M.P.

Steven Fletcher, P.C., M.P.

c.c. The Honourable Ron Lemieux, M.L.A.
Minister of Local Government

His Worship Sam Katz
Mayor of the City of Winnipeg

Schedule C: Building Canada Fund funding requirements



BCF Funding Requirements

Building Canada Fund Major Infrastructure Component:

Project Overview Requirements for Tourism Projects

The Building Canada Fund (BCF) is designed to increase investment in public infrastructure and contribute to broad federal objectives: economic growth, a cleaner environment and strong and prosperous communities. In order to ensure these program objectives are achieved, all projects must be supported by a project overview that includes an assessment of the proposed project. This document provides the minimum information requirements for Tourism project proposals under the Major Infrastructure Component (MIC) of the BCF.

Eligible Recipients

To be eligible under the MIC, the funding recipient must be one of the following:

a. A province or a local or regional government established by or under provincial statute;

b. A public sector body that is established by or under provincial statute or by regulation or is wholly owned by a province or municipality; or,

c. A private sector body, including not-for-profit organizations, either alone or in partnership with a province or a government referred to above, which includes First Nations.

Tourism Subcategories

To be eligible under the Tourism category, projects must fall under one or more of the following eligible project subcategories:

- Convention Centres
- Exhibition hall-type facilities

Tourism Project Assessment Criteria:

Proponents of MIC Tourism projects will be required to provide the following information to federal officials as part of their project overview.

1. Project Overview

1.1 A detailed overview of the project design and work to be carried out, including maps and diagrams showing the location, characteristics and phases (if project is part of larger master plan or project).

1.2 The estimated start date and completion date of the project components.

2. Financial and Legal Requirements.

2.1 Identification of the project components and their total estimated eligible and ineligible costs (see Annex A for the list of eligible and ineligible costs).

2.2 Identification of the proposed funding sources and the expenditure profile reflecting total eligible costs.

2.3 Indication as to the level of confidence, degree of accuracy and level of contingency of the proposed cost estimates.

2.4 Assurance of capacity to operate and maintain the service or investment on a sustainable, long term basis, where appropriate for complex projects and when the recipient is a not-for-profit organization or the private sector.

2.5 Demonstration that the project will adhere to all applicable federal legislation and obtain all necessary federal permits and authorizations required for the project.

2.6 Status and plan to complete environmental assessment and First Nations consultations, where required. Infrastructure Canada will assess the impact of the project on Aboriginal Rights and Treaties using the project footprint (location). To this end, the proponent must fill out the questionnaire in Annex B and return it to Infrastructure Canada.

2.7 Confirmation and assurance that the contract award process for eligible costs to be funded under the project is competitive, fair, transparent and consistent with the *Agreement on Internal Trade*.

3. Project Benefits

3.1 The proponent must demonstrate how the project provides benefits to Canadians in support of one or more of the following outcomes:

- Increases the number of visitors and/or length of stay and/or quality of stay; and
- Promotes Canada or the region as a leading destination for Canadian and international tourists.

4. Risk Mitigation

4.1 Identification of significant risks and outlining of the measures and/or the proponent's capacity to mitigate these risks (e.g. cost increases, project delays, risk of scope change due to results of environmental assessment).

4.2 For non-governmental recipients, provision of assurance of appropriate governance structure, capacity, track-record managing large projects, and capacity to obtain non-federal funding for the project.

5. Minimum Federal Requirements

5.1 Demonstration that newly constructed or materially rehabilitated infrastructure intended for use by the public must ensure appropriate access for persons with disabilities, including meeting the requirements of the *Canadian Standards Association Technical Standard Accessible Design for the Built Environment* (CAN/CSA B651-04) for new construction or, subject to the Minister's approval, any acceptable or similar provincial or territorial standards.

5.2 Newly constructed or materially rehabilitated buildings must meet or exceed the energy efficiency requirements of the *Model National Energy Code for Buildings*, where applicable.

5.3 Beginning April 1, 2011 proponents of projects with a proposed federal contribution of above $50 million must demonstrate how they will use Public-Private Partnership (P3) procurement, or if the project is not pursuing P3 opportunities, the proponent must provide an explanation of how P3s were considered and why they were not pursued.

5.4 Tourism projects from *non-government recipients only* must:

- Increase the number of visitors to the region and/or the length of stay and/or the quality of stay;
- Demonstrates that the community has the necessary infrastructure to support the facility.

ANNEX A
Eligible and Ineligible Costs

Eligible costs will be all direct costs that are, in Canada's opinion, properly and reasonably incurred and paid by an eligible recipient for an eligible investment under a contract for goods or services necessary for the implementation of a project. Eligible costs include only the following:

- The capital costs of acquiring, constructing or renovating a tangible capital asset, as defined and determined according to accounting principles generally accepted in Canada;
- The costs of joint communication activities (press releases, press conferences, translation, etc.) and road signage recognition set out in the Communication Protocol that will form part of the federal-provincial contribution agreement;
- All planning (including plans and specifications) and assessment costs specified in the agreement such as the costs of environmental planning, surveying, engineering, architectural supervision, testing and management consulting services. Canada will contribute no more than 15% of its contribution to this cost;
- The costs of engineering and environmental reviews, including environmental assessments and follow-up programs as defined in the *Canadian Environmental Assessment Act* and the costs of remedial activities, mitigation measures and follow-up identified in any environmental assessment;
- Costs of project-related signage, lighting, project markings and utility adjustments;
- Costs of aboriginal consultation;
- The costs of developing and implementing innovative techniques for carrying out the Project;
- Recipient audit and evaluation costs as specified in the agreement; and
- Other costs that, in the opinion of Canada, are considered to be direct and necessary for the successful implementation of the Project and have been approved in writing prior to being incurred.

Eligible project costs can begin to accrue effective as of the date indicated by the Minister of Transport, Infrastructure and Communities in writing to the proponent following the Minister's approval-in-principle of the project. However, all eligible costs outlined above can be reimbursed to the recipient only following the signing of the contribution agreement in respect of the project.

The following are deemed **ineligible costs:**

- Costs incurred before the date indicated by the Minister of Transport, Infrastructure and Communities in writing to the proponent following the Minister's approval of the project;
- Costs incurred after the project completion date;
- The cost of developing a business case or proposal for funding;
- The cost of purchasing land and associated real estate and other fees;
- Financing charges and interest payments on loans;
- Leasing land, buildings, equipment and other facilities;
- General repairs and maintenance of a project work and related structures, unless they are part of a larger capital expansion project tied to capital expansion;
- Services or works normally provided by the recipient, incurred in the course of implementation of the project, except those specified as eligible costs;
- The cost of any goods and services which are received through donations or in kind;
- Employee wages and benefits, overhead costs as well as other direct or indirect operating, maintenance and administrative costs incurred by the recipient, and more specifically costs relating to services delivered directly by permanent employees of the recipient, or of a Crown Corporation or corporation owned and controlled by the recipient, except for other costs that, in the opinion of Canada, are considered to be direct and necessary for the successful implementation of the project and have been approved in writing prior to being incurred, or in cases where the recipient can demonstrate value for money and that the costs are incremental;
- Provincial sales tax and Goods and Services Tax, for which the recipient is eligible for a rebate, and any other costs eligible for rebates; and
- Legal fees.

ANNEX B
Project Location Questionnaire – Aboriginal Consultations

In order to facilitate and accelerate the assessment of your request for funding, Infrastructure Canada needs to geographically locate your project accurately. The information provided will ensure the proper location of the project for future reference. You are therefore asked to complete this questionnaire to the best of your knowledge and with as much precision as possible.

****

Project with fixed address	**Address of the project**	Location 1	Location 2
	Civic Number:		
	Unit/Suite/Apt:		
	Street Name:		
	Municipality:		
	County:		
	Province:		
	Postal Code:		
	Project Longitude:		
	Project Latitude:		
Project with no fixed address or multiple components	**Additional Project Location Details:** *Please indicate, <u>for each project component</u>, any points of interest, intersections, major highways or streets, or other physical characteristics located in the vicinity of the project (i.e. near airport, adjacent to Lions Gate Bridge, 3 km east from Centennial Park, at intersection of Fifth and Queen, etc.)*		
	Component A:		
	Component B:		
	Component C:		
	Component D:		

Project Location Documents:
Please <u>include as an attachment</u> (hard copy or electronic file) any further project location documents that may be useful in locating the project, such as: hand-drawings on a printed map, print of maps from Google Maps/Google Earth/MapQuest/Yahoo Maps etc., location plan, project site map, aerial photo, legal or written description of project location, survey plan, engineering plan, or any other plans or drawings from reports, studies or analysis.

Schedule D: Summary sensitivity analysis – Destination Marketing Reserve Fund (2012-2018)

	SCENARIO 1: ~ $41M in Debt, 30-Year Amortization Period (2014 to 2043) @ 6%						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Funds Committed for WCC Expansion	$ 8,068,000	$ 1,782,000	$ 3,120,000	$ 3,329,000	$ 3,578,000	$ 3,867,000	$ 4,196,000
Projected 40% Portion of Accommodation Tax	$ 3,040,000	$ 3,120,000	$ 3,320,000	$ 3,360,000	$ 3,400,000	$ 3,440,000	$ 3,480,000
Less WCC Capital	$ (826,000)	$ -	$ -	$ -	$ -	$ -	$ -
	$ 10,282,000	$ 4,902,000	$ 6,440,000	$ 6,689,000	$ 6,978,000	$ 7,307,000	$ 7,676,000
Cash Outflow related to Expansion	(8,500,000)	(1,782,000)	(3,111,000)	(3,111,000)	(3,111,000)	(3,111,000)	(3,111,000)
Balance of Funds for WCC Expansion	$ 1,782,000	$ 3,120,000	$ 3,329,000	$ 3,578,000	$ 3,867,000	$ 4,196,000	$ 4,565,000

	SCENARIO 2: ~ $41M in Debt, 25-Year Amortization Period (2014 to 2038) @ 6%						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Funds Committed for WCC Expansion	$ 8,068,000	$ 1,782,000	$ 3,120,000	$ 3,083,000	$ 3,086,000	$ 3,129,000	$ 3,212,000
Projected 40% Portion of Accommodation Tax	$ 3,040,000	$ 3,120,000	$ 3,320,000	$ 3,360,000	$ 3,400,000	$ 3,440,000	$ 3,480,000
Less WCC Capital	$ (826,000)	$ -	$ -	$ -	$ -	$ -	$ -
	$ 10,282,000	$ 4,902,000	$ 6,440,000	$ 6,443,000	$ 6,486,000	$ 6,569,000	$ 6,692,000
Cash Outflow related to Expansion	(8,500,000)	(1,782,000)	(3,357,000)	(3,357,000)	(3,357,000)	(3,357,000)	(3,357,000)
Balance of Funds for WCC Expansion	$ 1,782,000	$ 3,120,000	$ 3,083,000	$ 3,086,000	$ 3,129,000	$ 3,212,000	$ 3,335,000

	SCENARIO 3: ~ $41M in Debt, 30-Year Amortization Period (2014 to 2043) @ 4.25%						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Funds Committed for WCC Expansion	$ 8,068,000	$ 1,782,000	$ 3,120,000	$ 4,042,000	$ 5,004,000	$ 6,006,000	$ 7,048,000
Projected 40% Portion of Accommodation Tax	$ 3,040,000	$ 3,120,000	$ 3,320,000	$ 3,360,000	$ 3,400,000	$ 3,440,000	$ 3,480,000
Less WCC Capital	$ (826,000)	$ -	$ -	$ -	$ -	$ -	$ -
	$ 10,282,000	$ 4,902,000	$ 6,440,000	$ 7,402,000	$ 8,404,000	$ 9,446,000	$ 10,528,000
Cash Outflow related to Expansion	(8,500,000)	(1,782,000)	(2,398,000)	(2,398,000)	(2,398,000)	(2,398,000)	(2,398,000)
Balance of Funds for WCC Expansion	$ 1,782,000	$ 3,120,000	$ 4,042,000	$ 5,004,000	$ 6,006,000	$ 7,048,000	$ 8,130,000

	SCENARIO 4: ~ $41M in Debt, 25-Year Amortization Period (2014 to 2038) @ 4.25%						
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Funds Committed for WCC Expansion	$ 8,068,000	$ 1,782,000	$ 3,120,000	$ 3,795,000	$ 4,510,000	$ 5,265,000	$ 6,060,000
Projected 40% Portion of Accommodation Tax	$ 3,040,000	$ 3,120,000	$ 3,320,000	$ 3,360,000	$ 3,400,000	$ 3,440,000	$ 3,480,000
Less WCC Capital	$ (826,000)	$ -	$ -	$ -	$ -	$ -	$ -
	$ 10,282,000	$ 4,902,000	$ 6,440,000	$ 7,155,000	$ 7,910,000	$ 8,705,000	$ 9,540,000
Cash Outflow related to Expansion	(8,500,000)	(1,782,000)	(2,645,000)	(2,645,000)	(2,645,000)	(2,645,000)	(2,645,000)
Balance of Funds for WCC Expansion	$ 1,782,000	$ 3,120,000	$ 3,795,000	$ 4,510,000	$ 5,265,000	$ 6,060,000	$ 6,895,000

ASSUMPTIONS

1. Construction to begin on September 1, 2012. City's $51 million contribution is to be cash flowed as follows: 2012 - $8.5M; 2013 & 2014 - and 2015 - $8.5M.
2. City's $8.5 million 2012 contribution to be financed from the accumulated balance held in the Destination Marketing Reserve Fund.
3. The remaining $1,782,000 in accumulated funding held in the Destination Marketing Reserve Fund is used in 2013 to reduce the amount otherwise borrowed.
4. Debt issued on January 1, 2013 with first P&I payment on January 1, 2014.
5. Debt amount equal to $51 million less portion contributed to WCC in 2012 and less remaining balance of accumulated funds for the WCC expansion as at December 31, 2012.

Schedule E: Sensitivity analysis – $33 million guarantee

			Convention Centre Annual Payment Mortgage Table					
			Projected Completion March 2015					
Principal			$33MM	$33mm	$17mm	$17mm	$16mm	$16mm
Amortization			25	30	25	30	25	30
Interest Rate	4.25%		($2,168,579.27)	($1,966,742.13)	($1,117,146.90)	($1,013,170.19)	($1,051,432.37)	($953,571.94)
	4.50%		($2,225,487.93)	($2,025,920.92)	($1,146,463.48)	($1,043,656.23)	($1,079,024.45)	($982,264.69)
	4.75%		($2,283,109.15)	($2,085,911.98)	($1,176,147.14)	($1,074,560.72)	($1,106,962.01)	($1,011,351.26)
	5.00%		($2,341,431.09)	($2,146,697.36)	($1,206,191.77)	($1,105,874.40)	($1,135,239.32)	($1,040,822.96)
	5.25%		($2,400,441.68)	($2,208,258.81)	($1,236,591.17)	($1,137,587.87)	($1,163,850.51)	($1,070,670.94)
	5.50%		($2,460,128.65)	($2,270,577.86)	($1,267,339.00)	($1,169,691.62)	($1,192,789.65)	($1,100,886.23)
	5.75%		($2,520,479.52)	($2,333,635.87)	($1,298,428.85)	($1,202,176.06)	($1,222,050.68)	($1,131,459.82)
	6.00%		($2,581,481.70)	($2,397,414.08)	($1,329,854.21)	($1,235,031.50)	($1,251,627.49)	($1,162,382.58)
	6.25%		($2,643,122.44)	($2,461,893.62)	($1,361,608.53)	($1,268,248.23)	($1,281,513.91)	($1,193,645.39)
	6.50%		($2,705,388.88)	($2,527,055.59)	($1,393,685.18)	($1,301,816.52)	($1,311,703.70)	($1,225,239.08)
	6.75%		($2,768,268.09)	($2,592,881.11)	($1,426,077.50)	($1,335,726.63)	($1,342,190.59)	($1,257,154.48)
	7.00%		($2,831,747.07)	($2,659,351.32)	($1,458,778.79)	($1,369,968.86)	($1,372,968.28)	($1,289,382.46)
		2015 interest rate utilized in Debt Strategy						