Agenda – Standing Policy Committee on Infrastructure Renewal and Public Works – February 27, 2018

REPORTS

Item No. 26 Authorization for Expenditures on the 2019 Capital Budget as a First Charge in Order to Satisfy a City Payment Obligation Related to the Tuxedo Yards Development Project

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That Council authorize the expenditure of up to $1,250,000 in 2018 prior to the adoption of the 2019 Capital Budget as a first charge against the General Capital Fund, in accordance with subsection 288(2) of the City of Winnipeg Charter, to pay the remaining portion of 2017 incremental municipal taxes plus interest to the developer, Minox Equities Ltd., in accordance with the Strategic Economic Agreement between the City and Tuxedo Yards Development Corp. dated September 15, 2009.

2. That the proper officers of the City do all things necessary to implement the intent of the foregoing.

Administrative Report

Title: Authorization for expenditures on the 2019 capital budget as a first charge in order to satisfy a City payment obligation related to the Tuxedo Yards Development Project

Critical Path: Standing Policy Committee on Infrastructure Renewal & Public Works – Executive Policy Committee - Council

AUTHORIZATION

Author	Department Head	A/CFO	CAO
S. Cianflone	J. Kiernan J. Berezowsky	B. Holsten-Boyer	D. McNeil

EXECUTIVE SUMMARY

In accordance with the Strategic Economic Agreement between the City and Tuxedo Yards Development Corp. dated September 15, 2009 (the "SEA") related to the "Tuxedo Yards Development", the developer (Minox Equities Ltd.[1]) paid all off-site infrastructure and servicing costs for the southwest and northwest quadrants of Sterling Lyon Parkway and Kenaston Boulevard. The terms of the SEA require the City to repay the developer for costs incurred, plus interest, the funding source for which is incremental municipal taxes generated within the "Seasons of Tuxedo" development, being the land affected by the SEA.

The development of the Seasons of Tuxedo is proceeding more quickly than originally envisioned, the positive result being that actual incremental municipal taxes are being realized earlier than anticipated. This means that incremental municipal taxes will accrue to general revenues sooner and the City will incur lower interest expenditures than originally estimated. The 2018 Adopted Capital Budget and 2019 to 2023 Five-Year Forecast includes $6,198,000 in developer paybacks for the period 2018 to 2020 (see Appendix A). Based on current projections, a total of +/- $6,096,000 payable in 2018 and 2019 is required to satisfy the remaining obligation to the developer.

During 2017 specifically, total incremental municipal taxes plus interest thereon, which is payable to the developer in 2018, was $3,145,542 or $1,199,342 more than projected. In order to pay this amount to the developer on a timely basis, a first charge on the 2019 Tuxedo Yards Development capital budget is requested.

[1] In August 2014, the Tuxedo Yards Development Corporation was amalgamated with certain other entities and became part of Minox Equities Limited.

RECOMMENDATIONS

1. That Council authorize the expenditure of up to $1,250,000 in 2018 prior to the adoption of the 2019 Capital Budget as a first charge against the General Capital Fund, in accordance with subsection 288(2) of the City of Winnipeg Charter, to pay the remaining portion of 2017 incremental municipal taxes plus interest to the developer, Minox Equities Ltd., in accordance with the Strategic Economic Agreement between the City and Tuxedo Yards Development Corp. dated September 15, 2009.

2. That the proper officers of the City do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Council approval is required for a first charge for an expenditure of 2019 capital funds prior to the adoption of the 2019 capital budget.

IMPLICATIONS OF THE RECOMMENDATIONS

The recommendations, if approved, will allow a first charge on the 2019 capital budget to enable the timely payment to the developer of the remaining portion of 2017 incremental municipal taxes plus interest, which the City owes the developer under the SEA.

HISTORY / DISCUSSION

On March 25, 2009, Council concurred in the recommendations of Item No. 1 of the Report of the Executive Policy Committee dated March 18, 2009, entitled *"Tuxedo Yards Redevelopment: southwest and northwest quadrants of Sterling Lyon Parkway and Kenaston Boulevard"*, which included, among other things, the following:

2. *That the City of Winnipeg enter into an Strategic Economic Agreement with the Developer for the development of 1.5 million square feet of mixed-use commercial development at the southwest and northwest quadrants of Sterling Lyon Parkway and Kenaston Boulevard to include the following conditions:*

    A. *The Developer shall pay for all costs, (currently estimated at $26.5 million) and as described in the report of the Director of Planning, Property and Development dated March 2, 2009, including:*

        i. *all off-site infrastructure and servicing costs associated with the existing traffic conditions and to further facilitate the long term traffic improvements for the development;*

        ii. *costs of any acquisitions or land expropriations and railway protection required to effect the foregoing; and*

iii. costs of relocating Manitoba Hydro services located in City right-of-ways to permit the foregoing, including street-lights, and placing above-grade pole services underground.

The Developer shall be entitled to recover from the City an estimated $14 million of such costs (plus interest) as the City's share for items i. to iii. inclusive;

B. Based on an estimated $3.7 million of incremental municipal taxes (being the City's estimated share of municipal taxes over and above those assessed against the Planned Area in 2008 generated annually by the total development), that the City's share of such estimated incremental taxes (not to exceed approximately $14 million plus interest), shall be assigned back to the Developer of the site over a period not exceeding 12 years…and not to exceed beyond the year 2025;

C. Based on the Developer front-ending the estimated $14 million in costs required for off-site infrastructure improvements for the City of Winnipeg, that interest on the amount of the $14 million unrecovered from time to time by the Developer, calculated…using the City's current five-year borrowing rate of 4% for the City's share (but to be adjusted upwards or downwards annually as at January 1st of each year) and in addition to the estimated $14 million, shall be paid to the Developer…only during the next ensuing 7 years, the funding source being the incremental municipal taxes;…

Beginning with the 2014 Capital Budget and 2015 to 2019 Five-Year Forecast, the "Tuxedo Yards Development" capital budget has included a developer payback based on the estimated incremental municipal taxes generated from the Planned Area, "Seasons of Tuxedo".

Given the robust pace of development of the Planned Area, actual incremental municipal taxes are being realized more quickly than anticipated. The positive result of this is that incremental municipal taxes from the Planned Area will accrue to general revenues sooner and the City will incur lower interest expenditures than originally estimated. In 2016, incremental municipal taxes and interest, which was payable in 2017, were approximately $450,000 more than projected, which resulted in Council approval of a request for a first call on the 2018 capital budget. The remainder of the 2018 capital budget, $1,985,000, represented estimated 2017 incremental municipal taxes and interest of $1,946,000 plus interest overhead of $39,0000. Actual 2017 incremental municipal taxes and interest during 2017, which is payable in 2018, was $3,146,000 or $1,200,000 more than is available. In order to pay this amount to the developer on a timely basis, a first charge on the 2019 Tuxedo Yards Development capital budget is requested. The 2019 Adopted-In-Principle capital budget amount is $1,874,000 (see Appendix A).

		2018
Tuxedo Yards Redevelopment Capital Budget		$ 2,444,000
First Call on 2018 Capital Budget adopted by Council on May 24, 2017	(450,000)	
Interest Overhead @ 2%	(9,000)	(459,000)
2018 Balance Available Prior to Interest Overhead		1,985,000
Interest Overhead @ 2%		(39,000)
Available for Required Payment in 2018		1,946,000
Required Payment in 2018		3,146,000
		(1,200,000)
Provision for Variation		(50,000)
Amount of First Call on 2019 Tuxedo Yards Redevelopment Capital Budget		(1,250,000)

It is anticipated that incremental municipal taxes generated from the Planned Area during 2018 will be sufficient to satisfy the remaining obligation of approximately $2,500,000 payable to the developer in 2019.

FINANCIAL IMPACT

Financial Impact Statement

Date: January 24, 2018

Project Name: **First Year of Program** 2018

Authorization for expenditures on the 2019 capital budget as a first charge related to the Tuxedo Yards Development Project

	2018	2019	2020	2021	2022
Capital					
Capital Expenditures Required	$ 1,250,000	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	1,250,000	-	-	-
Additional Capital Budget Required	$ 1,250,000	$ (1,250,000)	$ -	$ -	$ -
Funding Sources:					
Interim-financing - General Capital Fund	$ 1,250,000	$ (1,250,000)	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other (Enter Description Here)	-	-	-	-	-
Total Funding	$ 1,250,000	$ (1,250,000)	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ -	$ -	$ -	$ -	$ -
Less: Incremental Revenue/Recovery	23,987	-	-	-	-
Net Cost/(Benefit)	$ (23,987)	$ -	$ -	$ -	$ -
Less: Existing Budget Amounts	(23,987)	-	-	-	-
Net Budget Adjustment Required	$ -	$ -	$ -	$ -	$ -

Additional Comments: Capital expenditures represent the $1,199,342 amount owing to the developer in respect of 2017 incremental municipal taxes + short-term financing charges of $23,987 and a rounding provision of $26,671. The short-term financing charges are offset by recoveries in the current budget of the Corporate Finance Department. The 2018 capital expenditure will be interim-financed from the General Capital Fund and repaid in 2019 from Economic Development Investment Reserve Fund. The $1,199,342 budgeted in 2019 represents a portion of the Tuxedo Yard Development capital budget against which the first charge is to be made.

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

CONSULTATION

This Report has been prepared in consultation with the departments listed below, and they concur with its content.

Assessment & Taxation Department
Legal Services Department, as to legal issues
Corporate Finance Department

OURWINNIPEG POLICY ALIGNMENT

01-1b KEY DIRECTIONS FOR THE ENTIRE CITY

Key Directions for Connecting and Expanding our Sustainable Transportation and Infrastructure Network

>Invest strategically in new water, waste and transportation infrastructure.

SUBMITTED BY

Department: Planning, Property and Development & Public Works
Division: Office of the Director
Prepared by: Mike McGinn, CPA, CA
Date: January 24, 2018
File No:

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PUBLIC WORKS DEPARTMENT - GENERAL CAPITAL FUND

Project Name: **Tuxedo Yards Development**

Standing Policy Committee: Property and Development, Heritage, and Downtown Development

Dept ID: 180604
Department: **Public Works**
Project: 1807000518

Capital Category: Growth
Service: Roadway Construction and Maintenance
OurWinnipeg: Opportunity

AUTHORIZATION	Previous Budgets	2018 Adopted	FORECAST 2019	2020	2021	2022	2023	Five-Year Forecast Total	Six-Year Total
Project Costs ($000's)	14,875	2,444	1,874	1,880	-	-	-	3,754	6,198
Financed by:									
Economic Development Investment Reserve	6,775	2,444	1,874	1,880				3,754	6,198
Provincial Government Funding	8,000							-	-
Other	100							-	-

CASH FLOW	2018	2019	2020	2021	2022	2023	Beyond 2023	Total
Project Costs ($000's)	2,444	1,874	1,880	-	-	-	-	6,198
Financed by:								
Economic Development Investment Reserve	2,444	1,874	1,880					6,198

NET OPERATING IMPACT ($000's)	2018	2019	2020
Operating costs	2,444	1,874	1,880
External debt and finance charges			
Transfer to General Capital Fund			
Total Direct Costs	2,444	1,874	1,880
Less: Incremental Revenue/Recovery	2,523	1,935	1,941
Net Cost/(Benefit)	(79)	(61)	(61)
Incremental Full Time Equivalent Positions	-	-	-

Class Estimate: 1

On March 25, 2009, Council approved the recommendations contained in the "Tuxedo Yards Redevelopment" report and directed the Public Service to enter into a Strategic Economic Agreement with the Developer for the development of 1.5 million square feet of mixed-use commercial development at the southwest and northwest quadrants of Sterling Lyon Parkway and Kenaston Boulevard. Pursuant to this Agreement, the Developer was responsible for the financing of all costs of off-site infrastructure and servicing, any acquisitions of land required and of relocating Manitoba Hydro services located in City right-of-ways. Further, the Developer is entitled to recover from the City approximately $12 million of such costs (plus interest) subject to the conditions outlined in the Strategic Economic Agreement.

The Agreement also included provisions regarding the responsibility of the Developer for the acquisition of certain lands (to a maximum of $450,000) and the construction and/or modification of certain railway crossings (to a maximum of $500,000). The Agreement provided that these costs will be funded by the City of Winnipeg and deducted from the $12 million entitled to be recovered by the Developer.

On September 14, 2009, the City of Winnipeg (City) and the Province of Manitoba (Province) entered into the "Manitoba - Winnipeg Offsite Infrastructure Funding Agreement" whereby the Province provided $8 million in funding, paid in equal installments from 2010 to 2012, to the City. The City in turn paid the Developer the equivalent amount upon receipt of payment from the Province.

On May 24, 2017, Council approved that the expenditures of up to $465,000 in 2017 prior to the adoption of the 2018 Capital Budget be authorized, as a first charge against the General Capital Fund, in accordance with Subsection 288(2) of the City of Winnipeg Charter, to pay the remaining portion of 2016 incremental municipal taxes plus interest to the developer, Minox Equities Ltd., in accordance with the September 2009 Strategic Economic Agreement related to the Tuxedo Yards Development. The actual first charge amount was $450,000 that, combined with $1.994 million in estimated 2017 incremental municipal taxes plus interest, comprises the 2018 budget amount of $2.444 million.

Amounts budgeted from 2018 to 2020, inclusive of the $450,000 first charge amount, represent repayment to the Developer of the remaining City contribution totaling approximately $6.198 million, and are equivalent to estimated incremental municipal realty and business taxes to be generated by the development from 2018 to 2020 plus interest.