Minutes – Executive Policy Committee – January 22, 2019

REPORTS

Item No. 8 Destination Marketing Reserve Fund – Revised Funding Allocation

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

The Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and recommended to Council:

1. That the following payments be made from the Winnipeg Convention Centre Corporation (WCCC) portion of the Destination Marketing Reserve Fund (DMRF):

    A. Commencing in 2019, payments of $1m annually be made to WCCC for the purpose of reducing that portion of the $8m loan relating to the new addition to the Winnipeg Convention Centre that is to be repaid by the City and commencing approximately in 2023, tax increment financing (TIF) funding previously approved by Council in 2012 supplemented by additional payments from the DMRF for a combined total of $1m be applied to the loan to the extent there is a balance remaining in the WCCC portion of the DMR.

    B. A grant to WCCC of $2.10m to pay the costs of fire stopping, fire damping and improvements to the washrooms required to achieve final occupancy status.

2. That a further grant to WCCC be approved in the amount of $2.75 million to pay the estimated amount required to address fire stopping, fire damper and washroom improvements to achieve final occupancy status, to be funded from the remaining balance of $2.75m relating to liquidated damages recovered from Stuart Olson.

3. That repayment be required on an interest-free basis from WCCC of $4.85m comprised of the amounts included in Recommendation 1(B) and 2 above on a timeframe to be determined by the Chief Financial Officer.

4. That the City enter into, execute and deliver grant agreements with the WCCC that sets out the terms and conditions of the City's grants as set forth above, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreements in accordance with this report and such other terms and conditions deemed necessary by the Director of Legal Services and City Solicitor to protect the interests of the City.

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

DECISION MAKING HISTORY:

Moved by Councillor Gillingham,

That the recommendation of the Winnipeg Public Service be concurred in and forwarded to Council.

Carried

ADMINISTRATIVE REPORT

Title: Destination Marketing Reserve Fund – Revised Funding Allocation

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
Mike Ruta	Mike Ruta	Mike Ruta	D. McNeil

EXECUTIVE SUMMARY

This report proposes the following adjustments to the Destination Marketing Reserve Fund (DMRF) and provides direction relating to a previous transaction for Council approval:

1. The total amount of loans payable by the Winnipeg Convention Centre Corporation (WCCC) is $33m relating to the expansion. This full amount has been guaranteed by the City and is comprised of two loans for $17m and 16m. Originally repayments on the $16m portion were to be funded by the City and Province of Manitoba using tax increment financing (TIF). The Province has committed $8m in TIF payments by separate agreement with WCCC. It is proposed in this report the remaining balance of $8m to be repaid by the City be reduced by $1.0m annually commencing in 2019 to the extent there is sufficient balance in the DMRF. It is anticipated starting in approximately 2023 that tax increment financing (TIF) with respect to 220 Carlton will reduce the remaining balance of the loan supplemented by additional payments from the DMRF for a combined total of $1m to the extent there is sufficient balance in the WCCC portion of the DMRF.

2. To achieve final occupancy, the City requires Winnipeg Convention Centre Corporation (WCCC) to complete fire stopping and fire damping work to the previous facility and improve washrooms. The total cost associated with these improvements is $4.85m and it is recommended that $2.75m remaining from liquidated damages previously recovered from Stuart Olsen be applied as partial payment. The balance of $2.1m is to be paid from the DMRF as an advance. The full amount of this advance must be repaid to the City over a period coinciding with cash flows derived from future operations at WCCC.

The accelerated payments will allow the City to repay its portion of the loan relating to the new addition at WCCC over an estimated 11 year period compared to 25 years previously contemplated. As a consequence the City will benefit from earlier recognition of property taxes for the general use of tax-supported operations at the City. There is a deadline to complete renovations to achieve final occupancy. Without financial assistance from the DMRF and other funds available from liquidated damages recovered from Stuart Olsen, WCCC may not meet these deadlines.

RECOMMENDATIONS

1. That the following payments be made from the WCCC portion of the DMRF:

    a. Commencing in 2019, payments of $1m annually be made to WCCC for the purpose of reducing that portion of the $8m loan relating to the new addition to the Winnipeg Convention Centre that is to be repaid by the City and commencing approximately in 2023, TIF funding previously approved by Council in 2012 supplemented by additional payments from the DMRF for a combined total of $1m be applied to the loan to the extent there is a balance remaining in the WCCC portion of the DMR.
    b. A grant to WCCC of $2.10m to pay the costs of fire stopping, fire damping and improvements to the washrooms required to achieve final occupancy status.

2. That Council approve a further grant to WCCC in the amount of $2.75 million to pay the estimated amount required to address fire stopping, fire damper and washroom improvements to achieve final occupancy status, to be funded from the remaining balance of $2.75m relating to liquidated damages recovered from Stuart Olson.

3. That Council requires repayment on an interest free basis from WCCC of $4.85m comprised of the amounts included in Recommendation 1(b) and 2 above on a timeframe to be determined by the Chief Financial Officer.

4. That the City enter into, execute and deliver grant agreements with the WCCC that sets out the terms and conditions of the City's grants as set forth above, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreements in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

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

As part of the 2018 Operating Budget, City Council adopted Recommendation 1(T) in Volume 2 of the 2018 Operating budget which directed the Public Service to provide options to utilize unspent funds in the Destination Marketing Reserve (DMRF) to support the following initiatives:

i. An enhanced tourism and events strategy which will supplement funding dedicated to the existing Special Events Marketing Fund up to a combined total of 25% of annual proceeds from Accommodation Taxes collected. The Manitoba Hotel Association in consultation with Economic Development Winnipeg Inc. and Tourism Winnipeg would develop criteria for the additional funding;
ii. A multi-year downtown public safety strategy including, but not limited to, enhanced outreach services, expanded foot patrol and other security initiatives to be developed in consultation with stakeholder groups such as the Manitoba Hotel Association, the

Downtown BIZ, the Winnipeg Police Service, the UN Safe Cities Committee and other such organizations; and

iii. Options for an accelerated repayment plan of the outstanding debt related to the Winnipeg Convention Centre (WCC) expansion project.

This report satisfies recommendation 1(T)iii. Recommendations 1(T)i. and ii. have been previously addressed through separate reports to Council.

Only City Council has the authority to change how funds are distributed from the Destination Marketing Reserve Fund. In addition Council approval is required to enter into grant agreements and to utilize the balance of funds available from the agreement reached by WCCC with Stuart Olsen regarding construction of the expansion.

IMPLICATIONS OF THE RECOMMENDATIONS

The balance in the DMRF will be reduced by the payments recommended above. The advances relating to improvements required to achieve final occupancy will form part of an agreement already in place for future repayment.

HISTORY/DISCUSSION

Set out in Appendix 1 of the report are references to Council approved reports in respect of the WCCC including relevant decisions made at the time dating back to 2008, when the WCCC expansion was approved, through to 2018. The City owns the assets of WCCC and includes WCCC's financial results in the City's consolidated financial statements. Historically though, both the Province and City have participated in funding operations and capital improvements. The City contributes $1.5m annually from the Destination Marketing Reserve Fund and prior to 2017, the Province was contributing $1.4m. In 2017, the Province reduced its contribution to $1.26m and then to $847,800 in 2018.

In addition the Province and City shared equally in funding past capital expenditures including a new roof, exterior cladding and other major renovations. During the expansion, the City noted further work was required to address fire damping and fire stopping improvements identified in the old section of the building. The cost of these additions is expected to be in the range of $4m. Over the last two years the WCCC has requested financial assistance from the Province with equal participation from the City in respect of the fire stopping and fire damper improvements required to obtain final occupancy of the building. A further $0.85m relates to additional improvements required to the washrooms to achieve building code requirements bringing total capital improvements required to obtain final occupancy of the building to $4.85m. The City has provided an extension to complete improvements relating to fire stopping and fire dampers until December 31, 2019. The deadline for completion of washroom upgrades is December 31, 2021 but WCCC would like to complete these improvements at the same time to obtain final occupancy. As a matter of course WCCC internally funds improvements to the old building and over the next year $2m of improvements are planned.

In a series of letters and discussions, WCCC and the City recommended a reduction of the amounts due to the Province of $2.8m relating to a previously agreed to land transfer from the Province to WCCC as a means of funding the Province's share of the $4m expenditures required to the old building. To date there has been no reply to this request.

In its original business plan, WCCC relied on a planned hotel facility to be located on 220 Carlton. As noted in the attachments, the hotel was just recently announced and the facility is projected to open at the beginning of 2022. In recognition of the shortfalls in cash flow because of delayed construction, the City began funding the principal and interest payments required relating to the $17m term loan facility payable over 30 years and the interest costs associated with the $16m floating loan facility. In a separate agreement, the WCCC is required to repay these advances to the City when there is sufficient cash flow from operations. Total borrowings amount to $33m, which are guaranteed by the City. Similarly the City would require WCCC under this same agreement to repay $4.85m as calculated above by applying the terms of this agreement. The agreement requires repayment on a non-interest basis from cash flow earned by WCCC as determined by the CFO.

It is proposed the City's portion of the $16m facility totaling $8m be repaid commencing in 2019 at $1m annually from the Reserve and a combination of TIF when it commences and reserve funds resulting in possible repayment of the City's portion of principal and interest over 11 years subject to sufficient accumulated balances in WCCC's portion of the DMRF. In this manner, less municipal TIF funding may be required, which could then benefit tax-supported operations at the City. The Province has separately committed a grant equivalent to incremental commercial taxes over approximately 15 years up to a maximum of $8m plus actual borrowing costs payable by March 31 of the year following the first year the TIF appears on the tax bill for the property.

Included in Appendix 2 is a projection of the WCCC's portion of the DMRF, which contains the recommendations, set out above. On an estimated basis there appears to be a sufficient balance in the DMRF to accommodate these recommendations.

FINANCIAL IMPACT

Financial Impact Statement **Date:** January 2, 2019

Project Name:
Destination Marketing Reserve Fund – Revised Funding Allocation

COMMENTS:

Recommendation #1 of this report will reduce the balance in the Destination Marketing Reserve dedicated to the RBC Convention Centre. The projected ending annual balances of the Reserve dedicated to the Convention Centre after adoption of the recommendation is shown in Appendix 2 of this report.

Recommendation #2 of this report has no direct financial impact to the City as the $2.75M is currently held by the Winnipeg Convention Centre Corporation and will be applied towards the improvement works in accordance with the recommendation.

Recommendation #3 - the City will receive repayment of $4.85M for the improvement works, however the term of repayment has not yet been defined.

original signed by
Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

Legal Services (as to legal issues)
Assessment and Taxation
Planning Property and Development

OURWINNIPEG POLICY ALIGNMENT

Not applicable

SUBMITTED BY

Department: Corporate Finance
Division: Chief Financial Officer
Prepared by: Mike Ruta
Date: January 10, 2019
File No: N/A

Appendix 1 – History of Previous Decisions
Appendix 2 – Financial Projections

Appendix 1 – History of Previous Decisions

2008

On April 23, 2008, City Council approved the Accommodation Tax By-law No. 70/2008 with an effective date of June 1, 2008. The Accommodation Tax provides for a 5% tax to be charged on short-term accommodation within the City of Winnipeg.

On October 22, 2008, City Council established the Destination Marketing Reserve Fund, the purpose of which was to provide a mechanism for the disbursement of Accommodation Tax revenue to support organizations, projects and special events that encourage tourists to visit Winnipeg. Council originally approved the Reserve on October 22, 2008. The recommendation from the report on that date stated "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."

2012

On July 18, 2012, Council approved the following recommendation in a report entitled "Approval of Funding Participation - Winnipeg Convention Centre Expansion Project"

Recommendation 1.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.

Recommendation 1.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.

Recommendation 1.VI - in the event that incremental property and business taxes determined under Recommendation 1V 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 unserviced 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 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.

2015
January 28, 2015
Council approved **– "**Amendment to Council Decision – "Approval of Funding Participation - Winnipeg Convention Centre Expansion
Project." The following recommendations are highlighted below:

2. That the City and the WCCC enter into an agreement whereby the WCCC agrees to transfer to the City the $3.75 million liquidated damages amount to be paid by Stuart Olsen Construction Ltd. ("SODCL") to the WCCC as consideration for the WCCC releasing SODCL from its obligation to construct a hotel development at the property located at 220 Carlton Street (the "Site").
3. That Council authorize a grant in the amount of $3.75 million to CentreVenture Development Corporation ("CentreVenture"), which grant shall be payable within 30 days following the City's receipt of the $3.75 million liquidated damages amount pursuant to Recommendation 2 and shall be subject to the following conditions:
(i) that 100% of the grant monies be used to repay a portion of the $6.6 million line of credit increase granted to CentreVenture Development Corporation ("CentreVenture") to acquire the Site, which line of credit increase was guaranteed by the City pursuant to the Council decisions of December 12, 2012 "Loan Guarantee Increase – CentreVenture Development Corporation" and December 11, 2013 "Extension of Loan Guarantee Increase – CentreVenture Development Corporation;
(ii) that in the event CentreVenture is unable to conclude a development agreement for the Site within six months following the date of Council approval, CentreVenture undertake a public bid process with respect to future development of the Site;

Relative to the report approved by Council on January 28, 2015, the sale of 220 Carlton was confirmed and the proceeds from the Stuart Olsen settlement of $3.75m were retained by WCCC as a reduction in the floating loan of $16m guaranteed by the City.

September 30, 2015
Council concurred in the recommendation of the Executive Policy Committee, as amended, and adopted the following:

1. That in the event the Winnipeg Convention Centre Corporation (WCCC) is unable to service debt payments on $33 million of the total loan guarantee as demonstrated to the satisfaction of the Chief Financial Officer, that the Destination Marketing Reserve (Reserve) be approved as a funding source for any shortfalls as determined annually by the Chief Financial Officer.
2. That once surpluses from WCCC operations are identified, the WCCC reimburse the City for the full amount of any funds advanced by the Destination Marketing Reserve and applied to the $17 million portion of the debt.
3. That the approvals provided in recommendation 1 above with respect to the $17 million portion of the debt expire once a hotel development in an area to be jointly determined by the WCCC and the Chief Financial Officer is complete as evidenced by an occupancy permit for such hotel development.

4. That the City enter into a funding agreement with the WCCC that outlines the terms and conditions of any City contribution as set forth herein, and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such agreement in accordance with this report including a repayment schedule for all monies advanced pursuant to Recommendation 1 and such other terms and conditions deemed necessary by the Director of Legal Services and City Solicitor to protect the interests of the City.

2017 Operating Budget
Council approved recommendation 1(L) in the adopted 2017 operating budget transferring $1m of the settlement to the City's tax supported budget leaving $2.75m to apply against the $16m operating line.

On August 31, 2017 True North Real Estate Development, in conjunction with Northland Properties Corporation, announced construction of The Sutton Place Hotel and its residential tower on 220 Carlton adjacent to the RBC Convention Centre (WCCC).

March 2017
The City enters into a grant agreement with WCCC reflecting the terms of Council's approval of the report on September 30, 2015 requiring repayment of any amounts advanced by the DMRF to be repaid once sufficient cash flow is identified to the satisfaction of the CFO.

2018
Since its inception, the Destination Marketing Reserve Fund has distributed Accommodation Tax revenues within a set of defined parameters and estimated cash-flows. Over time, these parameters have resulted in unspent funds accumulating within the Reserve.

As part of the 2018 Operating Budget, City Council adopted Recommendation 1(T) in Volume 2 of the 2018 Operating budget as follows:

That the Public Service prepare a report to the appropriate Committee of Council within 120 days recommending options to utilize unspent funds in the Destination Marketing Reserve (DMRF) to support the following initiatives:

i. An enhanced tourism and events strategy which will supplement funding dedicated to the existing Special Events Marketing Fund up to a combined total of 25% of annual proceeds from Accommodation Taxes collected. The Manitoba Hotel Association in consultation with Economic Development Winnipeg Inc. and Tourism Winnipeg would develop criteria for the additional funding;
ii. A multi-year downtown public safety strategy including, but not limited to, enhanced outreach services, expanded foot patrol and other security initiatives to be developed in consultation with stakeholder groups such as the Manitoba Hotel Association, the Downtown BIZ, the Winnipeg Police Service, the UN Safe Cities Committee and other such organizations; and
iii. Options for an accelerated repayment plan of the outstanding debt related to the Winnipeg Convention Centre (WCC) expansion project.

Recommendations in 1(T) i and ii have already been addressed in the following reports to Council:

- September 20, 2018 – Destination Marketing Reserve Fund – Revised Funding Allocation

- July 19, 2018 – Destination Marketing Reserve – Multi-Year Downtown Public Safety Strategy

Over the years the Province has participated in funding one half of improvements to the old facility including a new roof , exterior cladding and other major renovations. The WCCC approached the Province by letter on May 16, 2017 and October 31, 2018 for continued funding support relating to the cost of Fire Stopping and Fire Dampers. Specifically, WCCC recommended a reduction of the amounts due to the Province of $2.8m relating to a previously agreed to land transfer from the Province to the WCCC as a means of funding the Province's share of the expenditure. To date there has been no reply to this request.

On August 16, 2018, the Province advised in writing its commitment to provide provincial tax increment financing relating to the hotel of $8 million plus borrowing costs in support of the RBC Convention Centre expansion.

It is anticipated construction of the hotel will be completed by 2021 and incremental grants from the City and Province will commence in 2022. In the event there is insufficient municipal TIF to repay the City's portion of debt, there is provision set out in recommendation 1.VI of the 2012 Council report referenced above to accommodate supplemental payments from the DMRF.

Appendix 2 – Financial Projections

Financial Projections		2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 projected	2019 projected	2020 projected	2021 projected	2022 projected	2023 projected
Breakdown of RBC Convention Centre Funding												
Opening Balance		10,486,667	9,388,617	5,586,575	7,591,318	9,504,595	10,283,929	8,895,664	4,426,149	3,844,134	3,299,619	2,792,604
	Accommodation Tax Revenue 40% (37.5% in 2018)	2,980,550	3,142,051	3,606,747	4,065,793	3,942,327	3,543,750	3,562,500	3,600,000	3,637,500	3,675,000	3,712,500
less:	Interest - Winnipeg Convention Centre		(216,432)	(1,122,194)	(1,536,857)	(1,536,857)	(1,536,857)	(1,536,857)	(1,536,857)	(1,536,857)	(1,536,857)	(1,536,857)
	Principal - Winnipeg Convention Centre		(90,020)	(377,578)	(615,659)	(645,158)	(645,158)	(645,158)	(645,158)	(645,158)	(645,158)	(645,158)
	Debenture Issue Expense		(229,574)	(102,232)	0	0	0	0	0	0	0	0
	Loan Payment - Winnipeg Convention Centre					(980,979)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	
	Public Safety strategy						(1,750,000)	(1,750,000)				
	Improvements relating to expansion						0	(2,100,000)	0	0	0	0
	Reduction of $16m loan ($8m City)						0	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
	Winnipeg Convention Centre - Capital	(4,078,600)	(6,408,067)									
Net Inflow/(outflow)		(1,098,050)	(3,802,042)	2,004,743	1,913,277	779,334	(1,388,265)	(4,469,515)	(582,015)	(544,515)	(507,015)	530,485
Funds Committed to RBC Convention Centre		9,388,617	5,586,575	7,591,318	9,504,595	10,283,929	8,895,664	4,426,149	3,844,134	3,299,619	2,792,604	3,323,089