Agenda – Council – July 23, 2020

Report – Executive Policy Committee – July 15, 2020

Item No. 9 Request from Starlight Investments for Financial Contribution to Portage Place Revitalization Project

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 15, 2020, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the following to Council:

1. That a grant to Starlight Group Property Holdings Inc. O/A Starlight Investments Ltd. aka. Starlight Acquisitions Ltd. ("Starlight") in respect of the Revitalization Project at Portage Place be approved, and that the grant:

    A. be an annualized payment for a period of up to 10 years beginning the year after full or interim occupancy and final assessment is attained;
    B. be an annual amount to a maximum of 80% of incremental municipal property taxes for the property located at 245 Portage Avenue, and to a total aggregate maximum of $5 million;
    C. be conditional on Starlight submitting a construction schedule demonstrating that completion of the entire project will occur within four years of obtaining construction financing;
    D. be conditional on construction financing being secured within 12 months with permits being secured and work commencing within 24 months of Council approval;
    E. be subject to at a minimum matching yearly Provincial and Federal grants and written confirmation from the Province of Manitoba and the Government of Canada of their financial support for the project; and
    F. be conditional on Starlight Investments Ltd. entering into a grant agreement with The City of Winnipeg in a form satisfactory to the Director of Legal Services and City Solicitor.

2. That the City enter into, execute and deliver a grant agreement with Starlight Group Property Holdings Inc. O/A Starlight Investments Ltd. aka. Starlight Acquisitions Ltd. and such other agreements as determined necessary by the Director of Legal Services and City Solicitor to implement the intent of the foregoing (the "Ancillary Agreements").

3. That the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of the grant agreement and the Ancillary 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.

Report – Executive Policy Committee – July 15, 2020

EXECUTIVE POLICY COMMITTEE RECOMMENDATION (continued):

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

Report – Executive Policy Committee – July 15, 2020

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 15, 2020, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: Request from Starlight Investments for financial contribution to Portage Place Revitalization Project

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Jack	M. Ruta	P. Olafson, Interim CFO	M. Ruta, Interim CAO

EXECUTIVE SUMMARY

Starlight Group Property Holdings Inc. O/A Starlight Investments Ltd. aka. Starlight Acquisitions Ltd. ("Starlight") has formally requested support for its acquisition of the Portage Place Mall and its planned revitalization ("the Revitalization Project").

Starlight has indicated that, in order to carry out the Revitalization Project, it requires funding from the Government of Canada, the Government of Manitoba and The City of Winnipeg, which would involve each level of government contributing $20 million (for a total contribution of $60 million), phased to match the construction schedule over the next five years.

As such, the Public Service is recommending an offer of financial support to Starlight for the Revitalization Project that is:

- in alignment with an assessment of the tangible and intangible benefits to downtown Winnipeg and the City overall, but
- also reflective of the reality that the direct financial benefit to the municipality is limited in its present and future growth value.

Council approval is required in order for the City to agree to the requested financial contribution.

Starlight continues to carry out their due diligence process on the potential acquisition of Portage Place, which has included, but was not limited to, financial, physical, legal, environmental, and financing reviews. The parties to the transaction (North Portage Development Corporation and Starlight) have currently agreed to an extension of the due diligence completion date until August 27, 2020. Starlight has indicated that it requires confirmation of all available financial support before agreeing to finalize the transaction; as such, there is urgency to the consideration of this matter.

RECOMMENDATIONS

1. That Council approve a grant to Starlight Group Property Holdings Inc. O/A Starlight Investments Ltd. aka. Starlight Acquisitions Ltd. ("Starlight") in respect of the Revitalization Project at Portage Place and that the grant:
   - A. be an annualized payment for a period of up to 10 years beginning the year after full or interim occupancy and final assessment is attained;
   - B. be an annual amount to a maximum of 80% of incremental municipal property taxes for the property located at 245 Portage Avenue, and to a total aggregate maximum of $5 million;
   - C. be conditional on Starlight submitting a construction schedule demonstrating that completion of the entire project will occur within four years of obtaining construction financing;
   - D. be conditional on construction financing being secured within 12 months with permits being secured and work commencing within 24 months of Council approval;
   - E. be subject to at a minimum matching yearly Provincial and Federal grants and written confirmation from the Province of Manitoba and the Government of Canada of their financial support for the project; and
   - F. be conditional on Starlight Investments Ltd. entering into a grant agreement with The City of Winnipeg in a form satisfactory to the City Solicitor/Director of Legal Services.

2. That the City enter into, execute and deliver a grant agreement with Starlight Group Property Holdings Inc. O/A Starlight Investments Ltd. aka. Starlight Acquisitions Ltd. and such other agreements as determined necessary by the City Solicitor / Director of Legal Services to implement the intent of the foregoing (the "Ancillary Agreements").

3. That the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of the grant agreement and the Ancillary 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.

4. 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

Starlight has requested a financial contribution from the City in support of the Revitalization Project in the amount of $20 million. Any consideration of such a request would require Council approval.

Approval of the Tax Increment Financing recommended herein requires Council approval.

IMPLICATIONS OF THE RECOMMENDATIONS

The City does not currently have a tax incentive program open to new applications, but the

proposed grant aligns with grants approved under previous tax increment financing (TIF) agreements and programs. The Public Service proposes a maximum total grant of up to $5 million, or 80%, of annual incremental municipal property taxes over 10 years to be contributed to public amenities, subject to a minimum matching Provincial and Federal contributions.

The proposed City contribution aligns with the pro-rated returns anticipated by each level of government. The Province of Manitoba and Government of Canada will realize net gains in tax revenue on both personal income and on materials throughout the $400 million investment and on Portage Place's future retail, housing, and office operations.

HISTORY/DISCUSSION

The Portage Place mall has changed hands several times since its inception and is currently owned by Spruceland Mall/The Peterson Group. In 2015, the mall owners approached North Portage Development Corporation ("NPDC") to declare that they were no longer interested in investing money, time, or energy in the mall. They requested consolidation of NPDC's land and parking, and marketing of their mall for sale.

In September 2016, the Board of NPDC authorized management to market the Portage Place land and parkade in combination with the Portage Place Shopping Centre through Premise Properties Ltd.

From late 2016 into early 2017, Premise Properties Ltd. directly approached several relevant candidates with the capacity to undertake a redevelopment of this scale. Of those approached, sixteen had no interest and seventeen initially expressed interest and executed a Confidentiality Agreement prior to receiving salient information. One offer, from Starlight, was ultimately brought forward.

On July 9, 2019, Council approved "That Council, representing the municipal corporation of The City of Winnipeg as one of three shareholders of the North Portage Development Corporation ('NPDC'), approve the sale of the NPDC assets (as hereinafter defined) to Starlight Acquisitions Ltd., subject to confirmation of the approval of this sale by the Province of Manitoba and the Government of Canada."

On January 27, 2020, the Interim CAO received a letter from Starlight dated January 17, 2020, requesting support from three levels of government to address and close the anticipated funding gaps associated with their purchase. The January 17, 2020 letter is attached herewith as Schedule A. Since that time, representatives of both the Public Service and Starlight have engaged frequently to discuss developments with the overall proposal, along with Starlight's request for a financial contribution from the City.

The Starlight proposal has evolved over time. While still subject to change, the current plans include:

- more than 500 rental apartment units;
- approximately 147,000 square feet of retail space;
- approximately 342,000 square feet of office space;
- best-in-class sustainable building practices including green roofs and high-performance building materials that incorporate low impact design strategies;
- programmed pedestrian walkway on Edmonton Street extending through the Project, knitting together the areas north and south of the existing Portage Place Mall;

- external skywalks which will provide visible vibrancy along Portage Avenue and enhance safety by providing “eyes on the street”;
- a commitment to secure a grocer to ensure the living needs of downtown residents are met; and
- significant improvements to the safety of the existing facility and its surroundings via various programming initiatives that Starlight has employed successfully elsewhere.

The most recent document provided to the City by Starlight outlining the Revitalization Project is included within Schedule A, the January 17, 2020 letter.

Starlight continues to carry out their due diligence process on the potential acquisition of Portage Place, which has included, but was not limited to, financial, physical, legal, environmental, and financing reviews. The parties have currently agreed to an extension of the due diligence completion date until August 27, 2020. Once this has been achieved, the formal closing date would be sixty days later.

Public Realm Improvements

In its project material, Starlight has indicated that the Revitalization Project will bring substantial community benefits to the city, and most directly to Winnipeg’s downtown. The Community Benefits Overview provided by Starlight is attached herewith as Schedule B.

At a high level, the Public Service has reviewed the many elements of the Revitalization Project to determine which proposed elements align tangibly with City of Winnipeg infrastructure and planning priorities.

Of the $60 million in value identified by Starlight as a benefit to the community, the Public Service identified approximately $4.3 million that directly aligned with City infrastructure and planning priorities, as represented in the chart below.

Community Benefit Element	Estimated Benefit Value	City of Winnipeg Alignment
Carlton Streetscape	$400,000	$400,000
Portage Streetscape	$5,000,000	
Vaughan Streetscape	$200,000	$200,000
Edmonton Courtyard (Including waterproofing and Alum. Facades)	$8,400,000	
Community Centre	$2,100,000	$2,100,000
Upgrade podium elevations	$11,100,000	
Pedestrian Link (Weather Protected Walkway System) (New Section)	$13,200,000	
Pedestrian Link (Refresh existing)	$3,000,000	
Promenade - East/West	$2,600,000	
Promenade - North/South	$1,800,000	
Podium lighting	$1,800,000	
Transit Improvements - Portage at Edmonton	$400,000	$400,000
Transit Improvements - Vaughan at Portage	$200,000	$200,000
Displays (4)	$500,000	
Public Art Allowance	$1,000,000	$1,000,000
Infrastructure upgrade	$5,000,000	
Green Roof	$2,200,000	
Security upgrade (Mall and Ped. Link Only)	$1,100,000	
TOTAL	**$60,000,000**	**$4,300,000**

In addition, the City has an obvious interest in exploring partnership potential on multiple other components of the project, including but not limited to the Weather Protected Walkway System (WPWS) links and streetscaping elements; should the sale transaction be finalized and the Revitalization Project proceeds, further detailed discussions on these items will commence.

The current proposed contribution is reflective of the pro-rated returns anticipated by each level of government The Province of Manitoba and Government of Canada will realize net gains in taxes both during construction, and via the ongoing operation of the facility for the next decade on both personal wages and materials leveraged by the $400M investment. Provincial and federal sales tax, revenue benefits and their contributions are not accrued at the municipal level.

Tax Increment Financing

To date, only the Government of Manitoba has pledged financial support for the Revitalization Project. On May 16, 2020, the Government of Manitoba issued a news release outlining its financial support of the Revitalization Project, attached herewith as Schedule C. The Revitalization Project was the first project to be supported under the provincial government's Manitoba Works Capital Incentive through a rebate of provincial education property taxes of up to $28.7 million over 20 years. It should be noted that the Province is phasing out the education property tax.

While Starlight has requested an equal amount of financial support from each level of government ($20 million each from the federal, provincial, and municipal governments), the financial benefit accrued to each level of government arising from the construction, development, and ongoing operations of the completed Revitalization Project are not equally distributed across all three levels of government.

Altus Group Economic Consulting (Altus) was retained by Starlight to assess the economic impact as well as the financial benefit (return) to governments arising from the Revitalization Project's construction, development, and ongoing operational activities. That Economic Impact Assessment is attached herewith within Schedule A, the January 17, 2020 letter, beginning on page 4.

Altus estimated the Revitalization Project's **construction** and **development** activities will generate $83.4 million in total revenue to all levels of government (Schedule A, page 22, Figure 4). Municipal revenue from taxes, charges, and fees, however, is estimated at $1.1 million, or about 1.3 percent, of all government revenue. Similarly, Altus estimated the Revitalization Project's **ongoing operation** activities will generate $54.5 million in total revenue to all levels of government (Schedule A, page 23, Figure 5). Municipal revenue from property taxes, however, is estimated at $4.6 million, or about 8.4 percent, of all government revenue.

Altus further estimates the Revitalization Project's 147,000 square foot retail footprint could be expected to gross about $88 million in annual sales, generating $11.4 million in provincial and federal sales tax, revenue benefits that are not accrued at the municipal level.

The Public Service proposes a maximum total grant of up to $5 million, or 80%, of annual incremental municipal property taxes over 10 years to be contributed to public amenities, subject to a minimum matching Provincial and Federal contributions.

Based on very preliminary design details provided by Starlight, it is estimated that the annual municipal property taxes generated by the Revitalization Project may increase from approximately $430,767 to $1,376,749. Based on these preliminary estimates, the difference, or incremental taxes, would be approximately $945,982 annually after completion of the Revitalization Project.

Consistent with previous TIF agreements and programs, it is important to note that final assessment values and related taxes can only be calculated upon completion of the Revitalization Project. As such, the amount and timing of municipal taxes arising from the Revitalization Project are subject to many different variables and can vary, perhaps materially, from these estimates.

However, the risk to the City arising from any material changes is mitigated by the fact grants will be payable only to the extent municipal taxes are realized. The risk to the City is further mitigated by the total grant payable being capped at $5 million.

Conclusion

The Public Service has reviewed all material provided to it by Starlight to properly assess the potential financial revenue benefits to The City of Winnipeg, as well as tangible and intangible economic and social benefits to the downtown and the city at large.

The Public Service believes the redevelopment of Portage Place mall, currently an asset with unrealized potential, would be positive. This fundamental belief underscored the Public Service's recommendation as one of three shareholders of the NPDC to approve the sale of assets to Starlight.

The successful completion of the Revitalization Project as it has been communicated by Starlight would continue and complement the transformative efforts undertaken over the last fifteen years in downtown Winnipeg, driven by over $1 billion in private sector investment including:

- $550M for True North Square;
- $30M for Richardson Innovation Centre;
- $86M for Bell MTS Place;
- $142M for 300 Main;
- $130M for CentrePoint project; and
- $500M to develop over 2,600 new downtown housing units.

Nonetheless, the direct financial benefit from the Revitalization Project and all its components to The City of Winnipeg is limited in comparison to Starlight's $20 million request from The City of Winnipeg. The financial benefits estimated to be accrued to governments through revenues associated with the Revitalization Project's development, construction, and ongoing operations are unequal in their distribution, suggesting that an equal level of financial support from each level of government is unmerited.

As such, the Public Service is recommending financial support that aligns not only with its assessment and review of the tangible and intangible benefits of the Revitalization Project to downtown Winnipeg and the City overall, but also with the reality that the direct financial benefit accrued municipally is limited in both its present value as well as its growth potential.

FINANCIAL IMPACT

Financial Impact Statement

Date: July 10, 2020

Project Name:

First Year of Program **2024**

Request from Starlight Investments for financial contribution to Portage Place Revitalization Project

	2024	2025	2026	2027	2028 to 2030
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
Debt - External	-	-	-	-	-
Grants (Enter Description Here)	-	-	-	-	-
Reserves, Equity, Surplus	-	-	-	-	-
Other - Enter Description Here	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 756,786	$ 756,786	$ 756,786	$ 756,786	$ 1,972,855
Less: Incremental Revenue/Recovery	945,982	945,982	945,982	945,982	2,837,946
Net Cost/(Benefit)	$ (189,196)	$ (189,196)	$ (189,196)	$ (189,196)	$ (865,091)
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (189,196)	$ (189,196)	$ (189,196)	$ (189,196)	$ (865,091)

Additional Comments:

Incremental revenue represents the estimated incremental municipal property taxes of $945,982 per annum. Direct costs represent the tax increment financing (TIF) grant of $756,786 (80% of incremental municipal property taxes). The net budget adjustment amount represents the 20% of incremental municipal property taxes accruing to general revenues. The final TIF grant payment of $459,284 in 2030 will see $486,698 accruing to general revenues with the full $945,982 doing so each year thereafter.

This analysis is based on assumptions regarding numerous variables and inherently, the amounts and timing of incremental municipal taxes will vary, perhaps materially, from what is presented above.

electronically signed by. T. Yanchishyn

Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

Planning, Property & Development
Assessment & Taxation
Legal Services (as to legal issues)
Starlight Investments
Government of Manitoba
Government of Canada
Forks North Portage Partnership

OURWINNIPEG POLICY ALIGNMENT

01-1a: OURWINNIPEG'S APPROACH TO CITY BUILDING
Direction 3: Promote compact urban form and manage the extension of municipal services for new growth.

01-1c: KEY DIRECTIONS FOR SPECIFIC CITY AREAS
Promote and enable a mix of residential development options as part of a mixed-use strategy seeking to:

- accommodate the residential needs of a large cross-section of the population.
- establish a number of thriving 'complete' communities Downtown.
- attract additional commerce to the area, leading to active – and safer – Downtown streets.
- Facilitate the expansion of employment and educational opportunities in the Downtown seeking to:
    - reinforce Downtown's role as a hub for business, for learning, for government and for commercial activity.

01-2a COLLABORATE TO MAKE SAFE COMMUNITIES
Direction 8: Help people and communities make safe places in safe neighbourhoods.

01-3 PROSPERITY
Direction 2: Provide a predictable and cost-effective business environment that promotes investment and growth.
Direction 3: Maintain strong intergovernmental cooperation.
Direction 4: Collaborate with all public, private and community economic development agencies to advance economic advantages.
Direction 7: Create favourable conditions for development that is consistent with the principles and goals of Complete Communities.
Direction 8: Encourage Activities Beneficial to the Winnipeg Economy.

01-4 HOUSING
Direction 1: Support diverse housing options in each neighbourhood or neighbourhood cluster throughout the city.
Direction 3: Establish partnerships with the private, not-for-profit and government sectors to provide affordable housing throughout the city, with a particular focus on locations near a variety of transportation options.

Direction 6: Encourage residential development downtown.

01-5 RECREATION
Direction 2: Work with community partners to provide services that are responsive to the community's recreation and leisure needs.
Direction 3: directly provide, or facilitate through partnerships, equitable access to a base level of recreation, culture and leisure services for all Winnipeggers.
Direction 4: With community partners, participate as a leader in planning and delivering recreation and leisure services in Winnipeg.
Direction 5: Provide or facilitate community development and recreation opportunities for vulnerable youth.

03-1 OPPORTUNITY
Direction 3: Work with community partners to foster an inclusive and equitable community.

03-2 VITALITY
Direction 6: Promote cleanliness and beautification.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

Strategic Opportunity #3 - Advancing Sustainable Transportation – Increasing Mobility Options and Shift to Zero Emission Vehicles
Key Direction 3.2 - Increase the Density of Urban Development Along Key Transit Corridors

Strategic Opportunity #4 - Facilitate Compact, Complete Development and Increase Density
Key Direction 4.1 - Increase Strategic Infill Development that Provides Access to and Capitalizes on Existing and Planned Corridors with Frequent Transit Service
Key Direction 4.3 - Pursue Transit-Oriented Development
Key Direction 4.4 - Support Redevelopment of Former Commercial and Industrial Lands into Active Use

SUBMITTED BY

Department: Office of the Chief Administrative Officer
Division: N/A
Prepared by: Michael A. Jack
Date: July 10, 2020

Attachments:

Schedule A – January 17, 2020 Letter from Starlight Investment with Altus Group Economic Consulting Economic Impact Assessment

Schedule B – Community Benefits Overview

Schedule C – May 16, 2020 Government of Manitoba News Release