Agenda – Executive Policy Committee – June 15, 2022

REPORTS

Item No. 21 Contribution Towards Redevelopment of the Former Hudson's Bay Company Building Located at 450 Portage Avenue

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That a Tax Increment Financing grant to Southern Chiefs' Organization Inc. in respect of 450 Portage Avenue be approved and that the grant be an annualized payment equal to 80 percent of incremental municipal property taxes for 25 years, beginning after September 1 of the year after the year in which an occupancy permit is issued and a final assessment is attained for the entire property, on condition that Southern Chiefs' Organization Inc. enters into an agreement with the City in a form acceptable to the City Solicitor/Director of Legal Services .

2. That a grant of up to $350,000 be approved to reimburse Southern Chiefs' Organization for the estimated cost of permit and planning fees paid on this project.

3. That, subject to approval of Recommendation 2, an offsetting transfer from the Permit Reserve Fund to the current budget of the Planning, Property and Development Department, be approved.

4. That the City enter into, execute and deliver a Tax Increment Financing grant agreement with Southern Chief' Organization Inc. and such other agreements as determined necessary by the Director of Legal Services and City Solicitor to implement the intent of the forgoing (the "Ancillary Agreements").

5. That authority be delegated to the Chief Financial Officer to negotiate and approve the terms and conditions of the Tax Increment Financing 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.

6. That the Public Service report back to Council within the next two years on sidewalk and streetscaping improvements and the condition of the areaways associated with this project.

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

ADMINISTRATIVE REPORT

Title: **Contribution Towards Redevelopment of the Former Hudson's Bay Company Building Located at 450 Portage Avenue**

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Dryburgh	M. Jack	C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The Hudson's Bay Company has transferred ownership of its building located at 450 Portage Avenue to the Southern Chiefs' Organization (SCO). SCO is planning an approximately $135 million redevelopment of this building which is tentatively called "Wehwehneh Bahgahkinahgohn" meaning "it is visible" in Anishinaabemowin.

This project will include approximately 300 affordable and market housing units, a child care centre, a health and healing centre, a first nations museum, art gallery and two restaurants.

The Government of Canada has announced approximately $65 million through forgivable and low-interest loans and the Province of Manitoba has announced a contribution of $35 million for this project. SCO has requested the City provide the following support for this project (SCO's detailed request to the City is attached in Appendix A):

- A Tax Increment Financing (TIF) grant for 25 years;
- Expedited permit and planning services and a reimbursement of the fees paid for these services;
- Sidewalk and streetscaping improvements in proximity to this building once the project is expected to be completed in 2025; and
- A contribution to potential repairs to the areaways which are hollow spaces located underneath the public sidewalks along the north, east and west sides of this building.

The Public Service is requesting Council approve a TIF grant to SCO equal to 80 percent of the incremental municipal property taxes generated from the redeveloped building for 25 years. This TIF grant carries an estimated average annual value of $387,633 for SCO and reflects the maximum TIF term available for a Transformational Development under the recent Council approved TIF Policy.

The Public Service is also requesting Council approve a further grant to SCO of up to $350,000 based on the estimated permit and planning fees to be paid by SCO on this project.

The scope and cost of any required repairs to the areaways, sidewalk and streetscaping improvements in proximity to this building requires further review. As such, the Public Service will continue working with SCO on these aspects of the project and is recommending that a report on these matters be brought forward for Council's consideration within the next two years.

RECOMMENDATIONS

1. That a Tax Increment Financing grant to Southern Chiefs' Organization Inc. in respect of 450 Portage Avenue be approved and that the grant be an annualized payment equal to 80 percent of incremental municipal property taxes for 25 years, beginning after September 1 of the year after the year in which an occupancy permit is issued and a final assessment is attained for the entire property, on condition that Southern Chiefs' Organization Inc. enters into an agreement with the City in a form acceptable to the City Solicitor/Director of Legal Services .

2. That a grant of up to $350,000 be approved to reimburse Southern Chiefs' Organization for the estimated cost of permit and planning fees paid on this project.

3. That, subject to approval of Recommendation 2, an offsetting transfer from the Permit Reserve Fund to the current budget of the Planning, Property and Development Department, be approved.

4. That the City enter into, execute and deliver a Tax Increment Financing grant agreement with Southern Chief' Organization Inc. and such other agreements as determined necessary by the Director of Legal Services and City Solicitor to implement the intent of the forgoing (the "Ancillary Agreements").

5. That authority be delegated to the Chief Financial Officer to negotiate and approve the terms and conditions of the Tax Increment Financing 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.

6. That the Public Service report back to Council within the next two years on sidewalk and streetscaping improvements and the condition of the areaways associated with this project.

7. That the Proper officers of the City be authorized to do all things necessary to implement the intent of the forgoing.

REASON FOR THE REPORT

Council approval is required for the City to provide a TIF grant and a grant to reimburse SCO for the permit and planning fees incurred on this project and to enter into agreements for these purposes.

IMPLICATIONS OF THE RECOMMENDATIONS

If the recommendations of the Winnipeg Public Service are concurred in, a municipal TIF grant and a grant to reimburse SCO for permit and planning fees will assist SCO to realize its redevelopment vison for the former Hudson's Bay Building located at 450 Portage Avenue.

HISTORY / DISCUSSION

The Hudson's Bay Company (HBC) Building located at 450 Portage Avenue opened in 1926 as one of the most important commercial buildings in downtown Winnipeg at a critical time in the City's history. At the time this building opened it was considered to be the flagship store for HBC and was the largest poured reinforced concrete building in Canada.

The HBC Building received historical designation from the City in March 2019. This designation addresses key features of the building including the exterior limestone cladding, the canopy along the east west and north facades as well as the curved elevator lobby inside of the building.

Starting in approximately 2000, HBC's retail footprint began to shrink at its downtown location from 6 to 2 floors and on November 30, 2020 this store was permanently closed.

In December, 2020 Mayor Bowman convened an advisory committee comprised of City staff, community stakeholders and a representative from HBC to explore potential alternative uses for the downtown HBC building. During this time, SCO began discussions with HBC on this building which resulted in its transfer to SCO which was announced on April 22, 2022. For clarity, this transfer only includes HBC's former retail building and not the adjacent parkade.

The transfer of the HBC building to SCO marks a significant act of economic and social reconciliation with indigenous people and a major revitalization project for Winnipeg's downtown. This project has been tentatively called "Wehwehneh Bahgahkinahgohn" meaning "it is visible" in Anishinaabemowin.

This project will involve an investment of approximately $135 million and includes the following key features:

- Approximately 300 housing units with a mix of affordable and market units including a number of fully accessible ones;
- A health and healing centre;
- A child care centre;
- A first nations museum, art gallery and two restaurants; and
- Energy efficient features that will reduce the building's energy consumption and greenhouse gas emissions.

SCO has received a commitment of $65 million from the Government of Canada from the National Housing Strategy's National Co-Investment Fund through forgivable and low-interest loans. SCO has also received a commitment of $35 million from the Province of Manitoba for this project including a $25 million contribution to support the heritage elements of the building and a $10 million contribution to support the affordable housing component. SCO will secure the remaining funds required for this project through other sources.

This project is expected to begin in the fall of 2022 with the first residents moving in during the fall of 2025.

TIF Grant:

In February 2022 Council approved a TIF policy which allows the City to provide a grant of 80 percent of incremental municipal property taxes for up to 25 years to support a Transformative Development. The Policy defines a Transformative Development to include:

- Significant construction of a new building or redevelopment of an existing privately-owned building located downtown or a Reinvestment Area of the City that is publicly accessible;
- A minimum investment of $100 million from government and non-government sources; and
- A project that can increase the value of properties adjacent to the development.

Transformative Developments must also demonstrate a need for the TIF support as well as significant financial support from other levels of government. The Policy does not limit the total dollar value of City TIF support for Transformative Developments but does limit the TIF grant for a Transformative Development to 80 percent of the incremental municipal property taxes for 25 years. All TIF grants for Transformative Developments require Council approval.

The redevelopment of the HBC building has an estimated budget of $135 million which is greater than the minimum $100 million capital investment threshold for a Transformative Development and SCO has already received substantial funding commitments from other levels of government for this project.

Based on a review of SCO's financial plan for this project the Public Service believes that a municipal TIF grant for the maximum term in the TIF policy is required to help support the remaining financing requirements for this project and to assist SCO in realizing its full re-development vision for this building.

The Public Service is therefore recommending that Council approve a TIF grant equal to 80 percent of the incremental municipal property taxes for 25 years to support this project.

If approved by Council, the annual TIF grant will be equal to 80 percent of the difference between the municipal property taxes on the redeveloped property the year after the first occupancy permit is issued and a final assessment is attained which is expected to be 2026 (and each subsequent year thereafter) and the municipal property taxes paid on the property in 2022 (the year of the TIF approval). This is consistent with the TIF policy and how previous City TIF grants have been calculated.

The estimated increase in assessed value, taxes and annual TIF grant for this project are as follows:

	Current Building	Re-developed Building	Increase	Estimated Average Annual TIF Grant (2026-2050)
Assessed Value	$7,052,000	$58,204,000	$51,152,000	-
Municipal Property Taxes	$61,735	$411,123	$349,388	$387,633

Notes: The estimated average annual TIF grant is calculated as the 25 year average (2026-2050) of 80 percent of the increase in the municipal property taxes shown above, which are based on a 2022 property assessment, the 2022 mill rate, and an annual inflation rate of 2 percent.

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

The City of Winnipeg will receive a return equal to the remaining 20 percent of the incremental municipal property taxes generated from this project which are estimated to average approximately $97,000.00 per year during the 25 year TIF period. SCO will also be responsible for paying any other applicable taxes and levies on the redeveloped building during the TIF period. After the 25 year TIF period the City will realize 100 percent of the municipal property taxes and any other municipal taxes and levies payable on this property.

The economic impact of this project estimated by the City's Economic Development Office includes the creation of 1,007 person years of employment during construction, an increase to Provincial GDP of $79.4 million and incremental tax revenue of $9.5 million for the Province of Manitoba and $11.4 million for Canada also during the construction phase. The Economic Development Office also estimates that this project has the potential to slightly increase the assessed value of properties located in proximity to this development once it is complete, which is based on research conducted regarding the impact that previous City TIF arrangements for projects in the downtown have had on adjacent property values.

Permit and Planning Fees:

The Public Service estimates the total permit and planning fees on this project to be approximately $350,000, which it is recommended be granted back to SCO.

There is recent precedent for Council approving a reimbursement of similar fees having most approved a reimbursement of $400,000 for the estimated permit and planning fees associated with a proposed redevelopment of Portage Place mall.

If approved by Council, the Public Service will enter into a grant agreement with SCO to a maximum of $350,000 to be disbursed over the duration of the project based on the actual permit and planning fees paid.

The Public Service is also actively working with SCO to ensure that all permit and planning requirements for this project are addressed on a priority and timely basis while respecting the City's existing processes, recognizing the complex and strategic importance of this project.

Streetscaping, Sidewalk Improvements and Areaways:

SCO is requesting consideration of sidewalk and streetscaping improvements on the four sides of the building including around the adjoining parkade and adjacent streets. Items under consideration include trees, including vault infrastructure, replacement of existing curb and concrete with paving stones, pedestrian lighting, universal design upgrades, specially imprinted maintenance hole covers and public art. This will not be required until the project is complete in 2025. The Public Service will continue to work with SCO on the details of an appropriate streetscaping and sidewalk improvement program for this project.

The HBC building includes areaways on the north, east and west sides of the building which are hollow spaces located underneath the public sidewalks. The width of these areaways range from 10 to 18 feet beyond the perimeter walls of the building.

There is temporary shoring under the west areaway roof slab which is the concrete slab of the west sidewalk. There is no immediate safety risk to the public with the condition of these areaways although there is merit to further exploring their condition in more detail as this project moves forward. The Public Service will explore this aspect of the project with SCO and is recommending that a report be brought forward for Council's consideration within the next two years on the areaways as well as sidewalk and streetscaping improvements in proximity to this building.

FINANCIAL IMPACT

Financial Impact Statement

Date: May 26, 2022

Project Name:

Contribution Towards Redevelopment of the Former Hudson's Bay Company Building Located at 450 Portage Avenue

First Year of Program 2022

	2022	2023	2024	2025	2026-2050
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants					
Reserves, Equity, Surplus					
Other					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 116,667	$ 116,667	$ 116,667	$ -	$ 9,690,825
Less: Incremental Revenue/Recovery	116,667	116,667	116,667	-	12,113,531
Net Cost/(Benefit)	$ (0)	$ (0)	$ (0)	$ -	$ (2,422,706)
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (0)	$ (0)	$ (0)	$ -	$ (2,422,706)

Additional Comments:

Direct costs for 2022 to 2024 represent estimated cost of the grant to offset the permit and planning fees on the project. Incremental revenue/recovery represents the amounts collected from the Southern Chiefs' Organization for permit and planning fees. In 2022, a budget amendment will be processed to increase permit revenues and grants expense by an equivalent amount. in 2023 & 2024, the permit fee revenue budget in Planning, Property and Development (PPD) will be increase by assumed amount of $116,667 and, consist with Council direction, will be transferred to the Permit Reserve (i.e. increase to PPD's expenses). In order to offset mill rate support requirements, it is recommended that an equivalent amount be transferred back to transferred back to PPD to offset the grant expense. There is no net mill rate impact associated with the grant.

Direct costs for 2026 to 2050 represent the estimated tax increment financing grants to be paid. Grants are limited to 80% of incremental municipal property tax generated from the redeveloped building for 25 years. The incremental revenue/recovery represents the estimated incremental property taxes generated by the project. It is estimated that the City will retain $2,422,706 of total incremental municipal property taxes over the entire term of grant from 2026 to 2050. The approved redevelopment is expected to generate $620,460 of property tax revenue for the City annually after the last grant is paid in 2050.

Estimates were based on the 2022 assessment roll with 2% annual rate of inflation. Final assessment values and related taxes can only be calculated upon completion of projects. As such, the amount and timing of municipal taxes arising from the project are subject to many different variables and may vary from these estimates.

Jocelyn Peters - May 26, 2022

Jocelyn Peters, CPA, CGA
Manager of Finance and Administration

CONSULTATION

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

- Corporate Finance
- Property, Planning and Development
- Assessment and Taxation
- Legal (as to legal issues)

OURWINNIPEG POLICY ALIGNMENT

Economic Prosperity - 3.6 Downtown Economic Investment. Prioritize the Downtown by leveraging private and public investments, including housing, entrepreneurship, arts, entertainment, and tourism, that advance its status as an economic driver.

WINNIPEG CLIMATE ACTION PLAN ALIGNMENT

4.1 – Increase strategic infill development that provides access to and capitalizes on existing and planned corridors with frequent transit service.

WINNIPEG POVERTY REDUCTION STRATEGY ALIGNMENT

Affordable Housing Life Pole and Goal 2: The City actively plans for and partners in affordable housing.

SUBMITTED BY

Department: Office of the Chief Administrative Officer
Prepared by: Matt Dryburgh Senior Manager, Economic Development and Policy
Date: May 26, 2022