Agenda - Executive Policy Committee - July 7, 2004

REPORTS

Item No. 4 Heritage Conservation Tax Credit - Bedford Building, 275-281 McDermot Avenue
File G-3.1.5

ADMINISTRATIVE RECOMMENDATION:

1. That Council:

    A. Approve a Heritage Conservation Tax Credit of up to a maximum $500,000, to undertake conservation and rehabilitation work on the Bedford Building and to be utilized by the owner over a maximum ten-year period following completion of the project, subject to the owner beginning the work on or before January 1, 2005 and completing the work on or before January 1, 2007;

    B. Require the owner to retain and preserve original and significant material as a condition of the grant;

    C. Approve the Heritage Investment Reserve as the source of funding;

    D. Approve the Heritage Conservation Tax Credits pending further approval by the Historic Winnipeg Advisory Committee and Downtown Design Board on the exact means for rehabilitating the building's exterior entrances as outlined in the Applicants January 2003 Conservation Report; and

    E. Require that no work may proceed without design/heritage approval and/or prior to the issuance of all relevant development permits.

2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council.

3. That the Proper Officers of the City do all things necessary to effect the intent of the foregoing.

Re: REQUEST FOR A HERITAGE CONSERVATION TAX CREDIT FOR THE BEDFORD BUILDING, 275-281 MCDERMOT AVENUE

For submission to: **Executive Policy Committee**

Original report signed by: **Director of Planning, Property and Development**

Report date: June 16, 2004

Recommendation(s):

1. That City Council:
    a) approve a Heritage Conservation Tax Credit of up to a maximum $500,000, to undertake conservation and rehabilitation work on the Bedford Building and to be utilized by the owner over a maximum ten-year period following completion of the project, subject to the owner beginning the work on or before January 1, 2005 and completing the work on or before January 1, 2007,
    b) require the owner to retain and preserve original and significant material as a condition of the grant;
    c) approve the Heritage Investment Reserve as the source of funding;
    d) approve the Heritage Conservation Tax Credits pending further approval by the Historic Winnipeg Advisory Committee and Downtown Design Board on the exact means for rehabilitating the building's exterior entrances as outlined in the Applicants January 2003 Conservation Report; and;
    e) require that no work may proceed without design/heritage approval and/or prior to the issuance of all relevant development permits.
2. That the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council; and,
3. That the Proper Officers of the City do all things necessary to effect the intent of the foregoing.

REPORT SUMMARY

Key Issues:

- The owners of the Bedford Building wish to rehabilitate this major heritage landmark building at an estimated cost of $9,280,000.
- The building had previously been provided with $150,000 in heritage grants under the Winnipeg Development Agreement Program 13A.
- The owner has applied for a multi-phased tax credit of $2,782,007 in Heritage Conservation Tax Credits.
- The owner estimates that they will undertake $5,564,014 in eligible conservation and renovation work on the structure.

- The administration is recommending a reduced Heritage Conservation Tax Credit to a maximum of $500,000, based upon the estimated future municipal portion of realty and business taxes following restoration.

Implications of the Recommendation(s):

General implications:

	None
	For the organization overall and/or for other departments
X	**For the community and/or organizations external to the City of Winnipeg**
X	**Involves a multi-year contract**

Comment(s):

- This Report recommends a Heritage Conservation Tax Credit to Bedford Investments
- Heritage Conservation Tax Credits may be allocated over a maximum ten year period.

Policy implications:

X	**No**
	Yes

Comment(s):

-

Environmental implications:

X	**No**
	Yes

Comment(s):

-

Human resources implications:

X	**No**
	Yes

Comment(s):

-

Financial implications:

X	**Within approved current and/or capital budget**
	Current and/or capital budget adjustment required

Comment(s):

- The Heritage Conservation Tax Credit (HCTC) as shown within the Financial Impact Statement can be accommodated within the Heritage Investment Reserve.

- The HCTC would be available for use by the applicant over a maximum ten year period.
- Per Council policy, the incremental portion of the Municipal portion of the tax received from this project will be redirected to the Heritage Investment Reserve until the investment is repaid.

REASON FOR THE REPORT:
In January 2003 Bedford Investments made an initial application to the Planning, Property and Development Department for a Heritage Conservation Tax Credit (HCTC) under By-law 7155/98 (as amended) for 275-281 McDermot Avenue, the Bedford Building.

City Council retains sole responsibility for accepting or rejecting applications and for approving the amount of tax credit to be allocated to each authorized project.

HISTORY:
On December 5, 1983, the City of Winnipeg, recognizing the major significance of this structure, listed the Bedford Building, 275-281 McDermot Avenue on the Buildings Conservation List under the terms of the Historical Buildings By-law 1474/77 (as amended) as a Grade III structure.

DISCUSSION:
Background:
The Bedford Building was one of several downtown facilities erected over the decades by a pioneer dry goods wholesale firm known originally as Kew, Stobart and Co. The enterprise was started in Winnipeg in 1872 by F.E. Kew, a long-time London agent for the Hudson's Bay Co. Two years later, he struck a partnership with D.W. Stobart. When Kew retired in 1877, A.F. Eden became one of the principals of the renamed Stobart, Eden and Co. The firm managed a large western wholesale and contract supply business. It also operated some trading posts and stores, and became one of the early marketers of prairie grain crops. Its original office facility was built in 1876 on Main Street, then moved to Portage Avenue and Smith Street. By the time of the move into the warehouse district in 1903, the firm was known as Stobart, Sons and Co. and was headed by F.W. Stobart. Continued growth was reflected in the 1907 expansion of the McDermot Avenue warehouse and in the development of a second facility nearby in 1910. Later in the 1910s, however, Stobart's made an unsuccessful foray into the mail order business. Ensuing financial difficulties forced the company to close after nearly 50 years of activity. Its McDermot warehouse was later occupied by wholesalers associated with the garment trade. In more recent times, the premises have housed Reiss Furs and Outerwear.

Originally five storeys in height, this warehouse has a raised and rusticated stone foundation and exterior load-bearing brick walls faced with brick and rough-cut limestone accents. Two upper floors were added in 1907. The foundation, exterior walls, structural support, roof, and exterior finishes are considered in good condition. However, work is required on windows and interior

life safety and operating systems to bring the building up to contemporary code and occupancy standards. The premises currently house retail, and office uses.

Previous Heritage Incentives

The Bedford Building has previously received one Heritage Incentive Grant as follows:

WDA 13A – Phase II	Total amount	$150,000
? window replacement		
? electrical upgrade		

The Heritage Conservation Tax Credit (HCTC) Program

The HCTC incentive strategy was adopted by City Council in 1998 on a pilot basis for three years with a review during the third year. The purpose of the program was to assist a limited number of projects selected for their ability to:

- increase property assessment values; and
- fulfill functions not likely to be displaced from other parts of the city.

Another criteria that has been established previously by Council is that heritage incentives should be used primarily for vacant or underutilized heritage buildings.

Council retains sole responsibility for accepting or rejecting applications and for setting the amount of tax credit to be allocated to each authorized project.

To date, Council has approved the following tax incentives under this program:

Building Name	Work	Amount of Incentive	Status
Former Free Press Building, 300 Carlton St.	exterior restoration	up to $400,000	work complete
Marshall Wells Building, 136 Market Avenue	interior upgrade	up to $3 million	work complete
Portage Village Inn, 311 Portage Ave. (A&B Sound)	interior upgrade	up to $835,000	work complete
146-164 Princess Street (Red River College)	downtown technical campus	up to $15 million	work complete
211 Bannatyne Avenue (formerly 476 Main Street, J.H. Ashdown Hardware Store	commercial offices, studios, and artists live / work spaces	up to $1.715 million	work complete
222 Broadway, Hotel Fort Garry	interior upgrade	$2.68 million	work underway
500/504 Main Street, Union Bank Tower and Annex	restoration & rehabilitation	$2 million	work pending
361 Hargrave Street, former Film Exchange Building	rehabilitation & construction of addition	$800,000	work complete
167 Lombard Avenue, Grain Exchange Building	rehabilitation & restoration	$765,000	work underway
228 Notre Dame, The Lindsay Building	rehabilitation and restoration	$110,000	work complete
283 Bannatyne Avenue, Travellers	conservation and	$250,000	work underway

Building	rehabilitation work		
130-132 James Avenue, Victor Fox Foods Building	conservation and rehabilitation work	$250,000	work pending
331 Smith Street, The Ramada Marlborough Hotel	rehabilitation and restoration	$405,300	work underway

The value of an approved tax credit may be up to 50% of the net private investment made in eligible work. This credit may be used at a recipient's discretion over a maximum 10-year period to reduce the property, business and, in specific circumstances, the amusement taxes levied by the City on the structure and its site.

Scope of Work

The program is intended to support work that:

- conserves significant architectural or other heritage elements; and/or
- repairs and stabilizes City-designated structures;
- extends the life of such structures;
- rehabilitates space to meet contemporary requirements, but in the process makes minimal changes to a structure's historical integrity, including its defining design characteristics, site and environment.

Based on a submitted Conservation Report, the applicants advise that subject to an HCTC and a lead tenant, that they will invest approximately $9.3 million to upgrade the Bedford Building. The current vacancy rate is 82%. The HCTC is needed to redevelop the existing premises to current state-of-the-art standards.

The work that they propose to do will ensure that the exterior architectural elements are repaired and have a long-term life expectancy. The work proposed will make minimal impact on the historical integrity of the building.

Eligible Work

The applicants propose to rehabilitate the Bedford Building to provide a completed base building for tenant improvement by individual users. Work is to start before January 1, 2005 and be complete by January 1, 2007.

Exterior Work:

- repair and paint cornice
- new entrance to be built along King Street
- new roof
- new windows in new opening
- new exterior doors
- new loading dock on north side

Interior Work:

- upgrade original building elements, including staircases, washrooms and ceiling
- upgrade interior base building for new tenant
- new mechanical system including heating, air, plumbing

- new fire protection
- new electrical system
- new elevators

FINANCIAL IMPLICATIONS:
The owners propose to invest approximately $9,280,000 to restore this building with proposed eligible work estimated at $5,564,014. The owner has requested an HCTC of $2,782,007 (50% of eligible costs). The administration recommend a lesser HCTC of $500,000 based upon our estimates of the future municipal portion of property and eligible business taxes for the restored and fully occupied building and property.

The owners had previously been awarded a $150,000 grant under WDA Program 13A- Phase II towards upgraded windows and electrical system.

Existing 2004 Tax Year information

Total Assessment	Portioned Assessment	Municipal Portion Realty Taxes
$ 581,000	$ 377,650	$11,211
Business Taxes	$ 1,597	

Tax Information following Redevelopment

Total Assessment Estimated	Portioned Assessment Estimated	Municipal Portion Realty Taxes Estimated
$2,600,000	$1,690,000	$50,169
Business Taxes (estimated)	$55,575	

The estimated assessed value of the property will therefore increase by approximately 4.5 times while the estimated municipal portion of realty and business taxes will increase approximately 8.25 times.

The Administration would therefore recommend an HCTC for approximately the same value of the municipal portion of realty taxes over a ten year period. The proposed total heritage incentive package ($650,000) is approximately 7% of the total value of the project ($9,280,000). The heritage incentives would therefore lever an approximate 14.25:1 private to public investment, which is within the more favorable range for these types of projects.

The Administration also recommend that the Chief Administrative Officer be authorized to finalize and approve the terms and conditions of all agreements required to implement matters as directed by Council. This project is being proposed without a future tenant in place. The Administration wish to ensure that the restoration work begins and ends in a timely manner so that the Tax Credit authority within the Heritage Investment Reserve is not held indefinitely. In this regard, the Administration will prepare a Heritage Agreement that requires the Applicant to begin and complete the work within a two year timeframe, that is, the work must be started on or before January 1, 2005 and completed on or before January 1, 2007. In the event of non-performance by the Applicant, the HCTC would expire.

The future property taxes as estimated will largely be new (incremental) revenues to the City of Winnipeg. Council policy requires that incremental taxes attributable to this project be redirected to the Heritage Investment Reserve until it's capacity is restored. As such, the HCTC recommended within this Report can be accommodated within the Heritage Investment Reserve.

Financial Impact Statement

Date: June 11, 2004

Project Name:

Request for a Heritage Conservation Tax Credit for the Bedford Building, 275/281 McDermott Avenue

First Year of Program 2005

	2005	2006	2007	2008	2009
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	$ -	$ 92,936	$ 92,936	$ 92,936	$ 221,192
Less: Incremental Revenue/Recovery	92,936	92,936	92,936	92,936	128,256
Net Cost/(Benefit)	$ (92,936)	$ -	$ -	$ -	$ 92,936
Less: Existing Budget Amounts					
Net Budget Adjustment Required	$ (92,936)	$ -	$ -	$ -	$ 92,936

Additional Comments:

It is assumed that incremental revenues will begin accruing to the City in 2005 and corresponding expense in 2006. Direct costs are realty and business taxes foregone by the City. It is assumed that the portioned assessment, annual rental value, mill rate and business tax levy are constant for the 6-year timeframe of this analysis. Revenues represent incremental realty and business tax revenues based on the same assumptions. Over the course of the 6-year period, net revenues are equally offset by net expenditures so there is no impact on the current budget. The $500,000 credit will be financed entirely by the Heritage Investment Reserve Fund.

"Original Signed By"
Mike McGinn, CA
Manager of Finance

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY: LEGAL SERVICES, CORPORATE FINANCE (TAXATION), PROPERTY ASSESSMENT, AND CENTREVENTURE

THIS REPORT SUBMITTED BY:

Planning, Property and Development Department
Division: Planning and Land Use / Office of the Director
Prepared by: Giles Bugailiskis / Jim Paterson
PPD File #: HTC 12-2003

Document name: O:\Reports Directive\Office of the Director\Downtown Manager\HCTC request-281 McDermot- Bedford Bldg.doc