Agenda – Executive Policy Committee – May 16, 2023

REPORTS

Item No. 18 Tax Increment Financing Grant under the Heritage and Economic Development Incentive Program for the redevelopment of 138 Portage Avenue East (Point Douglas Ward)

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That a Tax Increment Financing grant in the amount of 80 percent of the annual incremental municipal property taxes for up to 10 years and to a maximum of $1.4 million to 138 Portage Avenue E. Inc. in respect of 138 Portage Avenue East be approved in accordance with this report and the Heritage and Economic Development Incentive Program By-Law No. 64/2022.

2. That authority be delegated to the Senior Manager of Economic Development and Policy to adjust the maximum amount, as per HEDI guidelines, of the Tax Increment Financing Grant in Recommendation #1 above, if required, based on the result of an appeal before the Municipal Board with respect to the 2023 property assessment of 138 Portage Avenue East.

3. That the City enter into, execute and deliver a grant agreement with 138 Portage Avenue E. Inc. 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"), and that authority be delegated to the Senior Manager of Economic Development and Policy 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 be authorized to do all things necessary to implement the intent of the foregoing.

ADMINISTRATIVE REPORT

Title: Tax Increment Financing Grant under the Heritage and Economic Development Incentive Program for the redevelopment of 138 Portage Avenue East

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	CAO
M. Dryburgh	M. Jack	L. Pablo, acting for C. Kloepfer	M. Jack

EXECUTIVE SUMMARY

The Public Service is requesting Council approve a Tax Increment Financing (TIF) grant under the Heritage and Economic Development Incentive (HEDI) Program in the amount of 80 percent of the annual incremental municipal property taxes for up to 10 years and to a maximum of $1.4 million from the redevelopment of 138 Portage Avenue East. Approval of this TIF grant would be subject to the applicant securing mortgage loan insurance from Canada Mortgage and Housing Corporation (CMHC) for this project.

138 Portage Avenue East is a designated Heritage Building located near the intersection of Portage Avenue and Main Street. This project involves an estimated $36.4 million redevelopment of the building and adjacent surface parking lot into approximately 146 rental housing units and commercial space.

The HEDI program provides municipal TIF grants for projects in the downtown that involve the restoration of heritage buildings, re-development of surface parking lots as well as new and expanded businesses. The HEDI program allows the Public Service to approve TIF grants of up to $1 million per project over 10 years with Council approval required for all TIF grants exceeding $1 million, to a maximum of $2 million per project.

The developer of this project is also seeking mortgage loan insurance from CMHC that will allow access to a lower borrowing rate and an extended mortgage amortization term. Municipal TIF support is required to assist the applicant to qualify for the mortgage loan insurance from CMHC.

The owner of this property is currently appealing their 2023 property assessment to the Municipal Board. If this appeal results in a change to the 2023 assessment and associated property tax liability, it will change the TIF grant that they are eligible to receive under the HEDI program. Therefore, the Public Service is requesting delegated authority to adjust the maximum TIF grant of $1.4 million for this project in the future, within the grant limits set out in the HEDI program, depending on the result of this appeal.

RECOMMENDATIONS

1. That a Tax Increment Financing grant in the amount of 80 percent of the annual incremental municipal property taxes for up to 10 years and to a maximum of $1.4 million to 138 Portage Avenue E. Inc. in respect of 138 Portage Avenue East be approved in accordance with this report and the Heritage and Economic Development Incentive Program By-Law No. 64/2022.

2. That authority be delegated to the Senior Manager of Economic Development and Policy to adjust the maximum amount, as per HEDI guidelines, of the Tax Increment Financing Grant in Recommendation #1 above, if required, based on the result of an appeal before the Municipal Board with respect to the 2023 property assessment of 138 Portage Avenue East.

3. That the City enter into, execute and deliver a grant agreement with 138 Portage Avenue E. Inc. 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”), and that authority be delegated to the Senior Manager of Economic Development and Policy 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 be authorized to do all things necessary to implement the intent of the foregoing.

REASON FOR THE REPORT

Pursuant to the Heritage and Economic Development Incentive Program By-Law No. 64/2022, Council approval is required for the City to provide a Tax Increment Financing (TIF) grant for a project under the Heritage and Economic Development Program (HEDI) that exceeds $1 million.

IMPLICATIONS OF THE RECOMMENDATIONS

If the recommendations of the Winnipeg Public Service are concurred in, a municipal TIF grant will assist the owner of 138 Portage Avenue East to redevelop this property.

HISTORY / DISCUSSION

138 Portage Avenue East is currently a vacant Heritage Building with attached surface parking located across Portage Avenue from the Fairmont Hotel, near the intersection of Portage Avenue and Main Street. This building has been vacant for many years and was a target of arson in 2019.

This project involves an estimated $36.4 million redevelopment of this building and the adjacent surface parking lot into approximately 146 rental housing units and commercial space.

The Heritage and Economic Development Program (HEDI) was approved by Council in 2022. It provides municipal Tax Increment Financing (TIF) grants for projects in the downtown that involve restoration of heritage buildings, re-development of surface parking lots as well as new and expanded businesses. This program allows the Public Service to approve TIF grants of up to $1 million over 10 years per project with Council approval required for TIF grants exceeding $1 million, to a maximum of $2 million per project.

This project addresses two of three policy objectives of the HEDI program including restoration of heritage buildings and redevelopment of surface parking lots. It also addresses the critical priority of creating more rental housing downtown. Although not a specific requirement of the HEDI program, this project will require a minimum of 10% of the residential units be rented at or below affordable rates for at least 10 years in order to qualify for mortgage loan insurance from CMHC.

Based on a review of the applicant's financial plan for this project, the Public Service recommends that a TIF grant of $1.4 million, which reflects 80 percent of the estimated incremental municipal property taxes generated from this project over 10 years, is required to help support the overall financing requirements for this project, including securing the mortgage loan insurance from Canada Mortgage and Housing Corporation (CMHC).

The municipal TIF would be provided subject to the applicant securing mortgage loan insurance from CMHC, which will provide the applicant with access to a lower borrowing rate and a mortgage amortization term of up to 50 years. This project will also benefit from the Province's planned 50 percent rebate of education taxes on residential property. All three of these measures are critical to the success of this project.

If approved by Council, the annual municipal TIF grant will be equal to 80 percent of the difference between the property taxes on the redeveloped property the year after the first occupancy permit is issued and a final assessment is attained which is estimated to be 2025 (and each subsequent year thereafter) and the property taxes paid on the property in 2023, to a maximum of $1.4 million.

The owner of this property is currently appealing their 2023 property assessment and the timing of a decision on this matter is unknown. If this appeal results in a change to the 2023 assessment and property tax liability it will result in a change (but likely not a significant change) to the maximum eligible municipal TIF grant for this project. As such, this report requests delegated authority be provided to the Senior Manager of Economic Development and Policy to change the maximum municipal TIF grant of $1.4 million for this project within the limits set out in the HEDI program, depending on the result of this appeal.

The HEDI program requires that projects are aligned with the Historical Resources By-law and the *Standards and Guidelines for the Conservation of Historic Places in Canada*. In December 2022, the project was reviewed by the City's Heritage Planner in consultation with the Historical Buildings and Resources Committee for compliance with these documents.

This project was approved in principle by the City's Heritage Planner with the condition that the design of the former main entrance be refined in order to be distinguishable and to demarcate its former use. This modification will be required as the project progresses to the heritage permitting stage.

FINANCIAL IMPACT

Financial Impact Statement

Date: April 21, 2023

Project Name:

First Year of Program **2025**

Tax Increment Financing Grant under the Heritage and Economic Development Incentive Program to support the redevelopment of 138 Portage Avenue East.

	2025	2026	2027	2028	2029-2034
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	$ 129,293	$ 131,879	$ 134,516	$ 137,207	$ 882,827
Less: Incremental Revenue/Recovery	161,616	164,849	168,146	171,508	1,103,534
Net Cost/(Benefit)	$ (32,323)	$ (32,970)	$ (33,630)	$ (34,301)	$ (220,707)
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ (32,323)	$ (32,970)	$ (33,630)	$ (34,301)	$ (220,707)

Additional Comments:

Direct costs represent the estimated tax increment financing grants to be paid between 2025 and 2034. Grants will be to a maximum of $1.4 million or 80 percent of the incremental municipal property taxes for up to 10 years generated from the re-development. The incremental revenue/recovery represents estimated incremental property taxes generated by the project. It is estimated the City will retain $353,931 of total incremental municipal property taxes over the entire term of grants from 2025 to 2034. Approved developments are expected to generate $217,044 of property tax revenue for the City annually after the final grant is paid in 2034.

Estimates were based on the 2023 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 Policy are subject to many different variables and may vary from these estimates.

Lioubov Gavrilova- Crozier, April 21, 2023

Lioubov Gavrilova- Crozier, CPA, CA
Manager of Finance and Administration
Campus Departments

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 Services

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: April 24, 2023