MM55.51 - Confidential Attachment 1 - made public on May 18, 2022

Attachment 1 – Confidential Information

Guild Inn - Revitalization and Development of Restaurant and Banquet Centre Facilities

Date:	August 20, 2014
To:	City Council
From:	Chief Corporate Officer General Manager, Economic Development and Culture General Manager, Parks, Forestry and Recreation

CONFIDENTIAL INFORMATION

Background

The Project has evolved from what was originally proposed by GIE as various City divisions have provided input throughout the consultation process. These changes have had a material impact on the Project costs and its economic viability. The cost of the Project for GIE has increased from $7 million to over $9 million.

The business terms originally negotiated by staff and approved by Council reflected the principle that a substantial portion of the Project will be designated as a Municipal Capital Facility ("MCF") with the result that those portions designated for City and community use shall be exempt from property taxes. There is, however, a risk that the community and City use of the Project may be insufficient to retain the MCF property tax exemption, in which case the whole of the Project would then be reclassified as taxable.

If the MCF tax exemption is not in place, the transaction would no longer be economically feasible for GIE.

To ensure that GIE will not be responsible for property taxes on the Eligible Property clarification regarding the payment of taxes is required. The City will be liable for taxes assessed on the Eligible Property and GIE will be responsible for taxes on the restaurant and ancillary space.

The Eligible Property will be made available to the public and permitted by the Parks, Forestry and Recreation Division. Economic Development and Culture also will be working with other City divisions, local residents and the arts community to develop a cultural precinct at the Guild Inn site restoring active arts and crafts programming.

Once constructed, the facility will not only provide rent revenue to the City but will also become a centre for community and City programs as well as a City-owned asset at the end of the 40 year term. The structure of the transaction as a whole benefits the community by providing cultural and recreational programming space to an area of the City that needs it. As the City has no budget to repair, restore or maintain the historically-significant infrastructure, this transaction will ensure that this infrastructure is available to future users of the Guild Park

Accordingly, an exemption from the development charges in connection with the proposed redevelopment of the Guild Inn site is sought so that it is financially viable for GIE to preserve the cultural heritage of the Guild Inn.

Additional Terms and Conditions of Sublease

Property Tax:	The Sublease shall be completely net and carefree to the City, insofar as GIE is using the leased lands as set out in the Original Authority. If MPAC does not return the exemption, in whole or in part, then the City shall be responsible for the payment of realty taxes on the Eligible Property or any portion of it which has become taxable. GIE shall, in any event, pay realty taxes on all space within the Project that is not a part of the Eligible Property.

Financial Impact

Capital

As identified in the previous staff report to the City Council at its meeting on April 1, 2 and 3, 2014, the City will be required to undertake certain capital work at the Guild Inn site with an estimated cost of $3.330 million. The scope of capital work includes (i) the demolition of wings and abatement of mold and asbestos, (ii) removal of oil tank, soil testing and remediation, (iii) parking lot replacement, and (iv) removal of existing garage and tennis court, as outlined in Table 1 below, should the project proceed.

Table 1

Budget Status	Scope of Work	Costs in Council Approved April 2014 Report	Revised Costs August 2014	Increase (decrease)
2013 Council Approved Capital Budget	Demolition of Wings and abatement of mold and asbestos	$700,000	$700,000	$0
2014's 10-Yr Capital Plan	Parking Lot Work (complete replacement of 3,000 sq m existing asphalt paving @ $130 / sq m = $390,000. Resurface 2,100 sq m of esisting asphalt paving @ $75/sq m= $160,000 fees and approval = $130,000	$680,000	$680,000	$0
Subtotal		**$1,380,000**	**$1,380,000**	**$0**
2015 Requested Capital Budget	Oil Tank Removal and Soil Remediation (with a recommended contingency set at $500,000) including $0.150 million soil testing, certificates and approvals	$1,300,000	$1,600,000	$300,000
2015 Requested Capital Budget	Relocation of Parks service area and removal of existing garage and tennis courts	$650,000	$650,000	$0
Future Capital Budget	NPV of replacing the new parking lot in 20 years ($680,000 - inflation adjusted, discounted for PV)	$0	$409,710	$409,710
Subtotal		**$1,950,000**	**$2,659,710**	**$709,710**
Grand Total		**$3,330,000**	**$4,039,710**	**$709,710**

The latest estimates indicate that the project cost has increased by $0.710 million to $4.040 million, of which $0.3 million is due to the higher than anticipated cost of oil tank removal and soil remediation and $0.410 million is attributed to the cost of the parking lot replacement in the future which was not included in the original estimates.

Included in the 2014 Council Approved 10-Year Capital Budget and Plan for Parks, Forestry and Recreation (PF&R) is $1.380 million. The budget shortfall of $2.660 million to address the unforeseen capital work items such as the oil tank removal, soil remediation, relocation of Parks service area and removal of existing garage and tennis courts will be requested through the 2015 budget process in preparation for the revitalization and development project by GIE.

Should the project not proceed, some of the capital work at the site in relation to the new parking lot ($0.680 million), relocation of the Parks service area and removal of existing garage and tennis courts ($0.650 million) will no longer be required. The reduction of the project costs, however, would be partially offset by the cost of $1.0 million associated with the leasehold improvements for the Bickford House revitalization to make space useable. The total estimated project cost would be reduced from $4.040 million to $3.709 million.

Operating

PF&R will require additional staff to handle the increased landscape maintenance and snow clearing of new parking lots and driveway upon completion of the project at the Guild Inn site with an estimated cost of $0.1 million gross and net per annum. Funding will be addressed through the PF&R's Operating Budget submission in the future years.

Subject to the additional terms and conditions of the sublease with GIE, the City shall be responsible for the payment of property taxes on the eligible property if the Municipal Capital Facility ("MCF") exemption is not in place. PF&R would be required to pay the full amount of property taxes including the municipal and education portions, for a total of approximately $0.225 million with annual adjustments to reflect the change in the property value in future years. Funding will also be addressed through the PF&R's Operating Budget in the future years should the exemption not be granted.

Net Present Value Analysis

The original terms of the sublease had a projected total rent revenue over the 40 year term of approximately $8.7 million on a present value basis.

The proposed adjusted Terms and Conditions make it clear that the sublease would have property tax implications if the MCF tax exemption were repealed for any reason.
The amended lease would become a semi-gross lease and the City would be responsible for the payment of property taxes for the Eligible Property. Should the those property tax implications materialize, the City could be responsible for estimated annual property taxes of approximately $225,000 with annual adjustment to reflect the change in the property value in the future years, as mentioned above. This would reduce the total return to the City by an estimate of $5.1 million which includes the payment of the School Board portions and the forgone property tax revenues. As such, the total return to the City on a present value and risk adjusted basis could potentially decrease from $8.7 million to $3.6 million based on the proposed amended lease

Table 2 below illustrates the net present values of proceeding with the project versus not proceeding, from a financial / return on investment perspective. Excluding other non-financial benefits (e.g. revitalized building, public use of community space, activity in the park and area), the NPV of proceeding is $5.6, which includes $7.0 million value added for the construction of the building paid by GIE and to be transferred to the City at the end of the 40-year term. The NPV of not proceeding is a cost to the City of $3.709 million.

Table 2

	NPV @ 5%	Yrs 1-5	Yrs 6-10	Yrs 11-20	Yrs 21-40	Total
Rent Cash Flow	$8,709,673	$10,352	$967,407	$5,671,412	$24,821,463	$31,470,633
Tax Risk [1]	($5,147,681)	($1,170,909)	($1,292,778)	($3,003,221)	($8,123,538)	($13,590,446)
Tax Risk (Net) [2]	($2,573,841)	($585,455)	($646,389)	($1,501,611)	($4,061,769)	($6,795,223)
Net Risk Adjusted Cash Flow	**$3,561,992**	**($575,103)**	**$321,018**	**$4,169,802**	**$20,759,694**	**$24,675,410**

	Proceed	Not Proceed
Net Risk Adjusted NPV @ 5%	$3,561,992	
Construction Value Added by GIE [3]	$7,000,000	
Property Taxes on Non MCF Restaurant Portion [4]	$573,634	
Capital Cost [5]	($4,039,710)	($3,709,000)
Operating Cost [6]	($1,529,691)	
Net Risk Adjusted	**$5,566,225**	**($3,709,000)**

Notes:

[1] Total property taxes including City and School Board portions

[2] Adjustments of 50% paid to the School Board

[3] Estimated value of initial direct investment into buildings the City will inherit at end of term ($2M of $9 is non-recoverable soft costs). Agreement requires proponent to conduct reasonable level of SOGR so that facility will be fully functional when City takes over at end of term.

[4] Property taxes paid on restaurant is estimated at $75,000 – 50% would be kept by City

[5] Includes future SOGR(State of Good Repair) on City lands – assumed only for facilities above and beyond existing

[6] Estimate of $0.1 million per annum for maintenance (property tax implicaton not included)

Development Charges

An exemption from GIE paying development charges is sought as part of the MCF designation of the Eligible Property. Based on the current Non-Residential Development Charges Rate of $160.62 per square metre, the exemption of the said charges respecting the proposed development is estimated at $350,000 - $500,000 representing funds that will not be received by the City.

Developer Financing

As stipulated in the Letter of Intent (LOI), the Developer will, at agreed upon Project milestones, provide the City with evidence satisfactory to the Deputy City Manager and Chief Financial Officer of the Developer's financial ability to proceed with the project prior to commencing construction.