



**City of Kingston
Report to Council
Report Number 15-155**

To: Mayor and Members of Council
From: Cynthia Beach, Commissioner Corporate & Strategic Initiatives
Resource Staff: Paul MacLatchy, Director, Environment & Sustainable Initiatives
Date of Meeting: February 17, 2015
Subject: Brownfield Property Tax Financial Assistance - 1880551 Ontario Inc. - 720 Princess Street

Executive Summary:

This report is being brought forward at the request of the applicant, 1880551 Ontario Ltd., for approval of the Brownfields Financial Tax Incentive Program and Tax Increment-Based Rehabilitation Grant Program tax cancellations and tax rebates. The City's Community Improvement Plan for brownfield projects has been in effect since 2005, following approval by the Ministry of Municipal Affairs and Housing. The program allows the City to provide incentives, such as grants and property tax assistance to assist development proponents in rehabilitating and developing eligible brownfield properties.

The property is located at 720 Princess Street and is within Brownfield Project Area 1C, Williamsville Main Street, as approved by Council in March 2013. The project will see the remediation of soils contaminated as a result of previous commercial land uses, the preparation of Records of Site Condition in compliance with the requirements of the Ontario Ministry of the Environment and Climate Change and the construction of a new high density residential development. The application has been reviewed by staff and the project is considered to be eligible for financial assistance. Staff recommend the approval of the Tax Increment-Based Grant Program grant and request authorization to execute a Brownfield Site Agreement. Staff do not recommend the approval of the Brownfields Financial Tax Incentive for this project as the site will continue to operate a commercial business during the remediation.

Recommendation:

That Council approve the application by 1880551 Ontario Inc. for Tax Increment-Based Rehabilitation Grant Program assistance as described within Report to Council 15-155; and

That staff be directed to negotiate a Brownfields Site Agreement with the developer in a form satisfactory to the Director of Legal Services; and

That the Mayor and Clerk be authorized to execute the Agreement with 1880551 Ontario Inc.

Authorizing Signatures:

ORIGINAL SIGNED BY COMMISSIONER

**Cynthia Beach, Commissioner,
Corporate & Strategic Initiatives**

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Lanie Hurdle, Community Services	Not required
Denis Leger, Transportation, Facilities & Emergency Services	Not required
Jim Keech, President and CEO, Utilities Kingston	Not required
Desiree Kennedy, Chief Financial Officer & City Treasurer	

Options/Discussion:

Background

Brownfields are properties where past actions have resulted in actual or perceived environmental contamination and or derelict or deteriorated buildings. They may be vacant, abandoned or underutilized. They are usually, however not exclusively, former industrial or commercial properties. In order to be eligible for program benefits, the property must be in an approved project area. Conditions for the agreement are subject to Council approval with an analysis being provided by staff.

Under the terms of the City of Kingston's Brownfield Community Improvement Plan, the Brownfield Financial Tax Incentive and Tax Increment Rehabilitation Grant programs provide financial incentives for developers who clean-up and redevelop brownfield properties to higher land uses to meet objectives of the Official Plan and the Community Improvement Plan.

The Brownfields Financial Tax Incentive Program provides up to 36 months of relief from current property taxes while an approved property is undergoing remediation and redevelopment. The Tax Increment-Based Rehabilitation Grant Program provides a rebate of a portion of post-development property taxes so that eligible remediation expenses can be recovered by the developer once the property has been remediated and redeveloped as proposed. Repayment

for these costs only occurs after the remediation and development are complete and tax payments are received.

An application submitted by the owner of 720 Princess Street (1880551 Ontario Ltd.), requests financial benefits from the Brownfields Financial Tax Incentive Program and the Tax Increment-Based Rehabilitation Grant Program in order to assist with the remediation and redevelopment of the property. The property is within Project Area 1C of the City of Kingston's Brownfield Community Improvement Plan and is therefore eligible to apply for these benefits.

1880551 Ontario Ltd. previously submitted an application for an Initial Study Grant which was approved by City Council on February 4, 2014. The amount approved was \$10,432 which was 50% of the estimated cost for the completion of a Phase Two Environmental Site Assessment. The Phase Two Environmental Site Assessment was required to determine the amount of contamination present on the property and enable the creation of a remediation plan.

The existing building envelope was previously operating as a Motel 8. In 2014, the new owner re-zoned 50 motel rooms into bachelor residential/short term stay units. On May 6, 2014, council approved a \$690,000 capital investment towards 50 units in return for 19 of these units to be affordable units at reduced rents for 20 years.

Proposed Remediation and Redevelopment

The proposed project involves remediation of contaminated soil on the property followed by the construction of an additional new fourteen apartments which will be partially built on top of the existing structure and partially built on a new foundation fronting onto Princess Street. These four bedroom units will complement the existing 50 bachelor/short term stay units.

The remediation of contaminated soil will be accomplished through excavation and landfilling of contaminated materials and replacement with clean fill. As per the requirements of Ontario Regulation 153/04, a Record of Site Condition attesting to the remediated site's suitability for residential occupancy will be produced for the property.

The Brownfields Financial Tax Incentive Program

The existing structure on the subject property is still in commercial operation as a short term stay motel and will remain in operation during the proposed remediation work. Therefore full charge of property taxes are applicable to the property during the remediation project at the current assessed value and so staff are not recommending that the Brownfields Financial Tax Incentive Program be applied to this project.

The Tax Increment Based Rehabilitation Grant Program

Properties eligible for grants will be those lands within the Project Areas where the tax assessments are low because of abandonment or contamination. The long-term view anticipates that once developed, these properties will have a higher assessed value. The grants

are funded from the difference in taxation between that which is currently paid and the property tax once the development has occurred.

The grant compensates the developer for their eligible cost for remediation. The annual rebate can continue annually for up to 10 years or until eligible remediation costs have been granted back to the property owner, whichever is less.

The value of the Tax Increment-Based Rehabilitation Grant Program cannot exceed the total estimated cost of rehabilitation minus the value of the initial study grant which, for the subject project, is estimated to be \$458,000 of eligible remediation expenses. The annual rebate is calculated as 80% of the increase in municipal portion of taxes from pre to post redevelopment.

The current assessed value of the property is \$1,774,000, however this value is for the existing commercial short/stay units and the land and the new construction will be built on top of the existing building and on the frontage of Princess Street. The pre-construction value of the subject property for the new development is estimated as vacant land with a valuation of \$300,000. Upon completion of the proposed work in 2015/2016 the post-development valuation of the new construction portion only will be approximately \$3,500,000. The annual municipal portion of the taxes will increase from \$5,000 commercial vacant rate to approximately \$42,000 new multi residential rate, providing a differential of approximately \$37,000 per year.

Eighty percent (80%) of this \$37,000 is \$30,000 which is the yearly municipal portion of the tax increment that would be applied over 10 years for a total grant of approximately \$300,000.

The increase in the municipal portion of the property taxes (municipal tax increment) will be the difference between the base rate and the amount of municipal taxes levied as a result of the re-evaluation by MPAC following the project completion and occupancy.

The Rehabilitation grant does not exempt property owners from an increase/decrease in municipal property taxes due to a general tax rate increase/decrease, or a change in assessment for any other reason. The Tax Increment-Based Rehabilitation Grant Program does not exempt property owners from paying the education portion of the property tax.

Based on the above, it is estimated that the total amount of eligible remediation costs for the proposed project will not be recoverable within the 10 year period of the Tax Increment-Based Rehabilitation Grant Program rebates.

The Tax Increment Based Rehabilitation Grant Program benefit is transferable in the event that title to the property changes from the current owner 1880551 Ontario Ltd. to a new owner within the period of the Tax Increment Based Rehabilitation Grant Program rebates. In such an event, 1880551 Ontario Ltd. must advise the City of Kingston its intent to transfer the benefit to a new owner.

The following brief cash flow outlines the financial assistance anticipated should brownfield benefits be provided as recommended within this report:

CASH FLOW PROJECTIONS

Eligible Costs

Eligible Rehabilitation Cost (as per estimates submitted)	\$468,193
Less Total Brownfield Payments from City to date (Initial Study Grant)	<u>-\$10,432</u>
Total Eligible Rehabilitation Costs under the Tax Increment-Based Rehabilitation Grant Program	\$457,761

Property Tax Increment per year

Post-development municipal property taxes in 2016 (estimated)	\$42,000
Less Pre-development municipal property taxes in 2014	<u>-\$5,000</u>
Incremental annual tax increase (Pre to Post Development)	\$37,000

Grant/Rebate per year from Tax Increment

Annual amount available for rebate through brownfields program = 80%*	\$30,000
Annual amount directed to Municipal Brownfield Reserve Fund = 20%*	<u>\$7,400</u>
Estimated duration of grant program caps at maximum of 10 years	\$300,000
Estimated amount not rebated by the tax increment	-\$157,000

*Based on an estimate of 2014 tax rates and property value assessment and future tax rates and property assessment.

All amounts shown above are estimates. An audit of actual costs incurred by the developer will be performed prior to the presentation of a final by-law authorizing the payment of annual grants.

The application by 1880551 Ontario Ltd. for 720 Princess Street satisfies the criteria of the Community Improvement Program Brownfield Project Areas 1C, Williamsville Main Street. The Environment & Sustainable Initiatives Department has reviewed the application and considers it complete. The property is located within the Community Improvement Program project area and the required Environmental Site Assessments have been completed and submitted to the City which demonstrates that the property is contaminated and that remediation is required in order to obtain a Record of Site Condition to support redevelopment of the property.

Staff have reviewed the application submitted and recommends that it be approved based upon the terms described within this report and that a Brownfields Site Agreement be created between the City of Kingston and the developer to govern the terms of access to brownfield benefits.

Existing Policy/By-Law:

Brownfield Community Improvement Plan, Brownfields Project Areas 1A, 1B and 1C.

Notice Provisions:

There are no notice provisions required for this action.

Accessibility Considerations:

Copies of this report are available in alternate formats. There are no other accessibility considerations at this time.

Financial Considerations:

It is anticipated that the Tax Increment Based Rehabilitation Grant Program will provide an annual tax rebate for ten years following property redevelopment and the rebate over those ten years is estimated to be \$300,000. As per the Brownfield Community Improvement Program, the City will credit the remaining 20% of the incremental tax increase to the City's Environmental Reserve Fund during the same period as the grants are being paid, resulting in approximately \$74,000 expected to be generated toward the Environmental Reserve Fund over the duration of the Tax Increment Based Rehabilitation Grant Program tax rebate period.

Contacts:

Paul MacLatchy, Director, Environment & Sustainable Initiatives 613-546-4291 extension 1226

Other City of Kingston Staff Consulted:

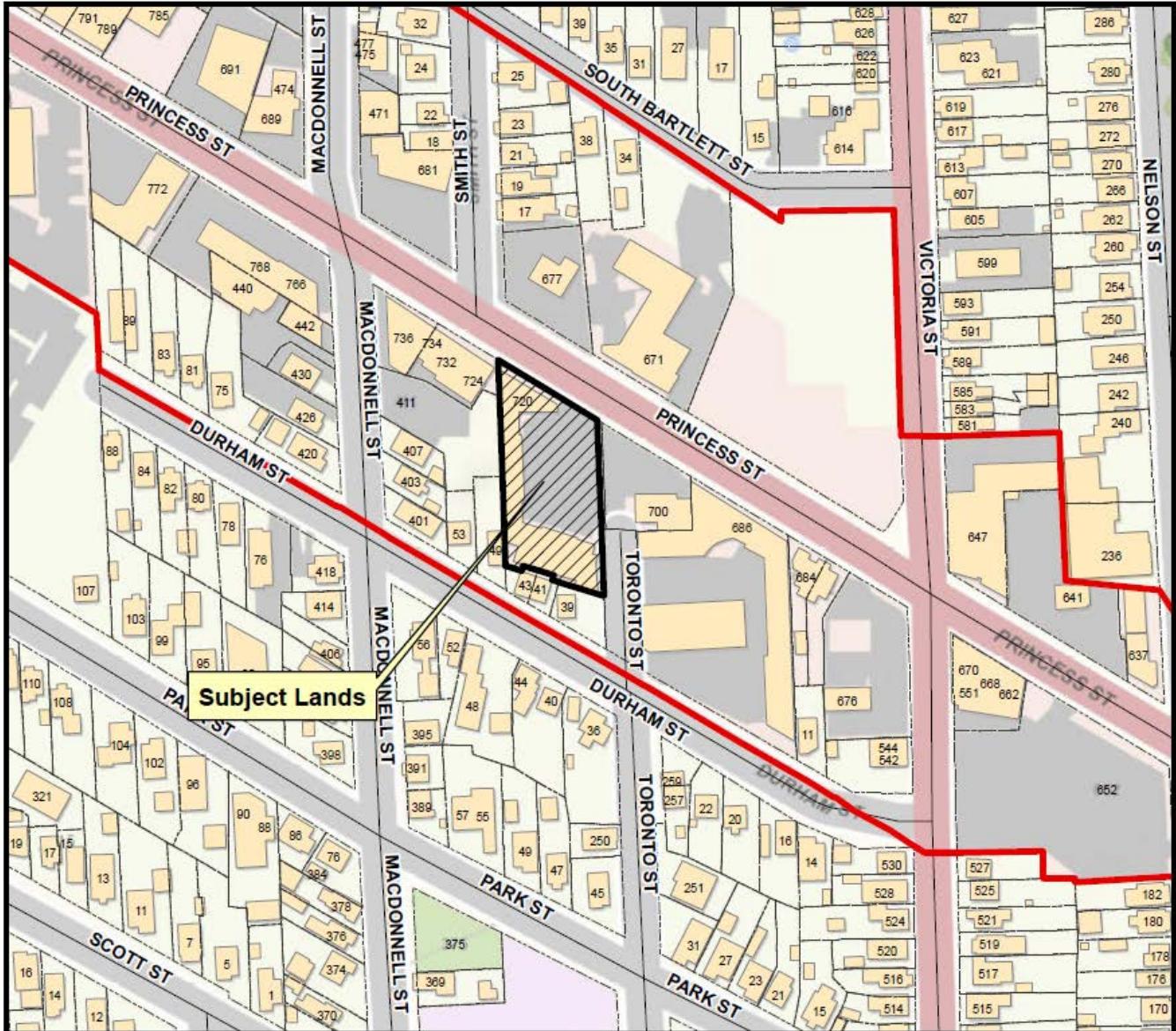
Nathan Richard, Project Manager, Brownfields

Desiree Kennedy, CFO and City Treasurer

Jeff Walker, Manager Taxation and Revenue

Exhibits Attached:

Exhibit A – Site Location Plan for 720 Princess Street

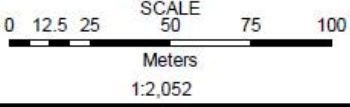


Subject Lands



THE CORPORATION OF THE CITY OF KINGSTON
PLANNING & DEVELOPMENT

Key Map - 720 Princess Street



Legend

- Subject Lands
- Brownfield Project Area

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