



**City of Kingston
Report to Council
Report Number 15-139**

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 and Development Charge Exemption - 2229136 Ontario Inc. - 176 Railway Street

Executive Summary:

This report is being brought forward at the request of the applicant for approval of the Tax Increment-Based Rehabilitation Grant Program 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 Proponent's property is located at 176 Railway Street and is within Brownfield Project Area 1A, as approved by Council in March 2013. The project will see the remediation of soils contaminated as a result of previous commercial land uses and the preparation of an environmental engineering report as requested by the City. The application has been reviewed by staff and the project is considered to be eligible for financial assistance as defined in the Brownfields Community Improvement Plan.

The cost of rehabilitation for this property is relatively high compared to the estimated tax increment; therefore the total rebate amount over the 10 year period will not fully reimburse the brownfield eligible rehabilitation costs. Under the current Development Charge and Impost Fee by-laws, if the property has a change in use from the existing Industrial classification, Development Charges and Impost Fees would be payable. This report is recommending a Development Charge exemption, if applicable. Minimal infrastructure upgrades were required for the abandoned buildings on this property to go back into productive use for the community and a Development Charge exemption would be complimentary to the brownfield program by reducing the gap in the brownfield incentives. An exemption for Impost Fees is not being

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recommended, due to the property’s continued demand on the City’s wastewater and water infrastructure and future capital expenditure requirements.

Recommendation:

That Council approve the application and deem 176 Railway Street, as a property eligible to receive Tax Increment-Based Rehabilitation Grant Program assistance; and

That staff be directed to negotiate the 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; and

That Council approve a Development Charge exemption, if applicable, in coordination with the Brownfield Program to a maximum amount of \$131,000 and that Impost Fees not be exempted.

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

Denis Leger, Transportation, Facilities & Emergency Services Not required

Jim Keech, President and CEO, Utilities Kingston Not required

Desiree Kennedy, Chief Financial Officer & City Treasurer

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Options/Discussion:

This application satisfies all criteria of the Community Improvement Plan Brownfield Project Areas 1A. The Environment & Sustainable Initiatives Group has reviewed the application and confirmed it meets all requirements. The property is located within the Community Improvement Plan 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 was required in order to satisfy the Agreement of Purchase, Sale and Redevelopment.

The application submitted by 2229136 Ontario Inc. as the owner deals specifically with a request for the Tax Increment-Based Rehabilitation Grant Program. 2229136 Ontario Inc. has previously submitted an Initial Study Grant Application which was approved by City Council on March 5, 2013. The amount approved was \$10,000 which was 50% of the estimated cost for the Phase Two Environmental Site Assessment.

The Tax Increment Based Rehabilitation Grant Program provides an annual grant to assist with environmental remediation costs for the subject property. The annual grant shall continue until such time as all the rehabilitation costs have been granted back to the owner or a period of ten years has expired, whichever occurs first.

The value of the Tax Increment Based Rehabilitation Grant Program cannot exceed the total estimated cost of rehabilitation less the initial study grant of \$10,000 which, for the subject project, totals \$343,000. For this application the rebate will be less since the incremental taxes for the property will not be sufficient to recover the total rehabilitation costs within the maximum ten year payback period. The annual grant is calculated as 80% of the increase in municipal taxes upon redevelopment completion compared to the municipal property taxes prior to rehabilitation.

The current value assessment of the land is \$43,500. Upon final completion in 2015, the post-development valuation is estimated to be approximately \$500,000. The municipal portion of the taxes will increase annually from \$860 to approximately \$15,000, providing a differential of approximately \$14,000 per year with 80% of this tax increment equal to \$11,300 per year. This value will change each year based on changes to the assessed value of the property and any annual increase or decrease in taxes.

The Tax Increment Based Rehabilitation Grant Program benefit is transferable in the event that title to the property changes from the current owner 2229136 Ontario Inc. to a new owner within the period of the Tax Increment Based Rehabilitation Grant Program rebates. In such an event, 2229136 Ontario Inc. must advise the City of Kingston of its intent to transfer the benefit to a new owner.

Cash Flow Projections

A brief cash flow below outlines the financial assistance provided by this program:

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Eligible Costs

Eligible Rehabilitation Cost (as per statements submitted)	\$353,666
Less Total Brownfield Payments from City to date (Initial Study Grant)	<u>-\$10,000</u>
Total Eligible Rehabilitation Costs under the Tax Increment-Based Rehabilitation Grant Program	\$343,666

Property Tax Increment per year

Post-development municipal property taxes in 2015 (estimated)	\$15,000
Less Pre-development municipal property taxes in 2014 (actual)	<u>-\$860</u>
Incremental tax increase (Pre to Post)	\$14,140

Grant/Rebate per year from Tax Increment

Annual amount available for rebate through brownfields program = 80%*	\$11,312
Annual amount directed to Municipal Brownfield Reserve Fund = 20%*	<u>\$2,828</u>
	\$14,140
Estimated duration of grant program caps at maximum of 10 years	\$113,120
Estimated amount not rebated by the tax increment	<u>-\$230,546</u>

The annual rebate may change each year however the maximum funds granted are not to exceed the total rebates over the 10 year period or the maximum eligible rehabilitation costs.

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

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

Development Charge Exemption

The Brownfield Community Improvement Plan Policy states that “*Unlike greenfield developments, the development of these brownfield properties does not involve the extension of new urban infrastructure. However, older urban areas do often have concerns with respect to upgrading and/or replacing existing infrastructure, especially in order to accommodate increased densities*”. Therefore relief from Development Charges and Impost Fees in whole or in part is another incentive that the city can offer to assist in redevelopment of contaminated properties. The additional incentive tool assists in the development of brownfield projects that may

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otherwise not occur due to the cost and/or lack of incremental tax room for the developer to be fully reimbursed. If exempted, the developer is relieved of paying the Development Charges and/or Impost Fees and future incremental taxes are used to pay back these charges to their respective reserve funds.

176 Railway was abandoned and remained vacant for approximately twenty years and has been subject to several unsuccessful tax sales. In 2012, through a City-issued RFP process, 2229136 Ontario Inc. submitted a successful proposal. In November 2012 the property was acquired by 2229136 Ontario Inc. and they committed through an Agreement of Purchase and Sale to remediate and redevelop the property.

The total remediation costs that are eligible for recovery through rebate of property taxes under the City's Brownfield Community Improvement Plan will not be recovered within the 10 year window of the rebates. The total eligible rehabilitation costs are \$343,000. The maximum brownfield rebate, based on the tax increment is approximately \$113,000, leaving \$230,000 of remediation expenses not covered by the brownfield program.

The final use of the buildings is still unknown and the current use is Industrial which is exempt from Development Charges and Impost Fees; however a change in use from Industrial to any other use could result in full charge of Development Charges and Impost Fees. Both existing structures on this property were salvaged when the new owner took possession. The property has been vacant for greater than five years, therefore, with a change in use, full development related charges (Development Charges and Impost Fee) costs would be payable in the amount of approximately \$335,000. No additional square footage has been built and no additional uses are currently operating on the property.

If the existing property uses are not maintained as Industrial, the Development Charges for this property are estimated to be \$54,000 for the rear building and \$77,000 for the front building for a total of \$131,000. With an exemption of Development Charges of \$131,000, it is estimated that the owner would incur approximately \$99,000 (\$230,000 - \$131,000) of net remediation expenses after brownfield rebates and Development Charge exemptions.

Impost Fees of \$204,000 for wastewater and water would also be payable if the property use is changed from Industrial. An exemption for Impost Fees is not being recommended, due to the property's continued demand on the City's wastewater and water infrastructure and future capital expenditure requirements.

If a change in land use is made and exemption is approved, the Development Charge Reserve Fund will be reimbursed the value of this exemption once the rehabilitation grant has been paid back to the developer in full or after 10 years, whichever occurs first. An amount equal to the incremental taxes will be paid into the Development Charge Reserve Fund each year until the full amount of the exemption is reimbursed.

Existing Policy/By-Law:

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

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Development Charges By-Law No. 2014-135

Notice Provisions:

There are no notice provisions required for this action.

Accessibility Considerations:

There are no accessibility considerations at this time.

Financial Considerations:

It is anticipated that the Tax Increment Based Rehabilitation Grant Program will not cover all eligible environmental remediation costs within the 10 year maximum allowed by the Kingston Brownfield Community Improvement Plan. As per the Community Improvement Plan, the City will credit 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 \$28,000 expected to be transferred to the Environmental Reserve Fund over the duration of the Tax Increment Based Rehabilitation Grant Program tax rebate period. The repayment of the Development Charges will not commence until all the Tax Increment-Based Rehabilitation Grant Program grants have been paid to the developer (starting 10 years after the grant program begins paying grants) and will continue until the costs are reimbursed to the Development Charges Reserve Fund.

Contacts:

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

Other City of Kingston Staff Consulted:

Nathan Richard, Project Manager, Brownfields

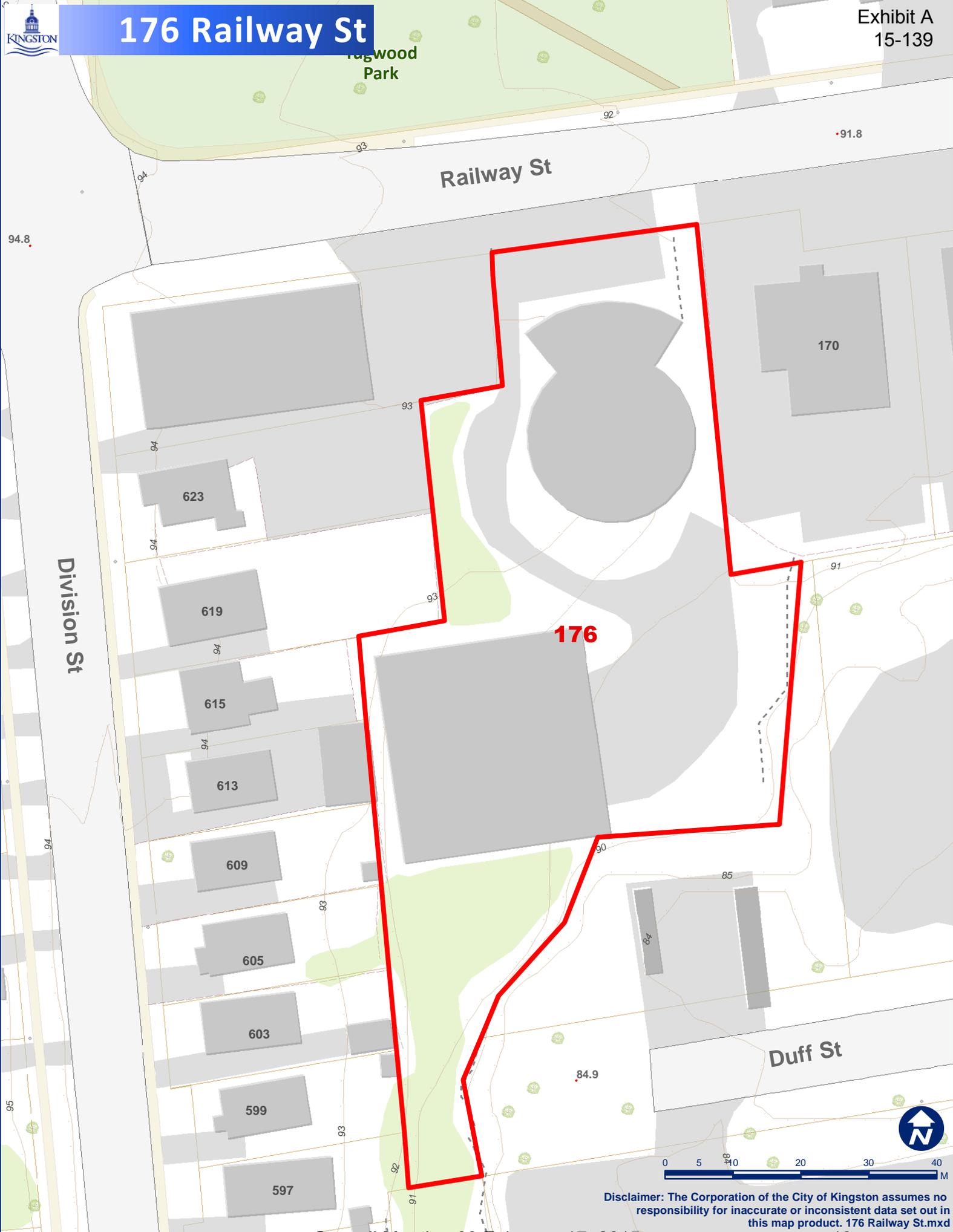
Del Stowe, Manager Building Services

Jeff Walker, Manager Taxation and Revenue

Desiree Kennedy, Chief Financial Officer & City Treasurer

Exhibits Attached:

Exhibit A – Site Location Plan for 176 Railway Street



Disclaimer: The Corporation of the City of Kingston assumes no responsibility for inaccurate or inconsistent data set out in this map product. 176 Railway St.mxd