

# Staff Report

Development Services Department



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**REPORT TO:** Finance and Corporate Services Committee

**DATE OF MEETING:** November 8, 2021

**SUBMITTED BY:** Bennett, Brian, Manager, Business Development,  
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**PREPARED BY:** Morgan, Rob, Capital Investment Advisor,  
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**WARD(S) INVOLVED:** All

**DATE OF REPORT:** September 16, 2021

**REPORT NO.:** DSD-2021-162

**SUBJECT:** Brownfield Financial Incentive Program Review

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## RECOMMENDATION:

**That the Brownfield Financial Incentive Program be amended by eliminating the 10% allowance for indirect costs, as described in Report DSD-2021-162.**

## REPORT HIGHLIGHTS:

- The purpose of this report is to obtain approval of the recommended refinement to the Brownfield Financial Incentive Program detailed within this report.
- The key finding of this report is that the current joint Tax Increment Grant program is a successful, mutually beneficial program that encourages private investment in brownfield sites. The proposed elimination of the 10% allowance for indirect costs still results in an attractive incentive program.
- The financial implications involve the removal of the allowance for indirect costs currently set at 10% of eligible remediation costs payable to the developer.
- Community engagement included a review of the proposed changes with the major users of the Brownfield Program, a letter to key stakeholders outlining the proposed changes and a link to the public meeting date.
- This report supports the delivery of core services.

## BACKGROUND:

The City of Kitchener has a long history of Industrial and Commercial development which has seen different types of companies over time.. As a result, there are properties throughout the community that sit vacant, are underutilized or have been abandoned due to environmental contamination from former uses.

These contaminated lands are referred to as “brownfields” and were often overlooked for redevelopment due to the significant financial costs, timing uncertainties and liability associated with clean up. For municipalities, this equates to a loss in property tax revenue, inefficiencies in use of existing infrastructure and greater pressure to expand services to the outlying areas.

In 2004, the City of Kitchener launched its Brownfield Financial Incentive Program (BFIP) in the form of a Tax Increment Grant (TIG) and in 2006 the Regional Municipality of Waterloo implemented a BFIP which included a joint TIG component with the City of Kitchener, as well as a grant for Phase Two Environmental Site Assessments and a Regional Development Charge Exemption.

The joint TIG is a grant provided by the City and Region that reimburses the developer for up to 100% of eligible remediation costs plus a 10% provision for soft/indirect remediation costs from the increase in property taxes payable as a result of the redevelopment of the property.

The TIG is equal to up to the full amount, or a portion of the amount of the tax increase (or increment) in the City and Regional property taxes after the property is reassessed post redevelopment. The proportional breakdown of taxes is approximately 60% Region and 40% City.

### **Regional BFIP Program Review**

In the spring of 2019 Regional Council approved revisions to their Brownfield Program.

#### **The previous Regional BFIP consisted of three incentives:**

1. Phase Two Environmental Site Assessment (ESA) Grant (up to \$40,000)
2. Joint Tax Increment Grant (TIG)
  - A joint TIG is a grant provided by the Region and Area Municipality that reimburses the developer for up to 100% of eligible remediation costs plus a 10% provision for indirect remediation costs from the increase in property taxes payable.
3. Regional Development Charge (RDC) Exemption
  - The RDC exemption for brownfield sites allows a developer to recover 100% of eligible remediation costs plus a 20% provision for indirect remediation costs up to a maximum amount of the cost of their Regional Development Charges.

#### **The Region’s changes to their program:**

1. Removal of the Phase Two ESA Grant
2. Removal of the 10% allowance provision for indirect remediation costs from the Regional share of the TIG. Indirect costs can include Planning fees, legal costs, insurance premiums and assessment estimates

3. Regional Development Charge Exemption changes:
  - Removal of the 20% allowance provision for indirect remediation costs.
  - Reduction in the RDC exemption to 100% of eligible costs up to \$1,000,000 if the required RSC has been issued by December 31, 2021; and
  - Reduction in the RDC exemption to 50% of eligible remediation costs up to \$1,000,000 if the RSC has been issued between January 1, 2022 and July 31, 2024.
  - The RDC exemption will be completely phased out by August 1, 2024.

## **REPORT:**

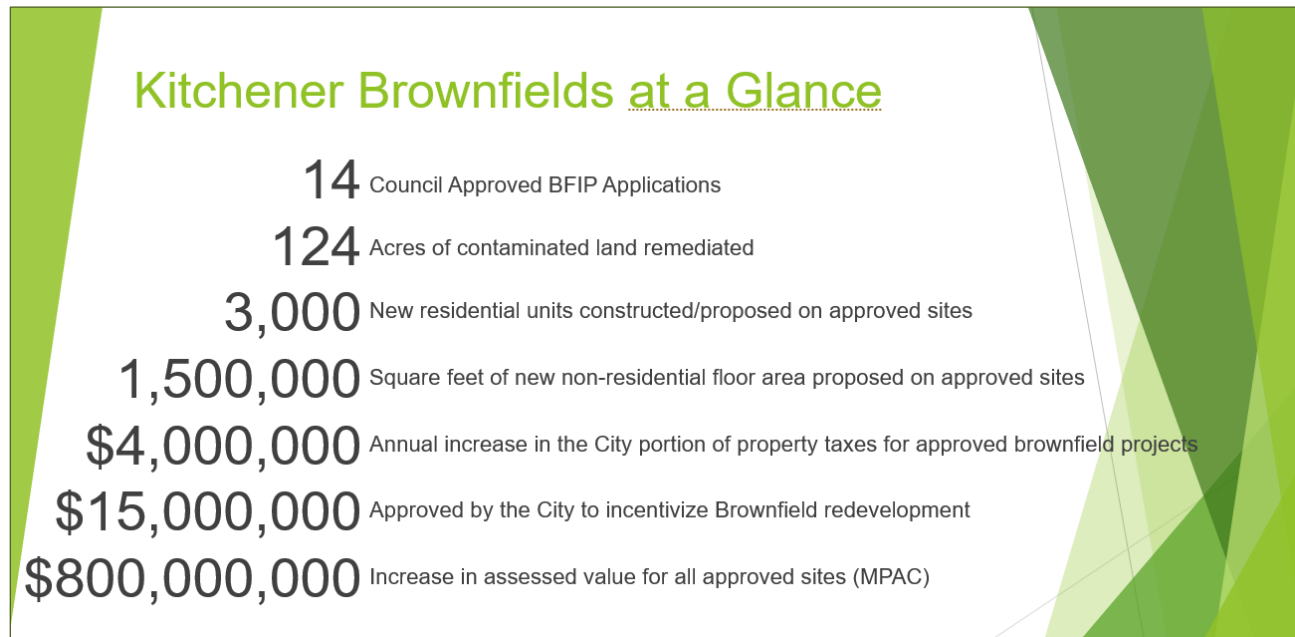
The City's program consists of the Joint Tax Increment Grant (TIG). Which, as noted in the background, is a joint program provided by the City of Kitchener and the Region of Waterloo that reimburses the developer up to 100% of eligible remediation costs plus a 10% provision for indirect remediation costs from the increase in property taxes payable. The 10% indirect costs (soft costs) include costs such as planning fees, legal costs, insurance premiums and assessment estimates all related to the remediation of the subject property.

### **Review of Kitchener's BFIP Program**

Kitchener's Brownfield Financial Incentive Program has been a successful and effective incentive program. Since its inception in 2004 City Council has approved 14 applications contributing to the remediation and redevelopment of approximately 124 acres of contaminated land. These developments, some of which are complete and some of which are currently being redeveloped, are anticipated to result in over 3,000 new residential units, over 1,500,000 square feet of new non-residential floor area and over \$800M in increased assessment value. To achieve these benefits, Council has invested \$15M through the BFIP program to assist in the remediation of the brownfield properties. The average time it takes for the City's investment in the TIG Program to be fully reimbursed is 5.5 years.

Once these properties are fully redeveloped and reassessed by MPAC they are estimated to collectively pay \$4M more annually in City taxes than the pre-remediation properties did. As such, the collective program to date has produced a 3.75-year return-on-investment. Over a ten-year period, for example, by foregoing \$15M of tax revenue over 3.75 years will result in \$25M in new tax revenue over the balance of the 6.25 years. Without the program in place, it is likely that the new revenue would not have been created and the sites would continue to sit underused and contaminated.

**Table 1**



### **Benefits of brownfield redevelopment**

Contaminated lands are often vacant, underutilized or abandoned. Remediating these properties help create attractive, thriving neighbourhoods that result in far reaching community benefits related to the environmental, economy and society.

#### **Environmental Benefits**

- Removes source of land, water and air contamination
- Helps conserve greenfield land
- Renews undesirable land in desirable locations, allowing for smart growth and urban intensification

#### **Economic Benefits**

- Create new development opportunities, new employment
- Makes use of existing infrastructure and services such as transit, waste collection, as well as storm water and sanitary infrastructure
- Increases property values and municipal tax revenue

#### **Social Benefits**

- Preservation of historic buildings and heritage architecture
- Enhance neighbourhood appearance, aesthetics, and community pride
- Increases housing supply and commercial opportunities

### **Comparisons to Other Municipalities**

An environmental scan was completed relative to similar sized municipalities throughout Southern Ontario. It was determined that the majority have a Brownfield Incentive Program and that the Region/City's program is fulsome and competitive with other municipalities.

## **Impacts if Kitchener's BFIP was Eliminated**

While the profitability of the development market in Kitchener has grown significantly since the inception of the program, the risks associated with developing contaminated lands remain. In particular, the full extent of site remediation costs are often not known until a site is under construction. This typically occurs after a property has been brought to market and pre-sales (in the case of residential) have been completed. As such, elimination of the program would likely result in the following:

- a) While some property owners may still proceed with redevelopment in the absence of an incentive, the added risks would be passed down to the purchaser/tenants, further exacerbating the lack of affordability in the current housing market. This would only further reduce the likelihood of achieving mixed income developments with a proportion of affordable units;
- b) Reduced development interests along the ION central transit corridor in favour of greenfield lands;
- c) Greater urban development pressure on lands which are unlikely to have contamination. In the Central Neighbourhoods, this could lead to more consolidation of single detached dwelling lots including more Official Plan Amendment and Zone Change applications on the fringes/arterials of established neighbourhoods; and,
- d) Less likelihood of development on former urban industrial lands where intensification is preferable, perpetuating the environmental risk of these lands remaining contaminated.

## **Stakeholder Input**

The Region of Waterloo held stakeholder consultations in 2018 with Area Municipal staff, environmental consultants and the development industry. The feedback indicated that the incentives offered by the Region and Cities provided a level of financial certainty for property owners seeking to redevelop contaminated sites. It was acknowledged that redevelopment of brownfield sites can be costly and complicated and the BFIP has been an instrumental tool in the redevelopment of contaminated sites that may not have otherwise occurred.

To developers and their financial partners, the TIG signals a strong financial commitment on the part of the City and Region to support the actual remediation and redevelopment of contaminated sites. Without this financial commitment, contaminated sites may not be financially viable for remediation and redevelopment.

## **Key Findings**

Through this process it was also recognized that the brownfield redevelopment industry has matured since the inception of the program, with many experienced developers and consultants now familiar with how to successfully redevelop a brownfield site.

The existing TIG incentive allows for indirect costs to be reimbursed up to a maximum of 10% of eligible direct remediation costs. Given the maturity of the brownfield redevelopment industry, it is recommended that only 100% of direct eligible remediation costs should be reimbursed, and the 10% provision to reimburse the indirect costs be discontinued. Indirect costs can vary widely from project to project. To date, the costs have ranged from a low of \$20,000 for a townhouse development to a high of \$325,000 for the remediation of the former Kitchener Frame property at 1011 Homer Watson Boulevard. During the consultation with stakeholders undertaken by the Region in 2018, developers understood the rationale for removing the 10% indirect costs and stated that the balance of the TIG remained an important financial incentive.

Approval of the proposed refinement to the Brownfield Financial Incentive Program would bring Kitchener's program into alignment with the Region and the Cities of Waterloo and Cambridge who recently removed the 10% allowance for indirect costs from their programs.

The wording of the Brownfield CIP allows for changes to the program of this nature without the need to change the CIP.

### **Conclusion & Effective Date**

Based on the foregoing, staff recommend continuing Kitchener's BFIP in its current state while removing the 10% allowance for indirect costs. The change to the TIG program, if approved by Council, would be effective November 22, 2021. There are a number of BFIP applications that have been deemed complete and are currently under review. It is intended that these applications be eligible for consideration under the terms of the current program. Any applications received after the date of Council approval would be subject to the new terms.

### **STRATEGIC PLAN ALIGNMENT:**

This report supports the delivery of core services.

### **FINANCIAL IMPLICATIONS:**

Capital Budget – Funding for these applications are accounted for in the Brownfield Capital Account. The source of funding for these grants is ultimately the new tax assessment growth that will result from redevelopment.

Operating Budget – The recommendation has no impact on the Operating Budget.

### **COMMUNITY ENGAGEMENT:**

INFORM – This report has been posted to the City's website with the agenda in advance of the council / committee meeting. Additionally, the proposed changes were reviewed with major users of the Brownfield Program, and a letter was emailed to stakeholders advising them of the potential change to Kitchener's program as well as the date of the Committee

Meeting. The stakeholder group is made up of developers, remediation experts and consultants.

**PREVIOUS REPORTS/AUTHORITIES:**

There are no previous reports/authorities related to this matter.

**APPROVED BY:** Justin Readman, General Manager, Development Services