

# ***Staff Report***



*Development Services Department*

*www.kitchener.ca*

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

**DATE OF MEETING:** June 13, 2022

**SUBMITTED BY:** Danielle Sbeiti, Manager Realty Services, 519-741-2200 ext. 7357

**PREPARED BY:** Rob Morgan, Brownfield Coordinator, 519-741-2200 ext. 7734

**WARD(S) INVOLVED:** Ward 10

**DATE OF REPORT:** February 23, 2022

**REPORT NO.:** DSD-2022-106

**SUBJECT:** Brownfield Financial Incentive Program Application - 152 Shanley Street

---

## **RECOMMENDATION:**

That the Brownfield Financial Incentive Program Application for 152 Shanley Street, received from 2701098 Ontario Inc. (Shannondale Developments) dated January 27, 2021, be approved subject to the Region of Waterloo's approval; and,

That in exchange for a completed and filed Record of Site Condition for the subject property, the owner will be provided a tax incremental grant on the redevelopment of the property in the form of a rebate issued on a proportionate basis, annually for a period not to exceed 10 years, on City taxes in an amount equal to 100% of the City Tax Increment; and,

That the City Tax Increment be defined as the difference between the City portion of real property taxes for the 2021 taxation year and the new City portion of real property taxes levied as a result of a new assessment by the Municipal Property Assessment Corporation (MPAC) following completion of the project as compensation for the remediation of the above subject lands; and,

That the City property tax grant is estimated to be \$781,670 based on today's estimated City tax increment; payable in equal portions over a 10-year period following re-assessment by MPAC, but subject to adjustment at the time the City Tax Increment is actually calculated following completion of the project and the property is re-assessed by MPAC; and,

That the Region of Waterloo Brownfield Coordinator be circulated a copy of any decision made by Kitchener City Council regarding this Application; and further,

**That the Mayor and Clerk be authorized to execute an Agreement, subject to the satisfaction of the City Solicitor, with the Region of Waterloo and 2701098 Ontario Inc., to implement the provisions of the Brownfield Financial Incentive Program Application for 152 Shanley Street, as outlined in the Development Services Department Report DSD-2022-106.**

## **REPORT HIGHLIGHTS:**

- The purpose of this report is to obtain approval for the Tax Increment Grant (TIG) detailed within this report.
- The financial implications relate to the obligation of the City to pay out the Tax Increment Grant over a 10-year period estimated to be approximately \$78,167 per year for 10 years for a total payout of approximately \$781,670.
- Community engagement included the report being posted to the City's website with the agenda in advance of the committee meeting.
- This report supports the delivery of core services.

## **BACKGROUND:**

The Regional Brownfield Financial Incentive Program (BFIP) went through an extensive review in 2019, resulting in the following changes to the Region's program:

- Removal of Phase Two Environmental Site Assessment Grant;
- Removal of 10% allowance for indirect remediation costs from the Regional share of the Tax Increment Grant; and,
- Revisions to the Regional Development Charge Exemption, with the exemption to be completely phased out by August 1, 2024.

Corresponding changes to the City's Brownfield Financial Incentive Program were subsequently approved by Council on November 22, 2021. The review resulted in the removal of the 10% allowance for indirect costs. This change in the program is effective for complete applications received after the date of Council approval (November 22, 2021).

In January of 2021, the City of Kitchener and Region of Waterloo received a joint Tax Increment Grant (TIG) application from 2701098 Ontario Inc. relating to the remediation and redevelopment of the property municipally known as 152 Shanley Street (Locational Map attached as Appendix A). The 0.35 ha (0.86 ac.) property is located northwest of the intersection of Shanley Street and Duke Street. A four-story vacant industrial building was recently demolished due to unsafe conditions of the building. The demolition has subsequently allowed for the remediation and redevelopment of the subject lands. The property is being redeveloped into an 8 story 166-unit multiple dwelling with 133 parking spaces.

## **REPORT:**

The Environmental Consultants for this project have completed a Remedial Action Plan dated February 2, 2021, as well as Phase One and Phase Two Environmental Site Assessments. Within the scope of the Phase Two they completed a soil and groundwater investigation which determined the extent of the contamination.

### Historical Use of the Property

The property was first developed in 1904 by The Dominion Table Manufacturing Company Ltd. It was used over the years by several manufacturing activities including furniture manufacturing, foam manufacturing, solvent use, and storage.

### Contamination and Remediation

The consultant completed comprehensive testing on the property which identified multiple Contaminants of Concern (COC's) in the soil and groundwater in concentrations that exceeded the applicable Ministry of the Environment Conservation and Parks (MECP) Site Condition Standards, including the following:

- Metals;
- Petroleum Hydrocarbons;
- Polycyclic Aromatic Hydrocarbons (PAHs);
- Volatile Organic Compounds (VOCs); and,
- Sodium Chloride.

Site remediation activities have included a combination of Risk Assessment, which developed property specific standards, and remediation of remaining exceedances in the soil and groundwater. Various techniques including soil excavation and disposal, soil embankment and capping, and groundwater treatment are being utilized.

### Eligible Remediation Costs

The applicant has submitted an estimated environmental remediation cost for the subject property of \$6,299,700.00. This amount plus a 10% allowance for indirect costs afforded under the joint TIG program of \$629,970.00 (which is eligible as the application was received prior to Council amending the policy eliminating indirect costs on November 22, 2021) results in a **maximum** eligible joint TIG of \$6,929,670.00. Deducting assistance that will be received through the Regional Development Charge (RDC) exemption under the Brownfield Financial Incentive Program (\$2,133,583.00) results in a maximum eligible joint TIG of \$4,796,087.00.

Based on the projected tax increment, the developer will be able to recover approximately 62% of the estimated remediation costs. This amount (TIG) would be cost-shared between the Region of Waterloo and the City of Kitchener, as shown in Table 1 on the following page. Further details regarding the Tax Increment calculation are provided in Tables 2 to 4.

**Table 1: Remediation Cost Recovery**

Max Eligible Remediation Cost	\$6,929,670.00
Less Region of Waterloo DC Exemption	\$2,133,583.00
<b>Max Eligible Joint TIG</b>	<b>\$4,796,087.00</b>
Less City of Kitchener TIG	\$781,670.00
Less Region of Waterloo TIG	\$1,360,370.00
<b>Remaining remediation costs to be paid by the Developer that cannot be recovered through the Brownfield program</b>	<b>\$2,654,047.00</b>

As noted above, the maximum eligible TIG amount after the Regional Development Charge exemption is accounted for is \$4,796,087.00. This amount, less the City and Regional Tax Incremental Grant amounts results in approximately \$2,654,047.00 in remediation costs that the applicant is not eligible to recover. Specifically, the City and Regional taxes on the property are not projected to increase enough following completion of the redevelopment to cover all of the remediation costs.

As a condition of final approval of eligible costs, invoices must be submitted by the applicant and must be approved for eligibility by City of Kitchener and Regional staff.

#### Pre-remediation Assessment and Taxes vs Post Redevelopment Assessment and Taxes

The anticipated joint Tax Increment Grant payments and schedule are determined for each application based on the following steps:

The first step includes a calculation of the anticipated assessment increment. This is based on the pre-remediation MPAC assessment value(s) and the estimated post-remediation and redevelopment assessment value(s) for the development as provided by the Applicant (Table 2).

**Table 2: Potential Assessment Increment**

Assessment Value "Pre"	Assessment Value "Post"*	Assessment Increment*
\$405,000.00	\$23,421,000 (est.)	\$23,016,000 (est.)

\*These values are based on estimates and will be confirmed by MPAC upon project completion.

Secondly, the anticipated assessment increment is then used to calculate the expected annual increase in municipal taxes (Region and City) that would be generated by the remediation and redevelopment of the property, referred to as the 'tax increment' (Table 3). The City's Tax Increment represents the annual TIG payment amount.

**Table 3: Anticipated Tax Increment**

Area Municipality	Municipal Taxes "Pre"*	Municipal Taxes "Post"*	Total Tax Increment*
City	\$2,727.75	\$80,894.96	\$78,167.21
Region	\$4,747.21	\$140,784.33	\$136,037.12
Total	\$7,474.96	\$221,679.30	\$214,204.33

\*Tax amounts do not include the education portion of annual taxes levied as the School Boards do not participate in the program.

The annual Tax Increment Grant payments of approximately \$78,167.00 (City portion) would last the entire 10 years allowable under the program, as shown in Table 4, and would not start until after the property is fully remediated, redeveloped and reassessed by MPAC, likely not before 2025.

The total City portion of the Tax Increment Grant (sum of 10 annual payments) is \$781,670.

**Table 4: TIG Payment Schedule**

Year	City	Region	Total TIG
1	\$ 78,167	\$ 136,037	\$ 214,204
2	\$ 78,167	\$ 136,037	\$ 214,204
3	\$ 78,167	\$ 136,037	\$ 214,204
4	\$ 78,167	\$ 136,037	\$ 214,204
5	\$ 78,167	\$ 136,037	\$ 214,204
6	\$ 78,167	\$ 136,037	\$ 214,204
7	\$ 78,167	\$ 136,037	\$ 214,204
8	\$ 78,167	\$ 136,037	\$ 214,204
9	\$ 78,167	\$ 136,037	\$ 214,204
10	\$ 78,167	\$ 136,037	\$ 214,204
Total TIG	\$ 781,670	\$ 1,360,370	\$ 2,142,040

## **STRATEGIC PLAN ALIGNMENT:**

This report supports the delivery of core services.

## **FINANCIAL IMPLICATIONS:**

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

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

The approval of this application will obligate The City of Kitchener to provide an annual municipal property tax rebate estimated to be \$78,167 per year for 10 years upon redevelopment of the property and reassessment by MPAC.

**COMMUNITY ENGAGEMENT:**

INFORM – This report has been posted to the City's website with the agenda in advance of the council / committee meeting.

This Application has not been circulated to the public. Staff would note that this approval applies only to the City of Kitchener portion of the proposed Tax Incremental Grant. The Region of Waterloo Council will consider its portion of this application at their Planning and Works Committee.

**CONCLUSION:**

Regional Staff and The Brownfield Steering Committee (consisting of the City's Brownfield Coordinator, Director of Revenue, City Solicitor, and Director of Planning) reviewed the application and are satisfied that the application meets the eligibility and application requirements. Staff support acceptance within the terms and conditions of the Region of Waterloo – City of Kitchener Brownfield Remediation Program.

**PREVIOUS REPORTS/AUTHORITIES:**

DSD-2021-162 – Brownfield Financial Incentive Program Review

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

**ATTACHMENTS:**

Attachment A – Locational Map

Appendix A - Locational Map

