



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

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| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | October 24, 2016 |
| SUBJECT/REPORT NO: | Development Charges Credits Extension Kenilworth Avenue Investments Inc. Centre on Barton Development Request (FCS16084) (City Wide) (Outstanding Business List Item) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Lindsay Gillies (905) 546-2424 Ext. 2790 |
| SUBMITTED BY: | Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department |
| SIGNATURE: | |

RECOMMENDATIONS

- (a) That the City Development Charges (DC) demolition credits for the Centre on Barton (1147 & 1227 Barton Street East) be extended for a final period of three years until June 3, 2019 (43,108.75 square feet) and October 2, 2019 (43,023 square feet);
- (b) That any foregone DC revenue related to the extension of DC demolition credits on the Centre on Barton redevelopment, currently estimated at \$1.67 M total, be funded through the Waterworks Capital Reserve (108015), the Sanitary Sewer Reserve (108005), the Storm Sewer Reserve (108010) and the Tax Stabilization Reserve (110046), currently estimated at \$211 K, \$423 K, \$115 K, and \$921 K respectively;
- (c) That the subject matter respecting “Development Charges Credits Extension Kenilworth Avenue Investments Inc. Centre on Barton Development (1147 & 1227 Barton St East)” be identified as complete and removed from the Audit, Finance and Administration Committee Outstanding Business List.

EXECUTIVE SUMMARY

Council, at its meeting of June 8, 2016, received correspondence from Bousefields Inc. on behalf of Kenilworth Avenue Investments requesting an extension on the DC

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demolition credits for the Centre on Barton Development and directed staff to report back to the Audit, Finance and Administration Committee on the matter.

A decision to extend the DC demolition credits has a city wide impact since the funds collected through DC's are used to fund the growth related portions of capital projects throughout the City.

The Centre on Barton was purchased by Kenilworth Avenue Investments Inc. in 2003, and plans to redevelop the former Centre Mall were prepared in 2006, with the redevelopment occurring in phases as portions of the former Centre Mall were demolished between 2006 and 2009.

The owners have now redeveloped and made use of DC demolition credits for 757,349.25 square feet of the 843,481 square feet that had been demolished. The City provided a two year extension of the DC demolition credits in 2014 (to seven years). A request has been received to extend the remaining DC demolition credits beyond the extended seven year expiration, for another three years. DC demolition credits expire per By-law 14-153 after five years in order to both encourage timely redevelopment, as well as to recognize that capacity may be absorbed back into the system for the purpose of calculating DC's in the DC Background Study.

The City holds over \$1.5 M in securities for the Centre on Barton, which will not be released until the development has been completed. Given the security held by the City, and that the site has been continually redeveloped in a timely manner, staff Recommended that the remaining DC demolition credits be extended an additional three years until June 3, 2019 (43,108.75 square feet) and October 2, 2019 (43,023 square feet).

To recognize the potential foregone DC revenues associated with an extension of the DC demolition credits, the Waterworks Capital Reserve (108015), the Sanitary Sewer Reserve (108005), the Storm Sewer Reserve (108010) and the Tax Stabilization Reserve (110046) are being recommended as funding sources to recover any future forgone DC revenues related to the Centre on Barton redevelopment; currently estimated at \$211K, \$423 K, \$115 K, and \$921K respectively for a total of \$1.67 M in estimated potential foregone DC revenues.

The City is responsible for collecting Education DC's on behalf of the School Boards, but does not have the authority to extend credits for Education DC's. As a result, there are no recommendations, nor is there further mention of Education DC's contained within this report.

Alternatives for Consideration – See Page 6

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FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial:

Any development on the Centre on Barton property that occurs during the period of the DC demolition credit extension would potentially result in foregone DC collections. However, consideration should be given to the intent of the by-law when contemplating the potential foregone revenues.

Maximum Potential Foregone DC Collections

| | | |
|---------------------------------------|----|--------------|
| Current Full Non-Residential DC Rate: | \$ | 19.38 |
| Gross Floor Area (sq ft): | | 86,131.75 |
| Potential Foregone DC Collections: | \$ | 1,669,233.32 |

Breakdown by Service Area / Recommended Funding source

| | | |
|----------------------------|-----------------|-------------------------------------|
| Rates Capital - Water | 211,022.79 | Waterworks Capital Reserve (108015) |
| Rates Capital - Wastewater | 422,906.89 | Sanitary Sewer Reserve (108005) |
| Rates Capital - Stormwater | 114,555.23 | Storm Sewer Reserve (108010) |
| Tax Capital | 920,748.41 | Tax Stabilization Reserve (110046) |
| TOTAL | \$ 1,669,233.32 | |

Note: Gross Floor Area remaining has been reconciled to building permits and varies slightly from the amount identified in the request for an extension (included as Appendix "A" to Report FCS16084).

The Recommended three year extension of the DC demolition credits would result in 43,108.75 square feet expiring on June 3, 2019 and 43,023 square feet expiring on October 2, 2019 (all non-industrial class).

The potential foregone DC collections represent an exemption from the DC Background study and DC By-law 14-153. Other exemptions (e.g., stepped commercial rates, industrial rate, Downtown Community Improvement Project Area exemption) are funded through requests in the annual tax and rate capital budgets. The annual DC exemption funding is not sufficient to cover all of the exemptions extended through DC By-law 14-153. For this reason, specific funding sources, the Waterworks Capital Reserve (108015), the Sanitary Sewer Reserve (108005), the Storm Sewer Reserve (108010) and the Tax Stabilization Reserve (110046) are being recommended to recover any future foregone DC related to the Centre on Barton redevelopment.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

- 2003 • Centre on Barton is purchased by Kenilworth Avenue Investments.
- 2006 • Plans to redevelop site are prepared.
- 2006-2009 • The former Centre on Barton is demolished in phases yielding a total of 843,481 square feet available in demolition credits.
- 2008-2013 • 750,944.72 square feet of the available demolition credits are used while developing the site.
- 2014 • A request to extend the demolition credits by five years is received.
- Council approves a two year extension of the demolition credits.
- The unused demolition credits amount to 92,536.28 square feet (non-industrial class).
- 2015 • Building M (Petsmart) is developed and uses 6,404.53 square feet of the extended demolition credits.
- 2016 • A request to extend the demolition credits by an additional three years is received.
- The unused demolition credits amount to 86,131.75 square feet (non-industrial class).

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The General Manager, Finance and Corporate Services has been delegated authority to provide extensions to DC demolition credits in cases where the demolition was in a rural area, and cases where in the opinion of the General Manager, Planning & Economic Development, there were delays in the redevelopment that were beyond the control of the developer (OMB appeals for example). The request from Bousfields Inc. does not fall under either of the circumstances where Council has delegated authority.

Precedent exists for extending DC demolition credits by two years for a large scale mall redevelopment through the approval of Report FCS14054 and FCS15041 which extended the DC demolition credits for the Centre on Barton redevelopment and the Mountain Mall redevelopment.

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Staff recommend that the additional three year extension be extended as a final extension to both recognize the complexity of the redevelopment and set a limit for this recognition.

RELEVANT CONSULTATION

Staff from the Planning & Economic Development Department advised that nothing has come to their attention which would indicate that owners have not maintained good faith and good planning practices related to this redevelopment.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Five Year Limit on Demolition Credits

The five year limit on DC demolition credits serves a couple of purposes. First, it recognizes that when preparing the DC Background Study, the City must assess the available capacity within the system (in particular, water, wastewater and stormwater) and make existing capacity available to new development. If the redevelopment of a demolished property doesn't occur within five years, its capacity will have been absorbed back into the system for the purposes of calculations in the DC Background Study. The five year limit on DC demolition credits has been contained in the DC By-laws since 2004.

Another benefit of the five year limit is that it discourages vacant, undeveloped lots where buildings used to stand. The Centre on Barton redevelopment did not leave a vacant undeveloped lot, demolitions began in 2006, redevelopment started in 2008 and the last demolitions occurred in 2009.

Precedent exists for extending DC demolition credits by two years for a large scale mall redevelopment through the approval of Report FCS14054 and FCS15041 which extended the DC demolition credits for the Centre on Barton redevelopment and the Mountain Mall redevelopment.

Complexity of Redevelopment

The redevelopment project involved the demolition of 843,481 square feet and the construction of 25 new buildings. To date, 21 of the new buildings have been erected. The request included as Appendix "A" to Report FCS16084 states that this project is

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considered one of Canada's largest commercial redevelopments and that an additional three years would be sufficient to continue to redevelop this large site.

Precedent for Providing Demolition Credit Extensions

The General Manager, Finance and Corporate Services has been delegated authority to provide extensions to DC demolition credits in cases where the demolition was in a rural area, and cases where in the opinion of the General Manager, Planning & Economic Development, there were delays in the redevelopment that were beyond the control of the developer (OMB appeals for example).

The request related to the Centre on Barton does not fall under either of the circumstances where Council has delegated authority.

Precedent for Council extending DC demolition credits for a large mall redevelopment exists through the two year extension granted for the Centre on Barton redevelopment and the Mountain Mall redevelopment (FCS14054 and FCS15041).

Securities Held by City

The City holds more than \$1.5 M in securities which may not be withdrawn until all remaining buildings and site works are completed. Therefore, it is in the interest of the owners that construction of the remaining buildings occurs in a timely manner.

ALTERNATIVES FOR CONSIDERATION

Alternative – No Extension be Provided

This alternative would see that no further extension be provided to the DC demolition credits. Any future developments would be subject to paying DC's at the full non-industrial rate.

Financial Implications: Potential DC's paid for the Centre on Barton would be \$1,669,233.32 for the next 86,131.75 square feet (assuming the DC rate in effect at Report date).

Staffing Implications: None.

Legal Implications: None.

Policy Implications: None.

Pros: Potential Increased Development Charges collections.

Cons: May stall remaining portions of development.

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ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS16084 – DC Demolition Credit Extension Request