



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

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	October 5, 2017
<b>SUBJECT/REPORT NO:</b>	Development Charges Demolition Credit, Request for Extension, McMaster Innovation Park, 175 Longwood Road South (FCS10051(b)) (City Wide) (Outstanding Business List Item)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Lindsay Gillies (905) 546-2424 Ext. 2790
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager Finance & Corporate Services Department
<b>SIGNATURE:</b>	

### RECOMMENDATIONS

- (a) That the request to extend the City Development Charges (DC) demolition credits (394,483.55 square feet) for McMaster Innovation Park (175 Longwood Road South) be denied;
- (b) That the subject matter respecting “Development Charges Credit, Request for Extension, McMaster Innovation Park (175 Longwood Road South)” be identified as complete and removed from the Audit, Finance and Administration Committee Outstanding Business List.

### EXECUTIVE SUMMARY

Audit, Finance and Administration Committee (AF&AC), at its meeting of August 16, 2017, received as Item 6.1 a presentation (Appendix “A” to Report FCS10051(b)) from Zach Douglas, President and CEO of McMaster Innovation Park (MIP), related to requesting an extension of the DC demolition credits for the east side of MIP at 175 Longwood Road South and directed staff to report back to AF&AC on the matter.

Currently, the longest extensions recommended by staff have been limited to a total ten-year period. MIP has currently received a total 12 year period in which to utilize the DC demolition credits requested to be extended. Staff is recommending denying the

extension of the DC demolition credits because of the precedence this would set, the accompanying financial impact and the lack of evidence that this delay in development is outside the intended scope for the limit on DC demolition credits.

MIP demolished the former Camco Inc. plant in 2005 and has since been working on developing both the east and west sides of Longwood Road South. The DC demolition credits are only available to offset DC charges on the east side. Due to funding availability and market demand, two major projects (McMaster Automotive Research Centre and Fraunhofer Centre for Biomedical Engineering and Advanced Manufacturing) have been located on the west side, leaving the credits available for the east side untouched since the Atrium and Canmet buildings used a portion of the credits in 2009. MIP is now advancing planning on a 135 room hotel and the Emerging Technologies Centre (ETC) on the east side.

MIP has advised that they expect that site plan approval for the hotel will be sought in the fall of 2017. The ETC timing is currently unknown and dependent on funding resources. The ETC will focus on technologies related to health and life sciences, building on McMaster's research strengths. The building is expected to have wet and dry lab space, as well as office and commercial space.

DC decisions have a city wide impact since exceptions to the maximum charge as determined through the DC background study are effectively recovered through tax and rate payers.

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

***Alternative for Consideration – See Page 6***

## **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: MIP will be responsible to pay DCs prior to building permit issuance at the rates in effect at that time. At current rates this is estimated to be between \$2.6 M and \$3.0 M which is dependent on the size of the ETC. The calculation is detailed in Appendix "B" to Report FCS10051(b).

Staffing: N/A

Legal: N/A

## **HISTORICAL BACKGROUND**

In 2004, the Camco Inc. plant closed and the property at 175 Longwood Road South was put up for sale. MIP purchased the property in 2005 and proceeded to demolish the former factory building, leaving them with DC demolition credits for 600,150.87 square feet of industrial development.

Since the demolition occurred in 2005, MIP has renovated an existing office building into office, laboratory and conference facilities (the Atrium) and built the Canmet research centre which is dedicated to metals and materials fabrication, processing and evaluation.

MIP requested a five-year extension to their DC demolition credits in 2010 to allow them to make use of the unused credits on two projects planned to begin by 2012. In October 2010, Council approved a three-year extension, expiring on July 31, 2013 and requested that MIP provide annual updates on the progress of the projects.

MIP went forward with the McMaster Automotive Research Centre (MARC). However, due to funding availability and market demand, it was built on the west side of the street in 2012 / 2013 (270 Longwood Road South).

Occupancy is expected in 2018 for the Fraunhofer Centre for Biomedical Engineering and Advanced Manufacturing (BEAM), also located on the west side. The building permit required for the renovation of the warehouse building was issued in late 2016.

As of July 31, 2017, MIP had received two further extensions on the credits through Report FCS10051(a) approved at the September 8, 2013 AF&AC and secondly through a motion at the July 8, 2015 AF&AC. Nevertheless, MIP still had not made use of the same DC demolition credit approved for extension by Council in 2010 which meant a credit for 394,483.55 square feet of industrial development remained as at the July 31, 2017 expiration.

AF&AC, at its meeting of August 16, 2017, received as Item 6.1 a presentation (Appendix "A" to Report FCS10051(b)) from Zach Douglas, President and CEO of McMaster Innovation Park, requesting an extension of the DC demolition credits for the east side of McMaster Innovation Park (MIP) at 175 Longwood Road South and directed staff to report back to the AF&AC on the matter.

## **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 and Economic Development, there were delays in the redevelopment that were beyond the control of the developer (OMB appeals for example). The request by MIP does not fall under either of the circumstances where Council has delegated the authority.

Precedent exists for extending DC demolition credits to a maximum of ten years for a large scale redevelopment through the approval of Reports FCS16084, FCS17008 and FCS17067 which extended the DC demolition credits for the Centre on Barton, Mountain Plaza Mall and Hamilton Central Business Park (440 Victoria Avenue North) redevelopments.

MIP has already had 12 years to make use of the DC demolition credits and therefore any extension would be precedent setting.

## **RELEVANT CONSULTATION**

Staff from the Planning and Economic Development Department advised that while no formal applications have been made as of September 19, 2017, meetings to discuss the hotel have occurred and a development application is expected soon.

Staff from the Planning and Economic Development Department has advised that a one-year extension would not likely be sufficient for this development and that a three-year period would be more reasonable should an extension be considered.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION**

### **Five-Year Limit on Demolition Credits**

The five-year limit on DC demolition credits in the DC By-laws 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 does not 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. While MIP has redeveloped portions of the site, the undeveloped portion has been vacant for over 12 years.

#### 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 and 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 MIP Development does not fall under either of the circumstances where Council has delegated the authority.

Precedent exists for extending DC demolition credits to a maximum of ten years for a large scale redevelopment through the approval of Reports FCS16084, FCS17008 and FCS17067 which extended the DC demolition credits for the Centre on Barton, Mountain Plaza Mall and Hamilton Central Business Park (440 Victoria Avenue North) redevelopments.

MIP has already had 12 years to make use of the DC demolition credits and therefore any extension would be precedent setting.

#### Economic Strategy Alignment

The MIP development aligns with the City's Economic Strategy. As per the Economic Development Action Plan 2016-2020, Economic Development's mandate is to retain and create living-wage jobs, increase the non-residential tax base and increase Hamilton's attractiveness as "the best place to raise a child and age successfully".

#### Financial Considerations

An extension of the DC demolition credits would place pressure on the tax and rate payers since DC exemptions need to be recovered from other sources. Appendix "B" to Report FCS10051(b) estimates the financial impact at current DC rates between \$2.6 M and \$3.0 M.

Staff recommends denying the request to extend the DC demolition credits because of the precedent this would set, the accompanying financial impact and the lack of evidence that this delay in development is outside the intended scope for the limit on DC demolition credits.

## **ALTERNATIVE FOR CONSIDERATION**

### **Extend the DC demolition credits three years and cap the financial impact to the value at the original expiration on July 31, 2010**

Financial: Typically, the value of a DC demolition credit is dependent on when a building permit is issued and the rates in effect at that time. Based on the current rate of \$12.16 per square foot for industrial development, the unused credits are worth \$4,796,919.97 (394,483.55 square feet). At the time of demolition in July 2005, the same 394,483.55 square feet had a value of \$631,173.68 (\$1.60 per square foot). At the original expiration of the DC demolition credits in 2010, the 394,483.55 square feet had a value of \$2,623,315.61 (\$6.65 per square foot).

As can be seen, the value of a DC demolition credit has the potential to significantly increase in value over time. Therefore, consideration needs to be given to the financial impact and precedence that an effective 15-year DC demolition credit would create. Staff would suggest capping the benefit to the value at the original expiration date (\$2,623,315.61).

Any development on the subject property that occurs during the period of the DC demolition credit extension would potentially result in foregone DC collections. Appendix “B” to Report FCS10051(b) details the specific financial considerations with respect to the Alternative extension.

The Alternative three-year extension of the DC demolition credits would result in 394,483.55 square feet expiring on July 31, 2020 (all industrial class) and would cap the financial impact at \$2,623,315.61.

The potential foregone DC collections would 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) would be required to recover any future foregone DCs related to the MIP redevelopment under this Alternative.

Staffing: N/A

Legal: N/A

**SUBJECT: Development Charges Demolition Credit, Request for Extension, McMaster Innovation Park, 175 Longwood Road South (FCS10051(b)) (City Wide) – Page 7 of 7**

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Pros: Could result in development occurring earlier than staff recommendation and recognizes financial challenges of developer.

Cons: Sets precedent for 15 year DC demolition credit extensions and places financial pressure on the City's tax and rate payers.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Community Engagement & Participation**

*Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.*

**Economic Prosperity and Growth**

*Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.*

**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" – Presentation to AF&AC meeting of August 16, 2017 accompanying McMaster Innovation Park request for extension of Development Charges Credit

Appendix "B" – MIP DC Demolition Credits: Financial Details

LG/dt