Business Case for Service Level Change

Request/Project Name: Brewer Lofts - Community Improvement Plan Financial Request

Department: Growth and Infrastructure **Division:** Planning Services Division

I. Executive Summary

Overview of Proposal

This business case responds to Planning Committee Resolution PL2017-172. It outlines the $9.5M requested under both the Downtown Sudbury Community Improvement Plan (DSCIP) and the Brownfield Strategy and Community Improvement Plan (BSCIP) for lands located at 185-227 Lorne Street (the "Brewer Lofts"). If approved, these incentives would help finance approximately 48% of the proposed development cost and would increase the City's overall assessment and municipal tax base.

The proponent has requested amounts that are beyond the program caps established under the DSCIP and BSCIP. The total estimated grants and loan for the project are as follows: approximately $3.7M of Tax Increment Equivalent Grants; approximately $30,330 in Tax Assistance; a Planning Fee Rebate of $5,000; a Building Permit Fee rebate of approximately $175,000 ($115,000 over program cap); a Facade Improvement Grant of $15,000; a Residential Incentive Grant of $1M ($800,000 over program cap); and a Multi-residential Interest-Free Loan of $4.5M ($4.25M over program cap). Under the DSCIP, the City "may receive applications that exceed the maximum program amounts outlined in the [CIP]. At its sole discretion, Council may provide incentives that are greater than the amounts outlined [in the CIP], provided that all other criteria are met." Should this proposal be approved, the City would see a public/private investment ratio of approximately 1:1. In comparison, the public/private investment ratio of the requests received as part of the 2017 Expression of Interest period for the DSCIP is estimated to be 1:12. The funding of these requests is the subject of a separate business case.

Service Level Impact

This proposal would allow the City to provide financial incentives to the property owner, thereby encouraging reinvestment and redevelopment in the downtown, per the DSCIP, and the redevelopment of a brownfield site, per the BSCIP.

II. Background

Current Service Level (Describe the existing level of service provided)

Service Name	Service Description (What is the current level of service)
Financial Incentives	The DSCIP and BSCIP contemplate providing financial incentives to property owners and tenants who want to develop a property in the downtown, or on a brownfield site, respectively.

Drivers for Proposed Course of Action

1.Corporate Strategic Plan
2.Downtown Master Plan
3.Downtown Sudbury Community Improvement Plan
4.Brownfield Strategy and Community Improvement Plan
5.Council direction re: 2017 Budget (FA2016-43A8)
6.Planning Committee Resolution PL2017-217 to develop business case

III. Recommendation

Categorize your specific request (mark an 'X' for all that apply):

X	Change to base operating budget		Change to base FTE allocation
	Change to fees (unit price)		Change to revenues (volume change)
X	Investment in Project		

Recommendation (How/Why)

This investment would respond to Council's objective of funding economic development plans, would help meet the redevelopment and residential targets outlined in the Downtown Master Plan, and would revitalize a former industrial site in one of the the city's most visible corridors. As noted above, the $9.5M represents a 1:1 ratio in public/private development investment and exceeds several program caps outlined in the DSCIP.

Urgency

Per the proponent's October 2017 application, the proponent anticipates the completion of the project in 36 months' time. Proceeding or delaying the decision to the 2019 budget may affect the project schedule.

How does this align with Council's Strategic Plan?

Council has established a priority of implementing the economic development related plans approved by Council, with the necessary resources to support them. This priority rests under the Growth and Economic Development Pillar.

IV. Impact Analysis

Qualitative Implications

If approved, this public investment of $9.5M would stimulate a private sector investment of approximately $10M (total project construction cost of approximately $20M). It would also help achieve a number of planning outcomes, including the revitalization of Downtown Sudbury and an increase of the residential units of the downtown, amongst other matters.

Quantifiable Implications - Revenue & Expenditures

If approved, this $9.5M investment would require that new expenses be incurred by the City of Greater Sudbury. A 3.8% tax increase would be required to fund this initiative.

The requested grants and loan fall into two separate categories as to when they would be advanced: prior to occupancy, and post occupancy. The loan and the City's Tax Assistance would both be granted prior to occupancy. The municipality's estimated cost of the interest on the $4.5M loan is $90,000 each year for 5 years. The total grant for the tax assistance program over the 36 months is estimated to be $30,330.

The post-occupancy grants include the Tax Increment Equivalent Grant (estimated at $3.78M over 15 years), Planning Fee Rebate (estimated at $5,000), the Building Permit Fee Rebate (estimated at $175,000), the Facade Improvement Grant ($15,000), and the Residential Incentive Grant ($1,000,000).

Operating Revenues - Incremental

Detail

Description	Duration	Revenue Source		2018 $	2019 $	2020 $	2021 $	2022 $
	On-Going			$ -	$ -	$ -	$ -	$ -
	One-Time			$ -	$ -	$ -	$ -	$ -
Total				**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Operating Expenditures - Incremental

Detail

Description	Duration	Funding Source		2018 $	2019 $	2020 $	2021 $	2022 $
Brewer Lofts Financial Incentives	One-Time	Tax Levy		$ 9,507,785.00	$ (9,507,785.00)			
	On-Going			$ -	$ -	$ -	$ -	$ -
	One-Time			$ 9,507,785.00	$ (9,507,785.00)	$ -	$ -	$ -
Total				**$ 9,507,785.00**	**$ (9,507,785.00)**	**$ -**	**$ -**	**$ -**

FTE Table

Detail

Position	Bargaining Unit	Duration	Full Time / Part Time		2018 (FTE #)	2019 (FTE #)	2020 (FTE #)	2021 (FTE #)	2022 (FTE #)
		On-Going			-	-	-	-	-
		One-Time			-	-	-	-	-
Total					**-**	**-**	**-**	**-**	**-**

Net Impact		2018 $	2019 $	2020 $	2021 $	2022 $
On-Going		$ -	$ -	$ -	$ -	$ -
One-Time		$ 9,507,785	$ (9,507,785)	$ -	$ -	$ -
Total		$ 9,507,785	$ (9,507,785)	$ -	$ -	$ -

Implementation *(Likelihood; list any assumptions, constraints)*

Likelihood: There is a medium to high likelihood that the desired planning outcomes outlined above will be realized if the proposal proceeds. The outlined benefits are likely to occur once the development is completed (36+ months).
Assumptions: That, pursuant to the Planning Committee recommendation on the application to rezone the property, the following conditions are fulfilled by the proponent by November, 2018: that the proponent has entered into an agreement to acquire, or has acquired Alder Street; that the owner has prepared a Transportation Demand Management Report to the satisfaction of the City; that the proponent prepares noise and vibration studies to the satisfaction of the City; that Council declares the lands a Class IV area under Provincial noise guidelines for stationary and transportation sources. That a Record of Site condition is filed. The proponent would then need to enter into a site plan agreement with the City and obtain a building permit. Proponent is able to achieve pre-sales and secure construction financing.
Constraints: Construction and implementation dependent on actions of applicant. These actions are beyond the City's control.

Consequences *(What would be the negative results or drawbacks)*

A negative consequence of implementing the proposal would be the perception that the City is providing monies beyond program caps, that this private venture is being subsidized at a 1:1 ratio and that money should be spent on other priorities. Other CIP proposals have demonstrated an aggregate 1:12 ratio in public and private monies.

Dependencies/Synergies *(Does the proposal depend on any other projects)*

Council adopted the Downtown Sudbury CIP in December, 2016, and directed staff to launch an Expression of Interest (EOI) process to explore eligible projects and total incentive request of the municipality. The requests received as part of the EOI period are being considered by Council as part of the 2018 Budget.

The proposal is also subject of Planning Application 751-6/15-26. The proponent has two years (until November, 2018) to fulfill the conditions outlined in the Implementation section above. The proponent is then required to file a Record of Site Condition, enter into a site plan agreement with the City, and obtain a building permit.

Capacity Impacts *(Is there enough capacity? Are other departments impacted?)*

Community Improvement Grant programs are administered by Planning Services, in consultation with Legal Services, Building Services and Finance.

In November, 2016, Council directed Staff to include a loan program in the DSCIP. The City of Greater Sudbury does not have the internal expertise to manage a loan program. There is limited staff capacity in this area given the lack of take up on the previous interest free loan programs, the additional administrative complexity and financial risk (e.g. defaults) associated with such programs, and the affordability of such programs (e.g. the amount of incentives offered through an interest-free loan program has to be significant enough for the interest free component to be meaningful in an environment of relatively low lending rates).

V. Alternatives

Alternatives Considered

Solution Options	Operating Changes	Revenue Changes	Advantages/ Disadvantages
Do not provide financial Incentives for 185-227 Lorne			Advantages: Monies provided to other priorities; Disadvantage: Proponent may not redevelop property. Perception of having a CIP without resources.
Provide financial Incentives for 185-227 Lorne			Advantages: Creates investment environment; achieves planning outcomes for Downtown Sudbury and Brownfield Redevelopment; Disadvantages: Creates perception that City is subsidizing private development.
Provide grants but not loan.			Advantages: Grants provided post occupancy (i.e. greater certainty of achieving desired outcomes); greater public to private ratio of investment (approx 1:3); Disadvantages: Creates perception that City is subsidizing private development.
Provide Grants and Loan at DSCIP Program Caps			Advantages: Perception of fairness by providing grants within established program caps; Grants provided post occupancy (i.e. greater certainty of achieving desired outcomes); greater public to private ratio of investment ($4.4M: $15.6M; approx 1:3.6); Less financial risk regarding loan. Disadvantages: Proponent may not develop property with lesser grant and loan totals.

VI. Risks

Risks (What are the risks of not implementing this change?)

There are several project and financing risks associated with proceeding with this investment. The risks associated with the project include the ability of the proponent to satisfy the conditions related to the lifting of the holding symbol on the zone (enter into an agreement to acquire, or acquire Alder street; prepare noise and vibration studies, and a transportation demand management plan, to the satisfaction of the City; that Council declares the lands a Class IV area under Provincial noise guidelines for stationary and transportation sources); and the ability of the proponent to secure a Record of Site Condition, enter into a site plan agreement and obtain a building permit.

The financial risks of the application is the proponent's ability to achieve pre-sale targets; and the ability of the proponent to obtain construction financing. Should the proposal be approved, and per the program requirements, the loan would be advanced in three stages: upon completion of 60%, 80% and substantial completion of the project. If divided equally in three parts, the first loan installment would be $1.5M. Should the proponent default on the loan, there is a potential that that the City may not be in a position to recoup the loan (being the 2nd or 3rd lender). In other words, the City may be last on the list to receive payment, given that any charge on the property would be subordinated to all other lenders first.