

CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Economic Development Division

Report to: Chair and Members Planning & Economic Development Committee	Submitted by: Lee Ann Coveyduck General Manager Planning and Economic Development Department
Date: March 27, 2006	Prepared by: Neil Everson (905) 546-2424 Ext. 2359

SUBJECT: Brownfield Pilot Project Fund (PED06103) (City Wide)

RECOMMENDATION:

- a) That the Grand Connaught Development Group Inc. be approved for funding under the Municipal Acquisition and Partnership Program (MAPP - Brownfield Pilot Project) in the amount of \$229,500.
- b) That the \$229,500 be charged to Brownfield Capital Account #3620155102 which is funded from the 20% portion of increased assessment Environmental Remediation and Site Enhancement (ERASE) tax rebates.
- c) That this grant be conditional on the Grand Connaught Development Group Inc. securing and placing the Five Diamond Hotel brand in the 112 King Street East property.

Lee Ann Coveyduck
General Manager
Planning and Economic Development Department

EXECUTIVE SUMMARY:

The Grand Connaught Redevelopment Group Inc., a local consortium of investors, has commenced an over \$30 million renovation and redevelopment of one of Hamilton's most historic properties – the Royal Connaught Hotel. This upgrade of this aging City landmark will result in a type of property only found in large cosmopolitan cities. When completed, the Royal Connaught Hotel will have a Five Diamond Hotel designation with 155 renovated rooms including long-term stay suites. It will also include 41 upscale

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condominiums known as “Hotel Living Residences” that will offer all the amenities of a Five Diamond Hotel while residing in your own private residence.

During construction, the Grand Connaught Redevelopment Group Inc. ran into a major asbestos problem that far exceeded the minimal contamination identified by their consultants. In order to comply with Provincial Regulation and property standards expected by the Five Diamond Hotel brand, the company had to expend more than \$900,000 for removal and disposal of asbestos materials found in the ceilings and wall panels. Of even greater significance, is that an environmental “clean bill of health” is required for approval of final financing for the redevelopment.

The Grand Connaught Redevelopment Group enquired if the City’s Brownfields Environmental Remediation and Site Enhancement (ERASE) Program could assist with this significant cost overrun. Since the ERASE Program employs a Tax Increment Financing tool similar to the Enterprise Zone (which the Grand Connaught was approved for) it could not be applied to the contamination. However, another component of the ERASE Program known as the Municipal Acquisition and Partnership Program (MAPP) has a Brownfield Pilot Project section that enables Council to provide funding on strategic Brownfield redevelopment projects that provide significant benefits to the municipality. Consequently, on February 9, 2006 the Grand Connaught Redevelopment Group Inc. made application for funding from the City’s Brownfield’s Pilot Project Program.

BACKGROUND:

History

Built in the years 1914-16, the Royal Connaught Hotel was the dream of Hamilton businessman Harry Frost. The grand hotel was built by the Piggot Construction Company at a total cost of \$1 million. When the hotel opened in 1916 there were 244 bedrooms and a banquet hall with capacity of 1,500 people. The hotel was named after the Duke of Connaught, the then Governor General of Canada. It immediately became Hamilton’s foremost establishment for entertaining royalty, Hollywood stars and many other visiting dignitaries.

Since the addition of the annex in 1930, the Royal Connaught has had a number of new owners (including the Sheraton in the 1970s) and an equal number of renovations and upgrades. However, none of these improvements addressed the major structural, HVAC and other property deficiencies. Over the last decade the hotel has fallen considerably in both status and quality, and finally closed its doors in November 2004. The result was a major blow to the urban landscape and redevelopment of the King Street East corridor. The property is currently listed on the City’s Inventory of Architectural and/or Historical Interest and included on LACAC’s list of Landmark Buildings in the Downtown Core.

Enterprise Zone (EZ)

The Grand Connaught Development Group Inc., a group of local investors, purchased 112 King Street East with a plan to convert and restore the former 12-storey hotel and office building into 80,000 square feet of residential condominium units and 160,000 square feet to a Five Diamond Hotel and efficiency suites with the ground floor to condominium commercial and retail space. The estimated construction cost is in excess of \$30 million and is supported by construction cost estimates. The subject property resides within the Enterprise Zone boundary as outlined in the Downtown Hamilton Community Improvement Plan.

On September 28, 2005, City Council approved an application under the "Enterprise Zone Municipal Realty Tax Incentive Grant Program" for the property located at 112 King Street East. Under the EZ Program, a nine (9) year grant was approved that will not exceed the increase in municipal realty taxes as a direct result of the development/redevelopment of the land and/or building. The proposed development did meet the criteria and requirements of the EZ Program and is consistent with the designations and policy direction of the Downtown Hamilton Secondary Plan.

Through a Request for Applications in the spring of 2005, the Grand Connaught Development Group Inc. has also applied under the terms of the Hamilton Downtown Residential Loan Program for a loan of \$1.6 million for the residential condominium component. This conditional loan commitment was approved by City Council on March 1, 2006.

Brownfields Pilot Project

In 2001, City Council established a \$500,000 Brownfield Pilot Project Fund in order to encourage and assist the redevelopment of strategic Brownfield properties located in Hamilton. The purpose of Council's investment was to stimulate redevelopment and growth in the surrounding neighbourhood area as a result of a contribution to a high profile Brownfield project. Since the program's inception, two (2) pilot projects have been funded: 1) the Wellington Block redevelopment (\$100,000 grant) in partnership with Hamilton Health Sciences Corporation that will see a major new health care related development and expansion of the facilities at the Hamilton General, and 2) 440 Beach Boulevard (\$175,000 grant) involving the remediation of a former gas station with the plan to construct 93 residential units on Hamilton's historic beach strip.

The Brownfield Pilot Project fund is currently being replenished by the ERASE MAPP as contained in the Council approved 2005 Brownfields Community Improvement Plan (CIP). The purpose of the MAPP is for the City to create awareness of Brownfield redevelopment opportunities and funding through municipal leadership in property acquisition, investment and municipal financial involvement in pilot projects to clean up and redevelop Brownfield sites in the Project Area.

The MAPP is funded from the 20% of the tax increment or tax assistance that is retained by the City as a result of properties participating in the ERASE Redevelopment Grant Program (RGP) or Tax Assistance Program (TAP), and other monies as allocated by Council. This 20% of the tax increment or tax assistance retained by the City will be placed in a Brownfields Pilot Project (BPP) Account. As funds accrue in this account,

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the City may use these funds to:

- a) conduct environmental site assessments on municipally owned properties that are potentially contaminated;
- b) clean up and redevelop municipally owned Brownfield properties;
- c) conduct environmental site assessments on properties controlled through the tax arrears sales process;
- d) acquire, remediate, rehabilitate and redevelop key privately owned Brownfield sites;
- e) fund Brownfield pilot projects (public-private partnerships) to acquire, remediate, rehabilitate and redevelop privately and publicly owned Brownfield properties; and, educate and inform the public about the importance of Brownfield redevelopment.

In regards to administration of the program, the approved CIP states that the Economic Development Department will be responsible for administering the MAPP, in consultation with other departments as necessary. Authority under this program would be exercised in order that redevelopment of land or buildings may occur in conformity with this Plan, subject to Council approval.

The Royal Connaught Brownfield Pilot Project

As previously described, the Grand Connaught Development Group Inc. has commenced conversion and restoration of the former 12-storey hotel and office building into 80,000 square feet of residential condominium units and 160,000 square feet to a Five Diamond Hotel and efficiency suites with the ground floor to condominium commercial and retail space. To date, the estimated construction cost is in excess of \$30 million and is supported by construction cost estimates.

Although the combination of hotel and condominiums is unique to Hamilton, it is becoming an increasingly popular form of urban development in major cities throughout North America. These condominiums are described as “Hotel Living Residences” that enable the owners to have access (for a fee) to hotel amenities and services including laundry, room services, valet parking, pool and fitness centre. There will be 41 units including rooftop penthouses that range in size from 926 to 3,095 square feet.

The renovated Connaught will have 155 hotel rooms with the addition of long-term stay suites for the corporate traveller. The Grand Connaught Development Group Inc. has secured a major international Five Diamond hotel brand for the 112 King Street East and in order to meet the eligibility requirements for this corporate flag, the Grand Connaught Development Group Inc. had to agree to a number of strict property standards (examples) including air quality and circulation.

During the massive renovations the Grand Connaught Development Group Inc. discovered that the extent of asbestos contamination far exceeded their consultants' estimation which described it as minimal. The asbestos was not only located in the ceilings throughout the hotel but in the wall panels. The presence of this contaminant had significant ramifications in regards to compliance of the Ministry of Environment regulations, the property standards as established by the Five Diamond Hotel Brand,

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and for the 41 condominiums units. The unbudgeted cost of removal of the asbestos contamination has been estimated at approximately \$918,000.

On January 18, 2006, City staff was approached by the Grand Connaught Development Group Inc. to determine if there were any applicable programs that could assist these local investors with offsetting a portion of the costs of this significant environmental problem. Since the ERASE RGP and TAP programs cannot be delivered within the Enterprise Zone CIP, the only possible option to the City was funding this request through the MAPP - Brownfields Pilot Project program. Consequently, the Grand Connaught Redevelopment Group Inc. then made application under this program for assistance with this contamination problem.

Application to the program was made on February 9, 2006 by the Grand Connaught Redevelopment Group Inc. The final approval of the Pilot Project funding resides with City Council. Staff is recommending funding in the form of a grant for 25% of the costs (to be supported by copies of official invoices pertaining to the costs of removal and disposal of the asbestos) which equates to approximately \$229,500 and that this amount be conditional on the Grand Connaught Redevelopment Group Inc. securing the Five Diamond Hotel brand.

ANALYSIS/RATIONALE:

The reasons for supporting this Brownfield Pilot Project funding request can be summarized as follows:

- Impact on Tourism (see following section)
- Obtaining final financing for the project conditional on asbestos abatement
- Supporting the only Five Diamond accommodations in the City
- Restoration of an historic landmark building in the Downtown Core
- Assisting a major redevelopment on King Street East and revitalizing one of the most depressed areas of the core
- Increasing the high end residential inventory downtown thereby bringing more people back to the core
- Supporting a group of local investors making a multi-million dollar commitment to the City
- Ensuring health and safety standards for City residents and long term visitors
- The City will be able to market and promote another major successful Brownfield redevelopment and in particular, one that preserves Hamilton's heritage.

Impact on Tourism

The Royal Connaught is the symbolic heart of Hamilton's tourism experience. Many significant events and celebrations have been hosted at this landmark hotel since its opening in 1916. The restoration of the Royal Connaught will provide a significant boost to Hamilton's tourism industry while revitalizing the downtown.

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Tourism Hamilton's ability to attract conventions, sport events and other special celebrations will be enhanced with a restored historic hotel. The new Royal Connaught will significantly expand the available hotel room inventory in Hamilton, specifically in downtown Hamilton, providing new rooms in the meeting and entertainment district.

Today's discerning customer, whether they are a meeting planner, leisure visitor or sport event participant, is looking to stay in new and comfortable accommodation. Hamilton's tourism reputation over the recent past has suffered as a result of a lack of quality hotel rooms. With the opening of the Staybridge Suites by Holiday Inn, the soon-to-be-open Courtyard by Marriott, a new Hilton Homewood Suites and a restored Royal Connaught, a strong signal will be delivered to our customers and go a long way to re-building Hamilton's reputation as a preferred convention and sport event destination. The accommodation sector will then be better able to support the convention, entertainment and sport venues that host events.

ALTERNATIVES FOR CONSIDERATION:

The City of Hamilton could deny funding to the Grand Connaught Redevelopment Group Inc. through the Brownfields Pilot Project Program. However, the removal of the asbestos in the hotel and a subsequent "clean bill of health" from the Ministry of Environment are critical to obtaining final financing for the redevelopment. Therefore, for the financing to be completed as expeditiously as possible and the restoration to be completed, the asbestos must be removed. The Pilot Project Funding directly assists with this objective.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

Financial - Currently there are funds available in the Brownfields Pilot Project Capital Project ID 3620155102. The approval of this request of \$229,500 can be accommodated from the Capital project.

Staffing - N/A

Legal - The application request is consistent with the Brownfield's Pilot Project program.

POLICIES AFFECTING PROPOSAL:

N/A

RELEVANT CONSULTATION:

Planning and Economic Development Department

- Downtown Renewal Division
- Tourism Hamilton
- Economic Development (Brownfields) Division

City Manager's Office

- Legal Services and Corporate Counsel

Corporate Services Department

- Budgets and Finance Division

CITY STRATEGIC COMMITMENT:

By evaluating the “**Triple Bottom Line**”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. **Yes** **No**
Arts, culture, archaeological and cultural heritage are supported and enhanced.

Environmental Well-Being is enhanced. **Yes** **No**
Human health and safety are protected.

Economic Well-Being is enhanced. **Yes** **No**
Investment in Hamilton is enhanced and supported.

Does the option you are recommending create value across all three bottom lines?
 Yes **No**

Do the options you are recommending make Hamilton a City of choice for high performance public servants?
 Yes **No**

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