CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Economic Development & Real Estate Division

TO: Chair and Members
   General Issues Committee

WARD(S) AFFECTED: WARD 3

COMMITTEE DATE: May 9, 2011

SUBJECT/REPORT NO:
Max Aicher North America Limited - Brownfield Pilot Project Fund (PED11085) (Ward 3)

SUBMITTED BY:
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Planning & Economic Development Department

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SIGNATURE:

RECOMMENDATION

a) That Max Aicher North America Limited (MANA) be approved for funding under the ERASE Municipal Acquisition and Partnership Program (MAPP) – Brownfield Pilot Project in the amount of $201,741.15.

b) That the $201,741.15 be charged to Brownfield Pilot Project Capital Account #3620155102 which is funded from the 20% portion of increased tax generated, and not returned to applicants through the ERASE Redevelopment Grant program.

EXECUTIVE SUMMARY

MANA has recently acquired two formerly idled steel mills (as of November 12, 2010) – the No. 1 Bar Mill and the No. 3 Bloom and Billet Mill from U.S. Steel Canada Inc. located at 855 Industrial Drive and 1155 Industrial Drive respectively (see Appendix A to Report PED11085). This strategic acquisition by a leading European steel company will result in a project valued at approximately $100 million and has already created 125 jobs with plans to more than double their staff over the next three years. As part of the acquisition, MANA inherited equipment and fixtures, including 18 Polychlorinated...
Biphenyls (PCB) transformer units and the related environmental impacts associated with such units. They also inherited an order by the Department of the Environment, Environment Canada, to replace this equipment and liquids used for their servicing with an end-of-use date of December 31, 2009. U.S. Steel Canada Inc. and now MANA have received subsequent extension dates from Environment Canada to the end-of-use date for the PCB containing transformers with the nearest extension date for MANA now being December 31, 2011.

MANA applied to the City’s Brownfields Environmental Remediation and Site Enhancement (ERASE) Program to assist with the replacement and/or remedial costs associated with the PCB transformers. Since the ERASE Redevelopment Grant Program employs a Tax Increment Financing tool, it could not be applied to the remediation as there will be no direct incremental taxes resulting from MANA’s restart of the formerly idled mills (as US Steel Canada did not apply for a vacancy rebate of the two mills). However, another component of the ERASE Community Improvement Plan (CIP), 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 10th, 2011, MANA made a request for funding from the City’s ERASE Municipal Acquisition and Partnership Program – Brownfield Pilot Project.

Alternatives for Consideration – See Page 6

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: Currently there are funds available in the Brownfields Pilot Project Capital Project ID 3620155102. The approval of this request of $201,741.15 can be accommodated from the Capital project.

Staffing: N/A

Legal: The application request is consistent with the ERASE Municipal Acquisition and Partnership Program (MAPP) and Brownfield Pilot Project accounts.

HISTORICAL BACKGROUND (Chronology of events)

Max Aicher North America (MANA) Limited is a leading European steel company specializing in producing hot rolled steel bar products for the construction and automotive industries. Headquartered in Germany, the Max Aicher Group has over 3,000 employees worldwide. Steel & Production is the largest business segment of the Max Aicher Group of Companies whose other divisions include, Environment & Recycling, Properties & Projects, and Building & Construction. Max Aicher is an
exclusive supplier of special components for many automotive as well as a world market leader in many segments of civil engineering. This necessitated the need to enter and grow the North American market with the purchase of two idled mills from US Steel Canada Inc. in November of 2010. This will effectively bring back into production just shy of 1 million square feet of steel production space in Hamilton.

The company had been in discussions with US Steel Canada Inc. for several years about the No. 1 Bar Mill and No. 3 Bloom and Billet Mill totalling 935,000 sq.ft. of industrial space. MANA required a North American location in order to supply three of its most important markets; 1) the mining industry; 2) the construction industry; and 3) the automotive industry. The later in particular, was necessitated because many of Max Aicher’s major customers (European automakers) have established operations in the United States and require their supplier's close for Just-In-Time reasons. Additionally, there is significant cost savings from shipping product out of Hamilton as compared to Germany.

Included in the purchase of the two mills was additional equipment and fixtures. As a result of the purchase, MANA inherited an extended end-of-use order for equipment and liquids containing PCBs from Environment Canada. This includes the removal and disposal of 18 transformer units containing PCBs. The original end-of-use date of December 31, 2009 was extending to US Steel Canada Inc. to several new dates: 9 units to removed and replaced by July 31, 2010, 3 units to be removed and replaced by February 28, 2011 and 6 units to be removed and replaced by December 31, 2011.

When MANA acquired the two mills in November 2010, none of the units had been removed and replaced. As such, MANA requested from Environment Canada another extension to the end-of-use dates for the PCB equipment citing the delay in acquiring the mills and the related start-up process and the lead time involved in ordering new equipment that are not purchased “off the shelf” and are engineered to order.

MANA received notice of the extension of the end-of-use dates from Environment Canada on March 7th, 2011. The new extension dates for the end-of-use are as follows: 3 units to be removed and replaced by December 31, 2011, 4 units to be removed and replaced by June 30, 2012, and 11 units to be removed and replaced by December 31, 2014.

MANA received several quotes for transformer removal for the 18 PCB transformers at the two mills. MANA’s chosen vendor, Aevitas estimates the removal and remediation in the related timeline to be $1,201,741.15.

Through various meetings with MANA prior to the acquisition of the two mills, MANA asked if there was any assistance the City could provide as the acquisition, start-up and related plant upgrading was going to leave the company in a cash flow squeeze. It was at this time the City learned of the PCB transformers and related environmental
concerns. Traditionally, MANA would apply to the ERASE Redevelopment Grant program (RGP) or the ERASE Tax Assistance Program (TAP), whereby remediation costs would be rebated through the increase in property taxes resulting from redevelopment (tax increment financing). In this instance however, US Steel Canada Inc. did not apply for a vacancy rebate for either of the idled mills, and therefore there will be no new incremental taxes generated by MANA restarting the two mills. As the RGP and TAP are not applicable the only possible option to the City was helping fund this request through the ERASE MAPP – Brownfields Pilot Project. Consequently, MANA then made a request for funding under this program for assistance with the removal and disposal of the PCB transformers.

The request to the program was made on February 10th, 2011 by MANA. The final approval of the Brownfield Pilot Project funding resides with City Council. Staff is recommending funding in the form of a grant of $201,741.15 (to be supported by copies of official invoices pertaining to the cost of remedial efforts) which equates to approx. 16.78% of the estimated $1,201,741.15 cost.

Brownfield Pilot Projects

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, four (4) pilot projects have been funded: 1) the Wellington Block redevelopment ($100,000 grant) in partnership with Hamilton Health Sciences Corporation for a major new health care related development and expansion of the facilities at the Hamilton General, 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, 3) the Grand Connaught Development Group Inc. ($229,500 grant) to remove and dispose of asbestos materials with the plan to construct a $30 million renovation and redevelopment of one of Hamilton’s most historic properties – the Royal Connaught Hotel, and 4) VON Hamilton ($14,351 grant) involving remediation required for expansion of their health and support services facility.

The Brownfield Pilot Project fund is currently being replenished by the ERASE MAPP as contained in the Council approved 2010 ERASE 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, 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,

f) 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 and Real Estate Division 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.

**POLICY IMPLICATIONS**

Report PED11085 relates to the processing of a request for funding under the ERASE Municipal Acquisition and Partnership Program (MAPP) which is contained within the City’s approved ERASE Community Improvement Plan.

**RELEVANT CONSULTATION**

Staff from the Finance and Administration Division and Taxation Division of the Corporate Services Department and the Legal Services Division of the City Manager’s Office, were consulted in the preparation of Report PED11085.
ANALYSIS / RATIONALE FOR RECOMMENDATION
(include Performance Measurement/Benchmarking Data, if applicable)

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

- Bringing approximately 1 million square feet of steel making capabilities back into production
- The injection of an initial 125 jobs into the local economy with many more anticipated
- Continuing Hamilton’s legacy as a manufacturing centre of excellence
- Ensuring health and safety standards for City residents and employees
- The City will be able to market and promote another successful Brownfield redevelopment

ALTERNATIVES FOR CONSIDERATION
(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

The City of Hamilton could deny funding to MANA through the ERASE Municipal Acquisition and Partnership Program – Brownfield Pilot Project. However, removal and replacement of the 18 transformer units and subsequent remedial activities is necessary for MANA to comply with the end-of-use date for equipment and liquids containing PCBs as outlined by Environment Canada.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)


Skilled, Innovative & Respectful Organization
- More innovation, greater teamwork, better client focus
- Council and SMT are recognized for their leadership and integrity

Financial Sustainability
- Effective and sustainable Growth Management
- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner
- Generate assessment growth/non-tax revenues

Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.
Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork
Growing Our Economy
- Newly created or revitalized employment sites
- Competitive business environment

Environmental Stewardship
- Reduce the impact of Hamilton's industrial, commercial Private and Public operations on the environment
- Aspiring to the highest environmental standards

APPENDICES / SCHEDULES

Appendix 'A' to Report PED11085 – Location Map

BM/NE:dt