Economic Development Opportunity - Viterra Memorandum of Understanding and Related Agreements

Date	March 23, 2022
To	Executive Committee
From	Financial Strategy & Sustainability
Service Area	Financial Strategy & Sustainability
Item No.	EX22-33

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Approve the City of Regina entering into a Memorandum of Understanding (“MOU”) with Viterra Canada Inc., ancillary to the Option to Purchase Agreement dated April 12, 2021, that:

   a) outlines the various incentives that the City of Regina (“City”) will provide to Viterra to support the construction of a canola crush plant (“Plant”), consistent with the terms and conditions stated in this report; and

   b) is conditional on ministerial approval of a boundary alteration that brings the related lands into the City.

2. Delegate authority to the Executive Director, Financial Strategy & Sustainability or their designate, to negotiate and approve any other commercially relevant terms and conditions of the MOU that do not substantially change what is described in this report.

3. Delegate authority to the Executive Director, Financial Strategy & Sustainability or their designate, to negotiate and approve the final binding agreements with Viterra Canada Inc. (the “Agreements”) reflective of the concepts contained in the MOU, any amendments to the Agreements that do not substantially change what is described in the MOU and any ancillary

agreements or documents required to give effect to the Agreements. The authority delegated by this section excludes the approval of any tax exemption agreement which must be approved by City Council.

4. Approve the transfer of up to $12.6 million from the Land Development Reserve to fund the costs of providing water and wastewater infrastructure, paying development charges, and acquiring land for rail, water and wastewater infrastructure as described in this report.

5. Approve the transfer of $6.0 million from the Asset Revitalization Reserve to fund the costs of investments in rail line development as described in this report.

6. Delegate authority to the Executive Director, Financial Strategy & Sustainability to approve an extension to the Option Term provided for in the Option to Purchase Agreement between the City and Viterra dated April 12, 2021 as, in his discretion, is reasonably necessary as long as Viterra is diligently pursuing its due diligence of the related development proposal.

7. Authorize the Executive Director, Financial Strategy & Sustainability to negotiate and approve agreements for the acquisition of land or easement rights, as required, in connection with undertaking the infrastructure investments (rail and utilities) as described in this report (the "Land Agreements"), and any ancillary agreements or documents required to give effect to the Land Agreements, provided such acquisition is at or below fair market value.

8. Authorize the City Clerk to execute the MOU, the Agreements and the Land Agreements after review and approval by the City Solicitor.

9. Approve these recommendations at its meeting on March 30, 2022.

ISSUE

Viterra Canada Inc. ("Viterra") and the City of Regina ("City") have entered into a land purchase option agreement for the purpose of building a canola crush plant ("Plant") north of the City. The Plant as proposed will be one of the largest canola crush plants in the world. The development would represent a significant investment in the City and contribute to Regina's agriculture and agri-food industry. Beyond the economic impact of the Plant, this development would serve as a catalyst for further economic growth in protein extraction, renewable fuel, and other complimentary industrial development.

Viterra has evaluated the economic competitiveness of multiple geographic locations for the Plant and has selected Regina as its preferred site. Viterra continues its due diligence process with the expectation the Viterra Board will make a final investment decision in the near future. To achieve its desired 2024 plant commissioning, site preparation work must begin in spring/summer of 2022. Providing certain incentives is required to make Regina competitive with other jurisdictions in Viterra's site selection process. The incentives relate to the provision of infrastructure for water and wastewater, the provision of a five-year property tax exemption, and the City paying the development charges to develop the area. The City also has an opportunity to invest in rail construction that leverages Viterra's rail investment to reduce the future cost of the City's rail relocation project. The City typically does not provide incentives to attract businesses and therefore significant consideration has been given to the incentives contemplated and their alignment with the Economic Development Regina's 2020-2030 Economic Growth Plan, and the City's priorities relating to Economic Prosperity, Environmental Sustainability and Financial Sustainability.

To provide assurance to its Board, Viterra is seeking to formally secure those incentives through a Memorandum of Understanding (MOU), followed shortly thereafter with formal agreements with the City.

The purpose of this report is to describe and obtain Council's approval of the proposed City commitments.

IMPACTS

Economic Impact

The proposed Plant and the development of associated agri-businesses is expected to have a transformational impact on the Regina economy. The Plant will create approximately 1,000 construction jobs and 100 permanent jobs upon completion. Pursuant to an economic analysis performed by Economic Development Regina (EDR), the Plant would add approximately $500 million (or 3 per cent) to the gross domestic product of the Regina region annually and $1.6 billion in total economic impact in the region. This level of increased economic activity will indirectly support up to 1,500 jobs. EDR estimates the construction phase of the development will bring approximately $23 million in municipal government revenue (property taxes, fees/charges, electrical surcharge revenue, etc.) related to the economic and job creation impact of the Plant to the Regina region.

Development of the proposed Plant would further establish Regina as an agriculture and agri-food hub. It is expected the Plant would attract complimentary development that is synergistic with the canola crush plant.

Financial Impact

The following provides a summary of the estimated cost of the incentives being recommended. A detailed description of these incentives is described further in the “Discussion” section of this report.

Summary of Incentives and Funding

	Estimated Cost
Water & Wastewater	$ 9.3 M
Development Charges	$ 2.0 M
Rail (capped)	$ 6.0 M
Land Acquisition (rail and water access)	$ 1.3 M
Cost of incentives recommended in report	$18.6 M
Land Option (less than market value) previously approved by Council	$ 2.3 M
Total incentives	$20.9 M

Pursuant to the above table, Administration is recommending Council approve an investment of approximately $18.6 million to support and realize the Viterra economic opportunity. The City will pursue opportunities to recover the costs or leverage the investments into future savings (e.g. recovery through future development accessing the water and wastewater infrastructure built, or leverage Viterra’s investment in rail as it relates to the Ring Road Rail Relocation project). This investment is in addition to the discounted land purchase price of $2.3 million previously approved by Council.

The above investments, with the exception of the $2.3 million related to the land purchase option, are conditional upon a boundary alteration occurring that would bring the subject lands within the City’s boundary. The property when developed is expected to generate $800,000 annually in municipal taxes. Once the proposed five-year tax exemption expires, these taxes would be available to repay the City investments into this economic project. Using a simple payback calculation on the estimated cost of $20.9 million without forecasting any future increase in property taxes at the Viterra Plant, increases in property value of adjacent City owned lands, reduction in cost to the City for future rail relocation, or recoveries from adjacent land developers benefiting from installation of infrastructure, and ignoring all other economic benefits the Plant is forecasted to bring to Regina, the payback period is approximately 31 years ($20.9 million/$800,000/year = 26 years + 5 year tax exemption = 31 years).

Administration proposes to finance the initial investment internally as follows:

- $9.3 million related to water/wastewater infrastructure to be funded from the Land Development Reserve (LDR), as the City is the land owner putting in infrastructure to ensure the development of the lands. The LDR would recover a portion of these infrastructure costs from other land owners or developments benefiting from the infrastructure being in place, with any remaining amount repaid from future property taxes generated from the Viterra property.

- $2 million related to the Development Charges from the LDR as the City is the land owner, with the LDR being repaid through future property taxes generated from the Viterra property.
- $1.3 million related to land acquisition costs for rail and water servicing purposes be funded from the LDR as the City is the land owner, with the LDR being repaid through future property taxes generated from the Viterra property.
- $6 million related to rail from the Asset Revitalization Reserve (ARR), with the ARR being repaid through future property taxes generated from the Viterra property.
- The previously approved sale of land at $2.3 million less than market value, which decreases land sale proceeds into the LDR, will be repaid through future property taxes.

As the above investments, with exception of rail, are intended to advance the economic development activity on lands owned by the City, and the City is the owner of those lands and additional surrounding lands, it is recommended funding needed to advance that work be funded from the LDR. While the LDR currently has a negative balance of approximately $18 million related primarily to funding of the Towns and Yards developments, should the land purchase option agreements be exercised by Viterra and FCL, the LDR will receive approximately $9.4 million from the sale of the lands. Further, as proposed above, the LDR will be reimbursed for these investments either from the recovery of costs from other land developments that access the infrastructure to be built, or future Viterra property taxes. While the LDR is in a negative position, the City has sufficient cash reserves (or positive cash flow) in excess of $400 million allowing the City to fund these investments from internal funds knowing any net investment will eventually be repaid through future Viterra property taxes.

With respect to the rail investment, Administration recommends funding be drawn from the ARR, as the investment ties to an infrastructure investment related to the Ring Road Rail Relocation project. The asset revitalization reserve is intended to have an uncommitted balance of approximately $9.6 million at the end of 2022. It is proposed that the ARR be repaid from this investment from future Viterra property taxes. Although the City has previously forecasted using funding from the Asset Revitalization Reserve to fund part of an Indoor Aquatics Centre in the coming years, there is a current pressing need to advance this economic development project and gain synergies in rail location aligning with the City’s future Ring Road Rail Relocation project. A reduction in the ARR reserve balance will require Administration to re-strategize funding for future commitments related to the Indoor Aquatics Centre.

While not directly related to this report, the City will have to expand the capacity of the wastewater treatment facility at an estimated cost of $76 million to accommodate several significant economic growth projects including the Viterra and FCL projects, as well as general City growth. A report regarding this matter will be brought forward for Council consideration in the future upon completion of further analysis by Administration.

OTHER OPTIONS

None with respect to this report.

COMMUNICATIONS

None with respect to this report.

DISCUSSION

The City and Viterra agreed to a discounted land sale price during the negotiation of the land purchase option agreement. For the City to be competitive with other jurisdictions and for Viterra to move forward with development of the Plant, Administration recommends entering into a MOU and related agreements to make the following investments:

<u>Act as Land Developer</u>

- The City, as the majority landowner of lands in the northeast, will extend water and wastewater services to the general area and specifically to the West property line of the Viterra site at an estimated cost of $9.3 million. Extending services to the general area will also increase the value of adjacent City owned lands in the northeast, as well as City owned lands in Hawkstone. Extending the services will eliminate a major barrier to development and make the area "development-ready" for other industrial and commercial businesses requiring City services.
- Potable water service is available through a connection to the Kensington Greens subdivision. This connection is estimated to cost approximately $2.8 million. The rate/pricing structure for the water supply shall be at standard City rates in accordance with *The Regina Water Bylaw*. Should Viterra arrange provision of potable water service from another source (e.g., RM of Sherwood), the City will not have any obligation for providing potable water service.
- Wastewater service for the project can be provided via a sanitary main that runs under Highway 6 and ends just west of Kensington Greens. Initial modelling indicates that the City can support the wastewater volume. The estimated cost to extend existing infrastructure to the site is approximately $6.5 million. Viterra will be required to install a water and/or effluent meter in accordance with section 111 of the *The Wastewater and Storm Water Bylaw, 2016*, and enter into a pre-treatment plan agreement with the City, if required by the City, in accordance with section 32 of *The Wastewater and Storm Water Bylaw, 2016*. The rate/pricing structure for

water and wastewater service will be consistent with *The Wastewater and Storm Water Bylaw, 2016.*

- Administration anticipates partial recovery of these servicing costs through the increased sale price of adjacent City owned lands, and through an area specific SAF rate or agreements similar to endeavor to assist registrations on adjacent non-City owned lands benefitting from the infrastructure investment.
- The Plant site is subject to development charges in accordance with the City's *Development Levy Bylaw, 2011* and Development Charges Policy. Development charges for the property have been calculated at $102,000 per hectare on the land that would be occupied by the proposed Plant or approximately $2 million. As the land developer, in order to make this site competitive with other locations Viterra has indicated it was considering, the City will pay the development charges and not pass these fees onto Viterra.

<u>Property Tax Exemption</u>

- The City to provide conditional support for a five-year property tax exemption to Viterra for the years 2025-2029, to be commensurate with the completion of the construction and the commencement of operation of the facility, with a specific tax exemption agreement to come forward to a future City Council meeting for approval. Property taxes are estimated to be at least $1.4 million annually (municipal portion is estimated at $800,000). Once the five-year tax exemption period expires, the City would receive approximately $800,000 in municipal property taxes annually from the property. The City will apply on Viterra's behalf requesting the Province provide a similar exemption of the education portion of the property taxes.

<u>Leverage Viterra Rail Investment</u>

- The City should invest in Viterra's construction of a rail spur line to the Plant to ensure the rail location aligns with the future City rail relocation plans, and leverages Viterra building a line that integrates into the City's Rail Relocation project, reducing the overall cost to the City for this section of the relocated CP mainline if and when the relocation project proceeds. Administration proposes the City pay for the length of new rail required to accommodate rail relocation which is in excess of the length required for Viterra to otherwise connect their Plant to the existing rail alignment, as well as the incremental cost of building the rail line to a main line standard along that section of rail that shall serve as future main line after City rail relocation. Viterra shall agree to transfer ownership of the main line portion to CP and the southern spur portion to the City as shown in Appendix A – Rail at such time that the City completes the remaining work required in the Rail Relocation project. The City investment is proposed to be capped at $6 million, in addition to City land to be transferred to Viterra at nominal value upon which the rail line will be built. Viterra shall agree to transfer land for rail back to the City upon request should development of the Plant not proceed consistent with the terms of the land purchase option.
- Until such time as the rail is transferred to CP for its main line relocation, Viterra will own and control the rail and be responsible for its maintenance and operation as a private spur line.

- Constructing the rail line on the routing proposed for rail relocation will also keep Viterra rail traffic off the existing rail line adjacent to Kensington Greens and Uplands. Upon completion of rail relocation, the rail lines adjacent to Kensington Greens and Uplands will be removed from service. The importance of the Rail Relocation project will continue to increase as the City grows and traffic volumes for rail and vehicle traffic increase in the northeast.
- The potential savings on rail relocation that the City expects to achieve by leveraging Viterra's investment in rail infrastructure is estimated at approximately $6 million.

Land Acquisition (Rail and Water Access)

- In order to align the rail with the City's Rail Relocation project, privately held land will need to be secured by the City as shown in Appendix B. These lands would need to be secured regardless of the Viterra economic development opportunity in order to proceed with the Rail Relocation project. In addition, lands for the required water infrastructure also need to be secured. The total estimated cost of securing these lands is approximately $1.3 million. The City has secured or is in the process of finalizing land sale agreements for these lands conditional upon future Council approval.

Negotiate Boundary Alteration

- The above investments are conditional on a boundary alteration that brings these and adjacent City owned lands within the City's boundaries. The City is currently pursuing negotiation of a boundary alteration agreement with the RM of Sherwood, which will include additional financial compensation being paid by the City to the RM, in an amount still to be determined.
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DECISION HISTORY

On April 12, 2021, City Council approved the City to enter into a land purchase option agreement with Viterra (CM21-6).

On March 2, 2022, City Council directed Administration to give public notice of Council's intention to apply for an alteration to the City's boundaries and negotiate a Boundary Alteration Agreement with the RM of Sherwood (CR22-18).

On March 2, 2022, City Council approved $1 million to fund consulting services for the NE Economic Development Project (CR22-20).

Respectfully submitted,

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Chad Jedlic, Director, Economic & Business Development 3/10/2022

Barry Lacey, Exec. Director, Financial Strategy & Sustainability 3/11/2022

Prepared by: Chad Jedlic, Director, Economic & Business Development

ATTACHMENTS

Appendix A - Viterra MOU - Rail
Appendix B - Viterra MOU Map