

October 9, 2012

To: His Worship the Mayor
and Members of City Council

Re: Regina Revitalization Initiative (RRI) – Canadian Pacific Railway (“CP”) Land Purchase

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- OCTOBER 3, 2012**

1. That the Deputy City Manager & CFO be authorized to finalize the sale agreements as outlined in this report and based on the draft form agreements attached in Appendix A in a form and content approved by the City Solicitor.
2. That the City Clerk be authorized to execute the final sale agreements as reviewed by the City Solicitor.
3. That \$7.5 million be transferred from the General Fund Reserve to support the deposit and balance of the purchase price in 2012/2013.
4. That up to \$2.1 million be transferred from the General Fund Reserve in 2013/14, to support the initial site preparation requirements that will allow for the future land redevelopment planning and related processes to be initiated.

EXECUTIVE COMMITTEE – OCTOBER 3, 2012

The following addressed the Committee:

Chad Novak, representing himself; and
John Hopkins, CEO, representing the Regina & District Chamber of Commerce

The Committee adopted a resolution to concur in the recommendation contained in the report.

Mayor Pat Fiacco, Councillors: Louis Browne, Sharron Bryce, Fred Clipsham, John Findura, Michael Fougere, Terry Hincks, Jocelyn Hutchinson, Wade Murray, Mike O’Donnell and Chris Szarka were present during consideration of this report by the Executive Committee.

The Executive Committee, at its meeting held on October 3, 2012, considered the following report from the Administration:

RECOMMENDATION

1. That the Deputy City Manager & CFO be authorized to finalize the sale agreements as outlined in this report and based on the draft form agreements attached in Appendix A in a form and content approved by the City Solicitor.

2. That the City Clerk be authorized to execute the final sale agreements as reviewed by the City Solicitor.
3. That \$7.5 million be transferred from the General Fund Reserve to support the deposit and balance of the purchase price in 2012/2013.
4. That up to \$2.1 million be transferred from the General Fund Reserve in 2013/14, to support the initial site preparation requirements that will allow for the future land redevelopment planning and related processes to be initiated.

CONCLUSION

City Administration has finalized a deal to purchase 17.39 acres of the CP lands along Dewdney Avenue, between Albert Street and Broad Street, for \$7.5 million. This purchase price represents the current market value. While these lands cannot accommodate a new stadium, they are critical to the redevelopment of this area into a new mixed use neighbourhood as part of the Railyard Renewal component of RRI. This deal and the overall RRI projects support the ongoing economic development and growth of the community, the renewal of aging community assets, the delivery of affordable housing initiatives, the vibrancy of the downtown, the enhancement of the connection(s) between the downtown and warehouse district, and will attract significant private investment to the City.

This deal requires CP to vacate these lands by July 2014, as part of their planned move to the Global Transportation Hub (GTH). In addition, the deal provides an agreement with CP to allow the City to construct a pedestrian bridge over the CP lands to be able to connect this neighbourhood and the Warehouse District with downtown.

Environmental assessments of the land have identified no significant issues and a total of about \$2.1 million will be required to complete the environmental remediation, bridge decommissioning and site preparation to allow future land development to begin. Future site servicing and related development requirements will be identified as part of the future planning of the new neighbourhood in collaboration with Regina Downtown and the Warehouse District. The City will still be required to allocate future funding to support mixed-use servicing requirements, and CP will be required to cover its own costs related to the relocation of its intermodal operations.

While CP will continue to operate around these lands for the foreseeable future, through discussions with CP and internal land planning discussions, it is believed that future land planning and site work will mitigate any concerns, and allow the neighbourhood to become dynamic, vibrant and attractive for future commercial and residential property owners.

BACKGROUND

The Regina Revitalization Initiative was formally initiated by City Council on May 30, 2011. It was discussed at that time that a process was to be developed to define a vision for the lands and a shared understanding of the outcomes of the project, which would see residential, commercial and retail development including a new state of the art facility to replace Mosaic Stadium.

On June 17, 2011, a formal business unit was created within the City Manager's office. Internal staff has been seconded to support the project and an internal Steering Committee has been created to guide the various project elements.

Based on the need to establish a clear future direction for the project, the Administration and external consultants, held a visioning session with members of City Council. City Council approved the Vision and Guiding Principles on August 22, 2011.

One of the focuses of the RRI project is the redevelopment of inner-city neighbourhoods, which includes the Railyard Renewal project on CP lands along Dewdney Avenue. In July, 2011 the City formally initiated discussions with CP toward negotiating a land purchase agreement that would be acceptable to the City and CP. From there, City Administration began the work to understand where the discussions between the Province and CP had concluded, and began formal negotiations with CP representatives.

As is normal in negotiations, the format of a mutually acceptable deal was reviewed and refined throughout the discussion process. While the process took time to complete, both parties brought a positive approach toward completing a deal that would allow the City to achieve City Council's vision for neighbourhood revitalization through the RRI.

This report summarizes the key terms of the transaction and the City considerations throughout the process.

DISCUSSION

The City engaged CP toward the purchase of CP lands along Dewdney Avenue, between Smith Street and Broad Street, in alignment with Council's vision for the Regina Revitalization Initiative. While these lands cannot accommodate a new stadium, they are critical to the redevelopment of this area into a new mixed use neighbourhood, as part of the Railyard Renewal component of RRI. This deal and the three primary RRI projects support the ongoing economic development and growth of the community, the renewal of aging community assets, the delivery of affordable housing initiatives, the vibrancy of the downtown, the enhancement of the connection(s) between the downtown and warehouse district, and will attract significant private investment to the City.

The development of a Purchase and Sale Agreement (PSA) between the City of Regina and CP has resulted from the ongoing negotiations since mid-2011. This agreement is a key requirement to allow for the redevelopment of 17.39 acres along Dewdney Avenue. There are several additional agreements and documents that support the final deal, including:

- A Pedestrian Crossing Agreement that allows a future pedestrian bridge to be built over CP property, to connect the downtown with the Dewdney Avenue lands;
- A lease that will allow CP to continue to use the Dewdney Avenue lands until they can completely vacate them (July 2014 or earlier);
- An Easement Agreement that will allow for the use of certain portions of the lands being retained by CP for a public passageway and maintenance of the Broad Street bridges being acquired by the City; and
- A Restrictive Covenant Agreement required by CP with respect to certain conditions imposed on the property being acquired as a result of it being located adjacent to railway operations.

Draft forms of each of these documents are attached to this report as Appendix A.

Summary of Key Agreement Terms

The following is a summary of the key terms identified within the agreements attached:

1. 17.39 acres of land are being purchased along Dewdney Avenue (CP's intermodal portion);
2. The land purchase price is \$7.5 million with a 10% deposit of \$750,000 on signing;
3. Balance of purchase price will be paid at financial close on January 31, 2013, assuming all conditions are met;
4. The City is purchasing the lands on an "as is, where is" basis (environmental considerations are discussed later in this report);
5. The City is able to satisfy itself of the environmental condition of the land prior to financial close;
6. Additional site servicing and land preparation costs will be the responsibility of the City;
7. CP is required to identify, complete and pay for their own "Operational Change Costs" resulting from their relocation following the sale;
8. The City will lease-back these lands to CP, for nominal consideration, until CP can vacate the property (July 2014 or earlier);
9. CP will allow the City to build a pedestrian crossing over its lands for nominal consideration;
10. Surplus Broad Street CP bridges (two of three) will be transferred to the City as part of the sale for future use, or decommissioning at the City's cost;
11. The City will be responsible for bridge abutment maintenance only as long as decommissioning of the Broad Street Bridges has not been completed;
12. Each party is responsible for its own costs to finalize the subdivision requirements related to the deal;
13. The purchase of additional CP land parcels on North Railway and west of Elphinstone Street, will be finalized separately;
14. CP will draft a non-binding letter that will record the City's ongoing expression of interest in the remainder of the lands along Dewdney Avenue, if and when they become surplus to CP's railway operation in its sole discretion.

Land Value

A third party valuation of the lands was completed on behalf of both the City and CP. The purchase price and deal terms reflect the land value and related considerations that were identified by the land appraiser. The land was valued at \$10.0 million assuming no environmental issues, and a site ready for further development. The purchase price of \$7.5 million reflects the adjustments of the purchaser and seller, recognizing that each will bear some costs following the financial close of the deal. For the City, some minor environmental remediation, along with site preparation and servicing will be required. CP will need to cover its costs to relocate its intermodal operation to allow for redevelopment of the land.

Negotiation Considerations

The early discussions with CP involved a review of the deal terms discussed previously with the Province, and the establishment of a framework for the final agreements. It was through these preliminary discussions, that the City became aware of certain expectations that City Administration had identified as unacceptable in any final deal.

First, the purchase of the full 33 acres, would require CP to relocate several other operations, including the maintenance yards, wye turnaround, and interchange track (a wye turnaround is used to turn trains around, and interchange track is used to coordinate track usage with other railways). Through discussions, CP identified that they had no plans to relocate these operations, but would consider doing so under the right terms and conditions.

As a result, CP would require the City to pay for the costs of relocation, if a deal including the remaining 15.6 acres was required. Preliminary estimates for this relocation identified this cost could be as high as \$30 million, and a cap on costs would not be accepted by CP, as it was only moving to accommodate the sale. Moving these rail operations is not an insignificant process or cost.

Knowing that CP had only planned/committed to moving off the intermodal portion of the lands, and after understanding the financial cost of purchasing the remainder of the property, it was determined that the City would never recover this additional cost through redevelopment. This was especially true if the stadium was located on the site, as it would limit over half the site from generating future tax revenues (at least 20 of 33 acres).

The second consideration that caused the City to pursue the deal proposed, were the relocation requirements of CP. To achieve its business requirements CP had identified the only acceptable option for relocation of its wye turnaround and related operations would be within an existing residential area of the City. The City identified this option would be met with significant community concerns and resistance, and as a result was not an acceptable option to pursue.

As in any negotiation, both the City and CP entered into these discussions understanding that each party was willing to achieve a deal; however mutual agreement on various issues would require time and effort to conclude. Both parties worked diligently to overcome the issues noted, and a reasonable deal was developed that could meet the needs of both parties, but focused only on the 17.39 acres.

Environmental Assessment/Condition

The City has engaged Clifton Associates Ltd. (“Clifton”) to complete a Phase II Environmental Assessment of the lands considered for purchase. In addition, Clifton has identified the estimated costs for remediation work that may be required. The environmental assessment of the 17.39 acres identified no significant issues for the City to be concerned with. The testing of all soil samples within the assessment passed the Saskatchewan Ministry of Environment (MOE) environmental assessment criteria.

The environmental remediation of the site is estimated to cost up to \$600,000, which includes the cost of an additional protective barrier placed along the boundary with ongoing railway operations at key locations. The estimated remediation costs reflect the fact that previous land uses were not a significant issue, and therefore clean up and non-industrial use can be achieved in a cost effective manner. City Administration is recommending that funding be allocated to complete the environmental clean up and site preparation, in order to allow for the effective design and marketing of this land for future redevelopment.

Pedestrian Crossing

In order to allow for the most effective redevelopment of these lands, the City identified that a pedestrian bridge connecting the site to the downtown would be required. Preliminary work has been completed to identify the site and construction requirements of this bridge. However,

through the discussions, it was identified by the City that a commitment would need to be provided by CP to allow this to proceed in the future, considering that CP would continue to operate on the southern portion of these lands.

These discussions resulted in a Pedestrian Crossing Agreement that can meet the requirements of both CP and the City. This agreement requires further CP approvals to ensure their railway operations are not impacted. However, the framework allows both parties objectives to be achieved as part of this deal, to allow greater certainty that the lands can be connected by building a bridge over the CP operations. Further planning and work on the pedestrian bridge will be completed in collaboration with the Regina Downtown and Warehouse Districts, as part of the future land development planning.

CP Relocation of Intermodal Operations

It should be noted that while this land purchase is expected to be complete by January 31, 2013, CP will continue to operate on this site for more than a year. The land being purchased currently houses CP's Intermodal operations. The operations are being moved by CP west of the city to CP land within the GTH. CP has identified that this relocation is currently being planned and implemented; however it is not expected to be complete until July 2014. As part of this deal, the City will take ownership of the lands and will then leaseback the land to CP until it has completed its relocation. If CP is able to vacate the land earlier than July 2014, then their lease will expire once the land is vacant. Without this arrangement, the City may be required to pay a higher cost for the land purchase at a later date, and as a result this arrangement was acceptable to both parties.

Other Considerations

The agreements identify the requirements of both CP and the City to complete the subdivision requirements. The subdivision of this property is not a significant process and is almost complete at the time of writing this report. Based on the type of subdivision required, only administrative approval is needed and the subdivision will not go to City Council for approval.

As part of the deal, two bridges crossing Broad Street will be transferred to the City for nominal consideration. In order to complete the deal identified, the City agreed to assume the responsibility for decommissioning these bridges. A review of the bridges was completed and this removal is estimated to cost up to \$500,000. Once CP vacates the purchased lands, the City will be proceeding to remove these bridges, as they have no identified future use for the City. In addition to the bridge removal, site preparation costs, such as building demolition, fencing, as well as removal of various concrete structures are estimated at up to \$1.0 million.

The City is responsible for future servicing of these lands to allow for redevelopment. City Administration will continue to review the requirements and costing of this work as part of the land development planning. These costs are expected to be recovered through the future land development process and will be included within the financial plans required to support the redevelopment project. This work will begin in 2013, and the initiation of the land development process will be subject to future approvals. If land development is not initiated immediately, these lands will remain in the City's land inventory and are expected to continue to appreciate in value in accordance with Regina market factors.

In discussions with CP the ability to achieve an option or first right of refusal related to the remainder lands was discussed. While a binding commitment could not be achieved, CP will provide a letter to the City recording the City's expression of interest in these lands and ability to present an offer on these lands to initiate negotiations for a future sale when the remainder lands become surplus to CP's operations.

While CP will continue to operate around these lands for the foreseeable future, through discussions with CP and internal land planning discussions, it is believed that future land planning and site work will mitigate any concerns, and allow the neighbourhood to become dynamic, vibrant and attractive for future commercial and residential property owners.

Next Steps

Once Council has approved the CP land purchase, the next steps are as follows:

- Satisfy deal conditions and complete financial close (by January 31, 2013)
- City to begin process with community to design and redevelop the lands (2013-2015)
- CP relocates its operations and vacates land (by July 2014)
- City undertakes site preparation and clean-up (2014-2015)
- Private development begins following Council planning approvals (2015-)

RECOMMENDATION IMPLICATIONS

Financial Implications

The allocation of up to \$9.6 million from the General Fund Reserve, as identified in this report, will allow the City to achieve its land purchase objectives without having a major impact on its reserves. The allocation of these funds from the General Fund Reserve will leave the uncommitted balance at approximately \$12.6 million, which is slightly below its recommended minimum balance of \$15.6 million or 5% of revenue. However, the projected balance in the General Fund Reserve consists of approximately \$6.5 million set aside for contingent assessment appeals and fire arbitration contingencies which may never be expended, leaving the reserve with a \$19.1 million balance.

A summary of the financial funding required from this deal is as follows:

Land Purchase Price	\$7.5 million
Environmental Remediation	\$0.6 million
Site Preparation	\$1.0 million
Bridge Decommissioning	<u>\$0.5 million</u>
	\$9.6 million

The funds required to service and redevelop these lands will be requested in the future, once the City is ready to begin initiating these processes, and after further community consultation and design can be completed. Some or all of the costs identified will typically be recovered over time through the land development process, and/or the generation of new property taxes within these lands.

Currently, the City has estimated that public land development costs would be approximately \$45.7 million (including this land purchase). This includes environmental and site servicing costs, an investment in the pedestrian bridge, as well as affordable housing and other related investments. Future discussions will be held with the Provincial and Federal governments to determine their interest/ability to partner in these investments. These upfront investments will

attract approximately \$450 million to \$500 million in additional private investment into Regina, and will generate new property tax revenue from this area. These estimates will be updated into a formal financial plan at the approval/initiation of the land development process.

Environmental Implications

The City has engaged Clifton Associates Ltd. (“Clifton”) to complete a Phase II Environmental Assessment of the lands considered for purchase. In addition, Clifton has identified the estimated costs for remediation work that may be required. The environmental assessment of the 17.39 acres identified no significant issues for the City to be concerned with. Based on the testing completed, there is only a moderate risk of hydrocarbon impairment on the site, and known historical impairments are limited in extent.

The testing of all soil samples within the assessment passed the Saskatchewan Ministry of Environment (MOE) Risk Based Corrective Actions (RBCA) for Petroleum Hydrocarbon Impacted Sites Tier IIB criteria. Testing of soil samples to delineate a known hydrocarbon spill within the site which passed the more conservative MOE RBCA Tier I criteria suggests the historical impact is limited in extent or has degraded over time. Subsequent to remediation of the site including removal, disposal and backfill of any impacted areas along with removal of surface asphalt, excavation of underground pipe and track materials, commercial and residential uses for these lands can be pursued with limited and manageable risk from future property owners.

The environmental remediation of the site is estimated to cost up to \$600,000, which includes the cost of an additional protective barrier placed along the boundary with ongoing railway operations at key locations. The estimated remediation costs reflect the fact that previous land uses were not a significant issue, and therefore clean up and non-industrial use can be achieved in a cost effective manner. While the City continues to bear future environmental risk on the lands being purchased, City Administration does not believe this risk is significant based on the external analysis.

Strategic Implications

The purchase of these lands is very important for the City to achieve its long-term objectives of community renewal and revitalization. Achieving city control of these lands will allow City Council to guide the future redevelopment, and ensure community objectives are realized, while still allowing for significant involvement from private sector. Ownership of large parcels of inner-city land allows the City to spark further development to meet the needs of a growing community. These lands will allow the City to minimize the future infrastructure investments required to support growth, while achieving a higher level of density to assist with long-term financial viability.

Other Implications

None related to this report.

Accessibility Implications

None related to this report. The future redevelopment plans for this neighbourhood will address accessibility requirements.

COMMUNICATIONS

The purchase of the CP lands is the catalyst for the Railyard Renewal component of City Council's RRI plan. A news release will be issued to make media aware that a deal has been reached, and the public will be informed of the land sale through media updates, the public consideration of this report at Executive Committee and City Council, as well as updates to the RRI website at ReginaRevitalization.ca. Where necessary, City Administration will also coordinate communications with CP and any other related stakeholders.

In keeping with the approved communications outcomes, the Administration will continue to keep the public and stakeholders informed of progress and decisions related to RRI.

DELEGATED AUTHORITY

The recommendations in this report require City Council approval.

Respectfully submitted,

EXECUTIVE COMMITTEE



Joni Swidnicki, Secretary