



Municipality of Port Hope

Staff Report

porthope.ca/agendas-and-minutes

Report Title: Ontario Power Generation Lands Purchase

Report to: Planning & Development Committee

Date of meeting: February 1, 2022

Report Author:

Todd Davis, Director, Planning and Development

Department responsible:

Planning & Development

Report Number: PD-02-22

Recommendation:

That a By-law be presented to Council on February 15, 2022 to:

1. Authorize the execution of an agreement to purchase 1334 acres of property from Ontario Power Generation Inc. and authorize the execution of all agreements necessary to complete the purchase; and
2. Waive all remaining conditions in the Agreement of Purchase and Sale including municipal due diligence conditions; and
3. Authorize the execution of agreements necessary to secure funding through Infrastructure Ontario for up to \$20,000,000 to fund the purchase of the property; and
4. Authorize the execution of a seven-year lease with Ontario Power Generation Inc. for use of a portion of the lands as per the terms of the Agreement of Purchase and Sale; and
5. Authorize the execution of any agreements and other documents necessary to facilitate the property acquisition and transaction; and
6. Direct staff to establish a Financial Reserve for the property; and
7. Direct staff to develop a plan for near term property management that includes any potential operation costs; and
8. Direct staff to prepare a plan for community consultation, property master planning and project management that includes all associated costs, timelines and activities for future consideration.

Highlights:

- The Municipality is engaged in a strategic opportunity to purchase the 1334-acre Wesleyville Power Generating Site and surrounding lands for a purchase price of \$18.6M that would require borrowing up to \$20M from Infrastructure Ontario through a low interest loan.
- With an approved conditional Agreement of Purchase and Sale that includes the acceptance of sale conditions and opportunities for due diligence, the period for accepting or waiving conditions is ending and Council must now decide whether to purchase the property and move forward with both borrowing the required funds and closing the real estate transaction.
- Staff recommend finalizing the property acquisition, recognizing the unique opportunity in alignment with the Municipality's Strategic Plan and the long-term financial opportunity.
- Should Council decide to acquire the property, the next steps would be to develop a series of plans to manage a project that determines the future uses of the property. Required plans in the near-term would be for property management that include any operational costs, public engagement, and property master planning activities that leverage our Strategic Plan and vision for the future. A longer-term financial plan that captures the financial opportunity for the rate payers of Port Hope will also be developed.

Background:

In late 2019, at the request of the Mayor, Ontario Power Generation Inc. (OPG) confirmed that it was interested in divesting the property commonly known as the Wesleyville Power Generating Station Site (the 'property') to the Municipality. Council was briefed on the opportunity in July 2020 and provided initial direction to staff to continue confidential discussions to further explore the reality of the potential acquisition.

Since that time, the Municipality and OPG have been in discussions to move forward with the opportunity to acquire the Property and through a process of discussion, due diligence, negotiation, and collaboration both parties were eventually able to execute a conditional Agreement of Purchase and Sale (APS). Given the nature and complexity of this potential acquisition, this matter has been kept confidential to date and direction to staff has been provided during closed portions of Council meetings in accordance with the Municipal Act and supported by legal counsel.

At this time, if Council wishes to complete the transaction a series of remaining conditions, extensively reviewed through the due diligence period, must be waived.

The lands in question are situated in the southwest of the rural area of the Municipality along Lake Ontario.

The full OPG landholdings (**Attachment 1**) that make up the Property consist of five individual land parcels comprising an overall land area of 1,334.12 acres (539.9 ha).

The property also includes a fairly unique water lot in Lake Ontario of 18.61 acres (7.53 ha). The Property is collectively situated along 3.8 km of Lake Ontario shoreline which for context is over 20% of the entire waterfront of the Municipality of Port Hope. Geographically, the Property fronts Wesleyville Road in the east; is bisected by Lakeshore Road and terminates at the Canadian National (CN) and Canadian Pacific (CP) Railways properties to the north.

OPG's original intent for the Property was to develop a power generating station on the Property, however the project was stopped in the late 1970s after some of the buildings and infrastructure were in place but before it was ever made operational as a power generating facility. Over time the 260-acre developed (industrial) portion of the Property was repurposed as leased industrial space to private enterprise and for OPG operational purposes.

The Property currently includes the following types of land:

- Industrial Lands
- Environmentally significant lands
- Heritage assets
- Employment lands
- Agricultural lands
- Industrial lands
- Protected shoreline

Recognizing that there was an opportunity to acquire a substantial and strategic block of lands within the Municipality, staff negotiated a fair deal with OPG with an agreed upon acquisition cost of \$18.6M. In the conditional APS approved by Council, the Municipality was given the opportunity to undertake significant due diligence on the property and consider the sale conditions. Having completed the extensive due diligence and reaching the end of the conditional period, Council must now consider this opportunity and confirm whether the Municipality intends to complete the acquisition by providing consent through a By-law to finalize the purchase and remove the municipal conditions amongst other considerations.

Discussion:

The acquisition of the property provides the Municipality a unique opportunity to gain control and stewardship of a substantial land amount of land in the rural area. There are many different strategic opportunities associated with these parcels and it provides the community and the Municipality in the near term the opportunity to decide how these lands are managed, preserved, and potentially developed for the long term.

The proposed acquisition is in alignment with the current Port Hope Strategic Plan, which has a stated vision of intentional multi-generational, long-term investment in the management of future municipal growth. Having control of this property will better enable the Municipality to effectively plan, manage, and control future development by:

- Supporting the conservation of existing cultural heritage, waterfront and natural heritage features of the property.

-
- Providing opportunities to facilitate economic development through enhancing the types of land-uses for the existing site to potentially provide new employment, commercial and residential lands.
 - Increasing municipal land holdings, some of which could be used to incentivize the development of appropriate affordable housing in the community.
 - Creating the opportunity for our community to directly influence our future sustainable growth and providing the means to do so.
 - Contemplating how the community can mandate and mitigate climate change challenges through opportunities such as net zero development, municipal renewable energy development and energy conservation best practices.
 - Identifying and securing the water lot as a potential secondary drinking water system source for future generations should the need arise; and,
 - Applying proven, best available technology and planning in the property's infrastructure development.

In review of the due diligence conducted on the property, the land, building and infrastructure assessments indicate that the conditions of all assets are good to fair. The outcome of these assessments are generally as expected and in keeping with the age and nature of the current activity on the property. Phase 1 and 2 environmental site assessments note a small area that potentially requires future remediation related to the previous use of fire suppression products. The outcome of both phases of the environmental site assessments are consistent with staff expectations and it is the recommendation of staff and legal counsel to waive the due diligence provision of the APS.

In entering into the conditional APS, the Municipality agreed to the following conditions:

- Enter into a seven-year lease for the industrial portion of the property.
- Accept all buildings and infrastructure in "as is, where is" condition.
- Environmental release indemnity and assumption of liability for the parcels.
- Accept a five year restricted period for the sale of any of the property.

The portion of the property including the industrial buildings, stack, and immediate surrounding area is active with several businesses leasing buildings and property, and currently includes an OPG presence.

OPG will lease the 260-acre developed industrial portion of the property from the Municipality and will sub-lease to the current industrial tenants for the first seven years of the Municipality's ownership. OPG will also remain responsible for repairs and maintenance for the leased spaces and provide to the Municipality the net income of the lease after expenses. This would result in approximately \$525,000 annually in revenues that will offset the property carrying costs during this period.

There are two longstanding annual agricultural leases on the property that would also continue for the foreseeable future resulting in \$10,000 annually in revenue direct to the Municipality. The Municipality will also honour the lease currently in place with the Friends of Wesleyville Village.

By waiving conditions related to due diligence on building and infrastructure assessment and after environmental review, the Municipality accepts both the liability and responsibility for the property. Staff are aware of building deficiencies, accept the condition assessments and environmental study results, and have recommended that related due diligence conditions can be waived.

To control for property speculation, OPG requires a five-year term where the property can only be sold in whole or in part if 50% of the sale proceeds are turned back to OPG. This is positive for the Municipality as it provides the necessary time for public consultation and community master planning free of potential pressure from the development community to sub-divide and sell. The Municipality needs time to assess the property, engage the public, determine what areas should remain under municipal control and develop a plan using good planning principles with community input before it ever considers divesting itself of any of the land. As referenced later in this report the five-year timing aligns purposely with financing the purchase.

Financing the land cost of \$18.6M with associated transfer fees, due diligence costs and project related expenses will require that the Municipality borrow up to \$20M from Infrastructure Ontario (IO). In the structure of the loan, the first five years would result in interest only payments that would be offset by the lease revenues and create a surplus. Lease revenue amounts that are more than the annual repayment responsibilities during the first five years of the project would be used to fund project costs, ongoing maintenance costs and be placed into reserve to offset any repayment shortfalls that could result from fluctuating interest rates or unrealized revenues related to the property.

The financing arrangement will help to limit the financial burden of the property purchase and provide flexibility while municipal opportunities for revenues related to the property are constrained. Both the financing and sale conditions provide a five-year timeframe to do any master planning work before any property sales could begin to help offset the acquisition costs. After five years, the loan would be debentured to an appropriate term (similar to a mortgage) and at that stage payments of interest and principal would begin, which has the potential to significantly increase the financial burden to the Municipality.

The intention of this project would be to plan for and identify portions of the property that would remain with the Municipality and to develop a funding plan that would pay for them. This plan would be prepared in advance of the end of the first five years and depending on the scope and scale of holdings to potentially remain with the

Municipality, it could be actioned in advance of the debenture period and generally inform the municipal financial plan to manage the costs of acquisition.

The balance of the property that would be deemed suitable for divestiture and included in the master plan for those purposes would be sold at market rate with the proceeds used to reduce or eliminate the principal borrowed amount and associated costs of financing. Staff recommend that as part of the 2023 budget a report related to the near-medium-term financial responsibilities/opportunities as associated with the property be brought forward to Council for consideration and approval.

Through planned, intentional future development there is the potential for a significant perpetual revenue stream to be created.

Financial Considerations:

Property Acquisition:

Amount to be borrowed	\$20,000,000
Cost of Property	\$18,600,000
Due Diligence and Legal Costs	\$250,000
Land Transfer Tax	\$368,000
Total Cost of Acquisition	\$19,218,000
Remaining balance	\$781,000

The remaining balance and lease surpluses will be available for project management fees, future consultant expenses, project related costs, to offset unrealized revenues and to stabilize the carrying costs while the borrowing rate is fluctuating during the first five years.

Property Revenues and Expenses (estimated):

Property Revenue	Year 1	At year 5 with inflation considerations
Net Revenues	\$480,000	\$505,000
Property Expenses	Year 1	Increased Interest / Inflation Rate scenario

Floating Interest Loan – Annual Repayment	\$134,000	\$480,000
Other carrying costs	\$75,000	\$100,000
Total Carrying Costs	\$209,000	\$580,000
Revenues - Expenses	+\$271,000	-\$75,000

There is the potential based on the nature of the floating interest rates to see carrying costs increase at a rate higher than the expected growth in revenues. The chart illustrates a drastic change increase in interest rates in year 5 for illustrative purposes only. To ensure that the tax levy risk is managed appropriately, staff recommend that all net proceeds not earmarked for project management be placed into a project stabilization reserve to potentially offset any revenue to expense shortfalls related to higher than the current interest rates from IO. As such, in this scenario the Municipality would be in a positive financial position for the first five years with little to no impact on the tax levy.

At the beginning of the sixth year of ownership, the Municipality will have to decide what portion of the loan will be subject to long-term financing based on several factors including public engagement, property master planning and financial planning activities. It is unlikely that the entire property acquisition debt will be debentured, however, should this be the case it is projected that annual interest and principal payments would be \$1,693,000. These annual repayment amounts would require a funding source and as a result may have an impact on the tax levy.

There are other future revenue opportunities that could be realized including, but not limited to, selling portions of the property or identifying other sources of funding such as grants, etc. that could be used to offset the costs associated with continuing to carry some or even all the property. The Municipality would also utilize Development Charges to fund the costs of growth as applicable to this project.

While in the short term, there will be some reduction in the property tax base pertaining to the property ownership that is transferring to the Municipality and is not being leased to a third party, the acquisition creates a long-term financial opportunity to establish a more substantial ongoing revenue stream through property taxes, to support other strategic priorities. Staff are recommending that a financial plan be developed in conjunction with any master planning activities with the goal of minimizing the longer-term impact on the tax levy associated with the purchase of this property. The acquisition also creates a long-term financial opportunity to create an ongoing revenue stream through property taxes, to support other strategic priorities.

Communication and Public Engagement:

Upon acceptance of the conditional Agreement of Purchase and Sale, Council further directed staff to undertake communications support related to the consideration of this opportunity. Staff and external communications support have produced materials intended to inform the public about the opportunity. These materials include a web page on the municipal website with background information, project progress to date and timelines, frequently asked questions, an informational video, maps, and images of the Site. Additionally, upon approval, staff will be circulating a media release after the Committee of the Whole meeting, which formally announces the proposed acquisition and points the media and the public to the web page for details.

If the acquisition is supported by Council, staff will develop a robust community engagement strategy and produce ongoing materials to further support and provide updated project information including staff contacts of inquiries, updates to the frequently asked questions table, and early public engagement. Municipal staff will return to council with a more detailed plan related to public engagement, master planning and project management. This will provide a clear plan for the project and a more detailed description of public engagement opportunities, which would be expected to begin in 2023.

Conclusion:

Given the unique, once in a generation opportunity to acquire the lands commonly known as the Wesleyville Power Generating Site for a purchase price of \$18.6M and a requirement to borrow \$20M to finance this purchase, staff are recommending to Council that they proceed to finalize the acquisition through the execution of a by-law (**Attachment 2**).

While this project and acquisition represent a substantial investment, it is expected that revenue in the long term will more than offset acquisition costs and could be used to fund other strategic priorities. The parcel of land in the rural portion of the Municipality represents a significant and one-time chance to guide the future development and uses of this area of the Municipality. Further, this acquisition represents an opportunity to control development in a manner dictated by the Municipality and in accordance with the desires of local residents as represented by Council. The opportunity to gain extensive community input, preserve heritage, natural, environmental and conservation areas, develop growth related prospects and leverage the economic development potential on this site make this a significant project for the Municipality now and into the future.

Attachments:

Attachment 1 – OPG Wesleyville Power Generating Station Lands map

Attachment 2 – Draft By-law to Acquire OPG Lands