



May 15, 2017

OFFICE OF THE MAYOR  
CITY OF HAMILTON

Premier Kathleen Wynne  
Legislative Building  
Queen's Park  
Toronto Ontario M7A 1A1

Dear Premier,

Hamilton matters — Per U.S. Steel Canada (Stelco) CCA

I am writing to you today to request your action with respect to the property issues related to resolution of the U.S. Steel bankruptcy (land issues).

Before any further discussion, I must note that the City, its steelworkers and residents are appreciative of the efforts made to date by your Government to resolve this complex matter. The opportunity to secure Bedrock Industries' re-activation of Stelco steelmaking and the provision of MOECC's environmental covenant foregoing action in regards to historical contamination have the potential to greatly benefit our city.

However, I must reiterate the City's unresolved concerns regarding the disposition of our waterfront lands, and exclusion of the City from the negotiations addressing said issues within the current bankruptcy resolution proceedings (CCA).

Your Government's call for a short-term sell-off of the Hamilton waterfront lands will not generate the revenues necessary to service retired steelworkers, and may undermine Hamilton's city-building initiatives, jeopardizing the long-term economic success of our city, region and the Greater Golden Horseshoe area. Simply put, a hasty, out-of-context sell-off to the highest bidder will very likely yield results that condemn our city's waterfront, and the associated regional economy, for at least the next generation.

In lieu of this hasty sell-off of our waterfront, an alternate vision to re-activate the lands with new development, employment and civic uses will greatly enhance the strategic value of the property, and thereby revolutionize the current value proposition.

The City's external team of subject matter experts (see attached "Appendix A"), has conducted extensive research and due diligence leading to this conclusion. An executive summary of their work is attached in "Appendix C." Over the study period, there is the potential to create approximately 10,800 incremental jobs per year in Hamilton, and \$3.2 billion of incremental tax revenue to the Provincial government alone.

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With the City's vision in mind, and as the bankruptcy negotiations approach completion, I must raise the following concerns specifically in regards to the structure of the proposed Land Vehicle (as contemplated within the Land Term Sheet of the CCAA filings, April 20, 2017). We have tabled our concerns with your project representatives, but such discussions have failed to produce any modifications to the original plan.

Therefore, I am requesting clarification of one item and tabling four specific requests pertaining to the land matters:

1. To clarify: does the Province of Ontario already have a buyer lined-up for the USSC/Stelco property?

This question stems from the conflict between the two themes imbedded within the Provincial message: (i) that the Province stipulates that it will sell the USSC lands and contribute proceeds to the retirees pensions and OPEBs (see attached "Appendix B" re: Land Vehicle structure and mandate), and (ii) that these same lands have no liquidation value (per CCAA filing "*Report of the Monitor dated April 20, 2017; Appendix D — Liquidation Analysis*").

Per direction from the Monitor's report filed with the Court, there will be no proceeds from (short-term) land sales to support retiree's pensions and OPEBs (due to potential environmental remediation costs).

Subsequent to the above and as *interim measures* to address our concerns, I request that the Province, as co-party to the CCAA negotiations, enact the following changes to the CCAA documents prior to closing, specifically in respect to "Schedule 'C,' Land Term Sheet":

1. **Delete** the requirement directing the Land Vehicle Board to sell the USSC/Stelco property within five (5) years.

The net effect of this directive equates to a short-term "fire-sale" of the most significant remaining portion of Hamilton's employment-based waterfront, and thereby jeopardizes the long-term economic success of the city, region and Greater Golden Horseshoe area.

As noted above, the CCAA Liquidation Analysis assigns nominal value to the property in the short term. This valuation is further supported in ongoing negotiations with your project team and the Municipal Property Assessment Corporation (MPAC), and additionally by the City of Hamilton's own external team of subject matter experts.

A longer-term vision is required to capitalize on this once-in-a-generation opportunity, and generate the values necessary to support retiree pensions and OPEBs while strategically developing the city and region to yield maximum socio-economic uplift.

2. **Delete** the requirement that the Province retain sole discretionary approval in respect of any transaction for any portion of the USSC (Hamilton) Lands,

The Land Vehicle Board of Directors are intended to have discretion in all transactions, together with the Land Vehicle's shareholders. The CCAA filings go to some length to direct that the Land Vehicle's Board will be independent (from the USW, the non-USW Representatives, the Corporation and the Province); however, in contradiction to this direction the Province is stipulated as retaining final transactional authority, thereby invalidating the Board's independence.

3. **Delete** the requirement that the Province will be paid interest on the Provincial Land Vehicle Loan at the Provincial rate plus five (5) percent.

This interest requirement on the Land Vehicle Loan effectively increases the cost of funds by more than double, putting the Province in a profit position from this portion of the bankruptcy transaction. This further endangers the success of any path forward.

4. **Add** a requirement that the Land Vehicle provide a Right of First Refusal (ROFR) to the City of Hamilton to purchase the property or portions thereof, in the event that the Land Vehicle receives any offer of purchase.

In the event that the Land Vehicle receives any offer to purchase the lands, or portions thereof, the Land Vehicle will be required to notify the City of Hamilton of such an offer, to which the City can submit a counter-offer within a reasonable, specified time limit.

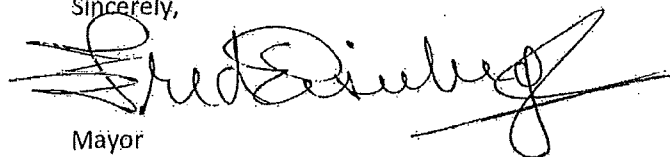
In the immediate term of the USSC bankruptcy, the above modifications to the Land Term Sheet: recognize the challenges stemming from current land valuations; remove the urgency to finding any available buyer within an artificially derived timeline; begins to set the context for strategic and timely development of the Hamilton waterfront that conforms to public policy frameworks; and benefits from thorough public engagement as well as future capital investment and job creation.

Proceeding into the post-bankruptcy term, my team is keen to meet with you to present the detailed findings from our analysis and continue discussions moving toward a vision and value proposition geared to incent private capital investment on the lands and re-activate the site with jobs.

Premier, we believe that effective management of short-term risks coupled with long-term value enhancement from the Hamilton waterfront lands — through private capital investment, (P3) public-private infrastructure activation, future land transactions, development charges and taxation from local and regional job creation — will generate the sustainable revenues necessary to help support ongoing pension and OPEB liabilities while building our great city and province.

In closing we respectfully ask for your response to our request for modifications to the Land Term Sheet, as filed within the CCAA Court proceedings pertaining to the USSC bankruptcy. With thanks for your early reply,

Sincerely,

A handwritten signature in black ink, appearing to read "Fred E. ...", written over a horizontal line.

Mayor

c. Hon. Charles Sousa, Minister of Finance  
MPP Ted McMeekin, Ancaster-Dundas-Flamborough-Westdale  
Mr. Ed Clark, Special Advisor

## APPENDIX "A"

### Advisory Team — Subject Matter Experts (SME)

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*In response to the US Steel CCAA bankruptcy proceedings, ongoing negotiations with Bedrock Industries and potential short-term sale of the Hamilton waterfront lands, the City of Hamilton engaged a multi-disciplinary team of subject matter experts (SMEs), as follows:*

#### Advisory Team — Members

- o Canadian Centre for Economic Analysis (CANCEA) — Paul Smetanin, Founder & CEO
- o Urban Strategies Inc (USI) — Joe Berridge, Co-Founder & Principal
- o Renovo Advisory Services — John Campbell, CEO (*former Waterfront Toronto CEO*)
- o Barry Lyons Consulting Inc. — Mark Conway, President & CEO
- o Brookfield Financial — Greg Kalil, Managing Partner
- o Dentons LLP — David McCutcheon, Sr. Partner

#### Advisory Team — Scope of Work (Primary)

- o Provide detailed analysis and critique of proposed Land Vehicle governance model and transaction structure
- o Prepare evidence-based options for future land use planning and development of the subject lands (Hamilton Waterfront), incorporating 5, 15, 25 year scenarios
- o Model socio-economic scenarios for multiple mixed-land use plans (*Steel; Industrial; Port; Creative; Infrastructure; Open Space; etc.*), that include evidence-based revenue and cost projections (remediation and servicing costs; real estate value changes; development charges; taxation; etc.)
- o Report on outcomes for pertinent stakeholder groups including various levels of Government

## APPENDIX "B"

### LAND VEHICLE (CCAA) — Structure and Mandate

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Per CCAA Term Sheet filings and previous Provincial briefings to City of Hamilton:

- o US Steel Canada will transfer all land assets to a special purpose Land Vehicle (LandCo), created solely to hold and monetize the land assets
- o LandCo will be governed by a Board of Trustees who are "independent" from the Province, USW, Salaried Reps, and USSC. The Board will be initially appointed by the CCAA Court
- o LandCo is directed to:
  - Provide a monetization plan to Province and USW within six (6) months of the Closing Date
  - Sell all LANDCO assets within five (5) years
- o LandCo will receive a \$10M revolving line of credit from the Province and an unspecified amount from Bedrock at the Closing Date
  - The Provincial \$10M loan will bear interest at the Provincial rate plus five (5) percent (%)
  - The Province retains first-ranking secured charge on land assets as security against the loan and (until the loan is discharged), must approve any land-related transactions

## APPENDIX "C"

### SME Advisory Team — Executive Summary, Report of Findings

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#### EXECUTIVE SUMMARY

The objective of this study was to find an evidence-based and realistic understanding of the socio-economic value of the 329 hectares (813 acres) of industrial land occupied by Stelco (the "Lands") on the southern shore of Hamilton Harbour. The short answer: the Lands should not sit idle, as they possess significant strategic economic value. Situated in the rapidly growing Greater Golden Horseshoe region of Ontario, the Lands are spatially and economically significant given their location (e.g., a 5 kilometre drive from downtown Hamilton and a 68 kilometre drive from the U.S. Border at Lewiston).

The socio-economic potential of the land is highly dependent upon a coordinated response by planners and economic developers across all levels of government. In that regard, what is at risk (i.e., foregone opportunities for significant economic uplift) of the land being mismanaged or suffering patchwork development has been measured over a 45 year planning horizon and includes:

- For Hamilton: between 440,000 and 530,000 incremental job years (or an expected 10,800 per year on average) with between \$31B and \$38B in aggregate incremental wages paid in the region;
- For Ontario: an expected 150,000 incremental job years (or an expected 3,300 per year on average) with between \$2.4B and \$3.2B in aggregate incremental provincial tax revenues across the province; and
- For Canada: at least 38,000, and likely 115,000 incremental job years (or 800/2,500 per year on average) with between \$150M and \$520M in additional GDP per year.

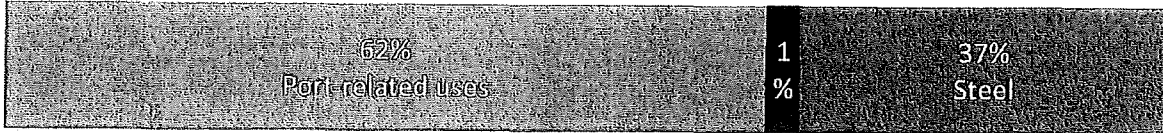
#### Land use scenarios

Urban Strategies Inc. – in consultation with N. Barry Lyons Consultants Ltd. – prepared four scenarios that reflect possible planning and development outcomes for the Lands. Each scenario represents the extrapolation of a particular development program and site planning direction in order to differentiate and clarify such trends for detailed analysis. While each scenario is presented here in abstract, they are feasible from a city planning perspective.

(The following coloured bars show the end state of the scenario – please see Section **Error! Reference source not found.** for more details.)

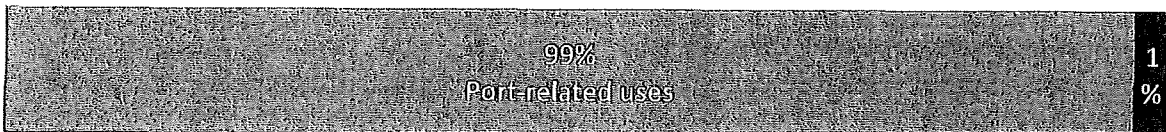
Note that for each scenario, the net benefits to Hamilton may compete with other regions in Ontario and across Canada (i.e., things that might have otherwise occurred outside Hamilton no longer would). In other words, the methodology employed in the study is sensitive to the movement of people and capital and can quantify how much *relative* benefit Hamilton yields in each scenario due to a new (additional) comparative advantage. That Ontario and Canada still benefit in aggregate is an indication of the net economic value of the scenarios writ large.

### SCENARIO 1: STEEL AND PORT/LOGISTICS



Scenario 1 would see average annual GDP increase in Hamilton by an expected \$780M, half of which is due to increased wages. Senior orders of government reap benefits from this scenario as well: the Province would yield an additional \$40M to \$60M per year in tax revenue across Ontario while the federal government would yield an additional \$20M to \$70M per year across the country. From an economic benefit perspective, Hamilton and the Province would rank this scenario third while the federal government would rank it second.

### SCENARIO 2: ALL PORT/LOGISTICS



Scenario 2 would see very similar annual GDP increases in Hamilton to Scenario 1, but the province and country overall would see less of a boost to economic activity. As such, senior orders of government reap less benefits from this scenario: the Province would yield an additional \$40M to \$50M per year in tax revenue across Ontario while the federal government would yield an additional \$10M to \$50M per year across the country.

From an economic benefit perspective, all three orders of government would rank this scenario last, though it is only slightly worse than Scenario 1 from Hamilton's perspective.

### SCENARIO 3: STEEL + MIXED EMPLOYMENT



Scenario 3 would see a significant boost to annual GDP in Hamilton of over \$1.6B per year, and GDP across the province and country are at their highest in this scenario. As such, senior orders of government reap the most revenue under this scenario: the Province would yield an additional \$50M to \$70M per year in tax revenue across Ontario while the federal government would yield an additional \$20M to \$70M per year across the country.

From an economic benefit perspective, Hamilton would rank this scenario second while the other orders of government would rank it first.

#### SCENARIO 4: MIXED EMPLOYMENT



Scenario 4 would see the largest boost to annual GDP in Hamilton of over \$2B per year, while GDP across the province and country is a little lower than in Scenario 3 (and even Scenario 1 for the country writ large). As such, senior orders of government reap slightly less revenue under this scenario: the Province would yield an additional \$50M to \$60M per year in tax revenue across Ontario while the federal government would yield an additional \$20M to \$60M per year in tax revenue across the country. From an economic benefit perspective, Hamilton would rank this scenario first, the province second, and the federal government third.

The opportunities for multi-modal development of the site were not considered in this analysis.

However, the characteristics and comparative advantages of the land warrant further research into the use of the land as a unique multi-modal facility that could deliver greater provincial and federal benefits than the uses already identified in the analysis.

#### Conclusions

While all four scenarios investigated provide economic returns, they do identify trade-offs between the three orders of government. The "mixed use with steel" scenario stands out as the best "structured" solution. Achieving this scenario will require effort, particularly on the economic development front, but there are very significant economic risks in not moving ahead.

