

KINSMEN CLUB OF EDMONTON - KINSMEN TWIN ARENA LEASE AMENDMENT

Recommendation

1. That the funding agreement between The City of Edmonton and The Kinsmen Club of Edmonton, to support facility operating costs for the Kinsmen Twin Arena, on the terms and conditions outlined in Attachment 1 of the October 30, 2024, Financial and Corporate Services report FCS01196, be approved, and the funding agreement be in form and content acceptable to the City Manager.
2. That the lease amending agreement between The City of Edmonton and The Kinsmen Club of Edmonton on the terms and conditions outlined in Attachment 2 of the October 30, 2024, Financial and Corporate Services report FCS01196, be approved, and the lease amending agreement be in form and content acceptable to the City Manager.

Requested Action	Decision		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	Healthy City		
City Plan Values	BELONG. LIVE. THRIVE. ACCESS.		
City Plan Big City Move(s)	A community of communities	Relationship to Council's Strategic Priorities	15-minute districts Arts and culture
Corporate Business Plan	Serving Edmontonians		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> • City Policy C187A - Enhancing Community Facility Services Through Partnerships Policy • City Policy A1476 - Municipal Funding Arrangements 		
Related Council Discussions	<ul style="list-style-type: none"> • November 5, 2012, Community Services report 2012CSS017, Facility Funding Strategy for Civic Partners and Other External Organizations • September 18, 2018, Community Services report CR_5746, Approach to Community Recreation Facility Planning in Edmonton • May 8, 2023, Financial and Corporate Services report FCS01823, Grant 		

7.6.
ROUTING - Executive Committee | DELEGATION - S. Padbury, C. Hodgson, B. Jarocki, C. Bull, R. Jevne, B. Badger
October 30, 2024 - Financial and Corporate Services FCS01196

Executive Summary

- The Kinsmen Twin Arena (the Facility), a jointly funded project by The Kinsmen Club of Edmonton (the "Kinsmen Club") and the City, opened in 1997.
- Since the Facility's opening, the Kinsmen Club has leased and operated the Facility. The Kinsmen Club is responsible for all maintenance and repairs, including the majority of capital renewal and all operational expenses related to the Facility.
- As with all other City arenas, Administration is responsible for all aspects of the Facility's ice allocation, programming and booking processes.
- Administration recommends approving a funding agreement that would:
 - provide annual operating support to the Kinsmen Club, adjusted according to annual net revenues of the Facility
- Administration recommends approving a lease amending agreement that would:
 - change the ice rental fees paid to the Kinsmen Club by the City from a set blended hourly fee per booking to the actual ice rental booking fees collected by the City from the users
 - close the underutilized partnership fund and transfer the remaining partnership funds into the capital reserve account for the Facility
 - increase the annual Kinsmen Club contribution to the capital reserve account
 - provide atypical expense coverage during a major repair/rehabilitation, through the capital reserve account
 - provide assurances for the City regarding sublease rent revenues
 - provide reasonable termination options for both parties, should major capital work be required exceeding both the Kinsmen Club's and the City's financial resources

REPORT

The Kinsmen Twin Arena (the Facility) was built in 1997 through a joint effort between the City and the Kinsmen Club (with the latter contributing \$3 million towards construction). It is currently leased and operated by the Kinsmen Club with the lease expiring in 2032 (potential extension until 2037). Under the lease, the Kinsmen Club is responsible for all facility operations and maintenance costs, while the City manages ice allocation and revenue collection.

This report requests approval for:

- A funding agreement (Attachment 1) where the City will provide up to \$185,000 annually to the Kinsmen Club for facility operations, with adjustments based on net revenue. The total amount potentially payable exceeds Administration's delegated authority.
- A lease amendment (Attachment 2) outlining changes to the terms between the City and the Kinsmen Club regarding the Facility. Administration does not have the delegated authority to enter into the lease amending agreement because the lease is specifically excluded from the Non Profit Leasing Guidelines dated March 16, 1999 (Attachment 3) because the Kinsmen Club, in partnership with the City, constructed this unique partnership-based Facility.

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If approved, both the funding agreement and the lease amendment will be effective as of July 1, 2024 to align with Kinsmen Club's current fiscal year.

The Kinsmen Club has reviewed and agreed to the terms in the recommended funding and lease amending agreements outlined within this report.

For information, a table of sample calculations is included as Attachment 4, and a site plan is included as Attachment 5.

Summary of Proposed Funding Agreement

Since the lease began, the Kinsmen Club has effectively managed the Facility, covering nearly all operational and maintenance costs. The City's budget was only affected when ice rental fees collected fell short of the blended rate paid to the Club. The proposed funding agreement, with a maximum annual support of \$185,000 offset by any net Facility income, aims to address potential revenue gaps. Projections indicate this support will likely only be necessary during facility closures or unforeseen usage drops. Importantly, the agreement accounts for the City's control over ice rental fees, the Club's sublease and secondary revenues, and comparable City-operated arena costs. While the arena budget reflects sublease income through the Kinsmen Club, ice rental fees controlled by the City constitute the primary revenue source. The City's average annual net operating cost for similar arenas is \$275,000.

Summary of Lease Amending Agreement Proposed Changes

Ice Rental Fee

The City strives to book a comparable amount of ice time at the Facility as at other City-owned twin arenas. Currently, the City pays the Kinsmen Club a blended rate for ice rentals regardless of the actual fees collected. To ensure a fairer financial arrangement and better track the Facility's finances, the proposed lease amendment would change the payment structure to reflect the actual ice rental fees collected, which vary based on six different classifications. The previous blended rate often resulted in overpayment to the Kinsmen Club, particularly before 2020, meaning the City was paying more through the blended rate compared to ice rental fees collected. Since then, the fees paid have aligned more closely with the collected amounts.

Partnership Fund and Capital Reserve Account

The Kinsmen/City Projects partnership fund, established in 1996, accumulates the surplus revenues from the Facility. The fund has supported community projects like the Kinsmen Park Playground and Kinsmen Skate Board Park. Recognizing potential future capital shortfalls of the Facility, the fund has not been used for eight years and totals \$1.28 million as of June 30, 2023. The proposed lease amendment seeks to transfer this balance to the Facility's capital reserve account.

The Facility will require an estimated \$3 million in capital renewal costs over the next 15 years. To cover these costs, the capital reserve fund would need \$200,000 annually. Under the lease, the Kinsmen Club currently contributes \$65,000 annually. Transferring \$1.28 million from the partnership fund reduces the annual contribution requirement to \$100,000, which the parties agree is a more reasonable and feasible amount. The proposed amendment requires that any

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annual revenue surplus exceeding \$285,000 is additionally directed to the capital reserve, and that any remaining funds in the capital reserve at lease end will be returned to the City.

Facility Expense Coverage During Major Capital Renewal Work

Given that the Facility has been in operation for 27 years, significant capital renewal is anticipated within the remaining lease term. Some of these major renovations might necessitate temporary closure of the Facility, leading to a substantial decrease in the Kinsmen Club's revenue. To mitigate this, the lease amendment allows for utilizing the capital reserve account to offset any operating deficit incurred due to such closures.

Sublease Revenue

The Kinsmen Club subleases portions of the Facility at market rate rents. All of the sublease revenue is used by the Kinsmen Club towards the annual operating costs of the Facility. The lease amending agreement would obligate the Kinsmen Club to maintain the current level of sublease revenue. Should the Kinsmen Club not maintain such sublease revenue, then the City may, at its option, require the Kinsmen Club to surrender any unused sublease space for the City to use or sublease itself.

Unfunded Capital Renewal Work

Given the Facility's age, escalating labor and equipment expenses, and potential supply chain issues, unforeseen capital renewal costs could surpass the available funds of the capital reserve fund. While the Kinsmen Club's contributions align with the estimated annual reserve requirements, they might not be sufficient for unexpected repairs or cost increases. To address this, the lease amendment proposes a shared responsibility model for capital renewals. If costs exceed the reserves, the City will cover the difference, contingent on budget availability. However, if the City cannot fund the excess, both parties have the right to terminate the lease. Furthermore, the City can terminate the lease if the unfunded renewal costs surpass the Facility's remaining economic life. These changes promote a more collaborative approach to managing future capital renewal needs, ensuring neither party bears an unreasonable financial burden.

Budget/Financial Implications

City Capital Costs

To date, the Facility has not received any City capital renewal budget funding.

The estimated 15 year Facility capital renewal requirement is \$3 million.

The lease amending agreement provides for capital reserve account contributions of \$2.81 million plus any excess surplus funds that may arise.

City Operating Costs

The City's historical net cost for the Facility has fluctuated due to discrepancies between ice fee revenue collected and the amount paid to the Kinsmen Club under the blended fee structure. This cost has recently decreased, primarily because of a higher proportion of bookings from groups paying higher ice rental fees, particularly during weekday daytime hours. Eliminating the blended rate would resolve the fee discrepancy. The proposed funding agreement, offering up to

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\$185,000 in annual operating support, is unlikely to be fully utilized during normal operations, as evidenced by the Kinsmen Club's recent financial statements. The proposed support has been budgeted for annually, and remains available in future budgets should it be required. No budget changes are required for the new lease.

Community Insight

Recreation facilities are a valued resource for Edmontonians for personal wellness and community connection. The Kinsmen Twin Arena provides a variety of inclusive programming for adults and children of various backgrounds and is rented more than 6,000 hours per year by youth and adult groups participating in ice hockey, figure skating, speed skating and ringette. Kinsmen Twin Arena also offers public skating times. Administration books the ice time in accordance with processes and rates established for all City arenas, including free public skating opportunities on a weekly basis during the winter season.

The Kinsmen Club serves the community through:

- Salute 2 Youth Scholarships - \$1,000 to one grade 12 student at each Edmonton Public and Edmonton Catholic high school in recognition of volunteering and community service - at least \$30,000 issued every year.
- Annual Awareness and Fund-Raising Hockey Tournament. In 2023, the Ben Stelter Memorial Tournament raised over \$55,000 and in 2024 raised over \$85,000.
- Super Sports Day - a free, full day sports camp for children aged eight to 12.
- Financial support to Operation Friendship Seniors Society, Alberta Women's Shelter Society, AdaptAbilities, Niginan Housing, Youth Rise, Hope Mission, Mustard Seed, YESS, Boyle McCauley Health Centre, WIN House, Ronald McDonald House, Boys and Girls Clubs, Cystic Fibrosis and others.

GBA+

The Kinsmen Club operates the Facility but is not the program provider as the ice time is booked by third parties through the City. These third parties work closely with organizations like KidSport Edmonton, which provides financial assistance to cover sport registration fees, and Sport Central, which provides free equipment to kids who need financial assistance.

The Kinsmen Club conducts a variety of fundraising and service projects. After assessing needs, the Kinsmen Club undertakes projects and distributes funds in local communities.

Kinsmen Super Sports Day was established with the belief that sports connect the community. This free, one-day event gives youth in Edmonton the opportunity to work with top athletes. With the high cost of participating in team sports, this free opportunity to participate is targeted towards families that might not otherwise afford it, with an estimated half being from visible minorities.

On an organizational level, approximately 20 per cent of the Kinsmen Club's charitable support budget goes to Niginan Housing Ventures, a not-for-profit organization providing housing for Indigenous populations in Edmonton.

The Kinsmen Twin Arena operates as a barrier-free facility.

Environment and Climate Review

This report was reviewed for environment and climate risks. Based on the review completed no significant interactions with the City's environmental and climate goals were identified within the scope of this report.

Attachments

1. Funding Agreement Terms and Conditions
2. Lease Amending Agreement Terms and Conditions
3. Non-Profit Leasing Guidelines
4. Funding Agreement and Lease Amending Agreement Sample Calculations
5. Site Plan