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Attachment 1

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CITY OF EDMONTON

West Rossdale Redevelopment

January 6, 2015

KRP KINGSTON ROSS PASNAK LLP

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SECTION 1
The Engagement

You have engaged us to review, revise and update the pro-forma financial models presented in the DIALOG report. These pro-forma models were developed to illustrate the potential profitability of the West Rossdale neighborhood development.

The financial analyses in this report rely heavily on these preliminary pro-forma models and further analysis would be required to prepare a full business case for the development.

General Understandings and Limitations of Liability

This document contains financial assumptions and forward looking statements that reflect the current expectations of the City of Edmonton's project team. By their very nature, forward looking statements require assumptions that are subject to inherent risks and uncertainties. Actual costs will vary from the information presented in this document and the variations may be material. The project team assumes no responsibility to update this document for events and circumstances occurring after the date of the preparation of this document.

The assumptions and information that were provided to us by the City of Edmonton's project team have been itemized within this report. We did not audit or otherwise verify these assumptions or this information.

In no event shall Kingston Ross Pasnak LLP be liable to the parties under this engagement for special, indirect, incidental or consequential damages, including, without limitation, loss of profits or revenue, loss of goodwill, loss of data, loss of capital, cost of capital, howsoever caused, even if such damages are foreseeable or KRP has been advised of the possibility of such damage.

Scope of Information Reviewed

In preparing this preliminary report, we have reviewed and relied upon:

(a) The West Rossdale City Initiative Final Draft report prepared by DIALOG, Coriolis Consulting Corp., and Evergreen CityWorks;

(b) The draft development pro forma financial analyses prepared to support the West Rossdale City Initiative Final Draft report prepared by DIALOG, Coriolis Consulting Corp., and Evergreen CityWorks;

(c) Telus Field Class 5 demolition budget prepared by LCVM Consultants Inc.;

(d) Our meetings and discussions with Mr. Doug Carlyle of DIALOG; and,

(e) Our meetings and discussions with City of Edmonton staff.

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SECTION 2
Background

The West Rossdale Urban Design Plan Implementation project will facilitate the development of the West Rossdale lands from a largely vacant, under-developed area into an attractive, livable, well-designed community of up to 3,000 residents. In conjunction with several other nearby initiatives in "The River Crossing" area (such as the new Walterdale Bridge and the EPCOR Generating Station re-purposing), this project will transform the southern gateway into the Downtown and create a special place in the heart of the City that celebrates Rossdale's long and significant history.

This project will include infrastructure upgrades, streetscape improvements, land acquisition, lot consolidation, land sales, and coordination and collaboration between City Departments. Completion of this project will result in increased assessed property values, the efficient use of existing infrastructure, and the creation of an attractive neighborhood linking key activity centres in Edmonton's core. It is aligned with "The Way Ahead", "The Way We Grow", "The Way We Move", and "The Way We Live".

Following an extensive public consultation process, the West Rossdale Urban Design Plan (which incorporates the ten strategic priorities) was approved by City Council on August 29, 2011, along with associated Plan Amendments and proposed DC1 (Direct Development Control) Zoning.

This project includes streetscape improvements and necessary underground infrastructure upgrades which will enable development and catalyze the creation of a livable urban village.

The City owns a significant portion of the lands in West Rossdale. The sale of developable portions of land will create a revenue stream for the City; however, this is offset by the streetscape improvement costs, infrastructure upgrading costs required for the proposed development, and parks and public realm costs. The high standard of urban design envisioned by the Urban Design Plan is above that typically found at a neighborhood level, but is appropriate due to the unique role that West Rossdale plays given its location adjacent to the Downtown, the Central River Valley riverfront and the Alberta Legislature Grounds; and the challenges it faces relative to existing high traffic volumes.

Scenarios

In preparing this preliminary analysis, we have considered the following four scenarios:

1. Base scenario – In this scenario, the redevelopment would move forward under the existing plan.
2. Include Telus Field – In this scenario, Telus Field would be demolished and the site would be included as part of the redevelopment.
3. Exclude GoA Parcel – In this scenario, the Province of Alberta would acquire the lands West of 105 Street between 95 and 96 Avenues. Those lands would not be available for redevelopment.
4. Include Private Land – In this scenario, the private lands in West Rossdale would be acquired by the City and then the redevelopment would move forward under the existing plan.

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SECTION 3
Analysis

Full cost analysis
A full cost analysis was undertaken to assess each scenario. Under this full cost analysis, all costs and expected benefits resulting under each scenario were analyzed to provide a total cost picture for the project.

Development costs were analyzed to determine whether they related to the base neighborhood's development (neighborhood development) or whether they served a larger goal of improving the city overall (city-building activities). City-building activities include:

- Costs associated with arterial roadway improvements beyond the cost of the roadways that would otherwise be required to service the needs of the neighborhood and its residents;
- Parks development beyond typical suburban development requirements; and,
- Urban design/public realm costs relating to areas bordering the arterial roadways.

Scope of analysis
The following costs and benefits were analyzed for each scenario:

- Land sales revenue;
- Roadway costs;
- Urban Design/Public Realm Costs;
- Sewer, Water, and Drainage Costs;
- Soft costs (project management, engineering and professional fees, contingencies, public art, and aboriginal accommodation);
- Land acquisition costs;
- Demolition costs;
- Interest costs; and,
- City-building costs.

Methodology
The above costs and benefits were forecast over a twenty-one year time horizon and two forecasts were prepared. One forecast included expected inflationary increases over this time horizon. The second forecast was prepared on a similar basis to the DIALOG analysis and excludes inflation. This second forecast is based on a constant dollar (2014 dollar).

The net present value of the above costs and benefits has also been determined for each scenario over a twenty-one year time horizon as at project initiation. Net present value ("NPV") is a financial measure of the economic value of a given project at a particular point in time. NPV analysis inherently reflects the time value of money, which is the concept that cash received earlier is more valuable than cash received later because cash received earlier may be invested to earn investment returns.

Assumptions

These preliminary analyses are based on the following key assumptions (all amounts are noted in 2014 dollars):

General assumptions:

1. Land servicing and development cost estimates and allowances will be as per those in the DIALOG report;
2. A market value for residential land post-redevelopment of $31 per buildable square foot;
3. A market value for commercial land post-redevelopment of $20 per buildable square foot;
4. Development management fees of $500,000 per year to allow for staff and overhead requirements for managing the project;
5. Interest costs of 4% per annum; [1]
6. A discount rate of 4% per annum;
7. Revenue inflation of 3% per annum;[2]
8. Cost inflation of 6% per annum for the first two years of development and 3% thereafter;[2]
9. Lands within the development will be sold at a pace of approximately 100 units per year;
10. Marketing costs equal to 2.5% of land sales;
11. No private land acquisition is required to implement the Urban Design Plan for the area;
12. Sufficient municipal reserve lands exist in the area of the redevelopment. As such, all parks development costs contribute to city-building;
13. 83% of roadworks costs relate to arterial roadways and 40% of those costs relate to the construction of roadway infrastructure that is in excess of what is required to service the needs of the development. As such, these costs contribute to city-building; and,
14. 68% of urban design and public realm costs relate to areas bordering arterial roadways. As such, these costs contribute to city-building.

Specific assumptions for the Include Telus Field scenario:

1. Telus Field will be demolished at a cost of $6.5M in year 16 to allow for residential development of the site;
2. No facility would be built to replace Telus Field. The need for a replacement facility would depend on the City's analysis of the future of the facility and of the future of baseball in Edmonton; and,
3. No additional servicing/development costs will be required for the Telus Field site. Note that servicing and road development costs may increase under this scenario depending on the nature of the eventual development on this site.

Specific assumptions for the Exclude GoA Parcel scenario:

1. The Province of Alberta would acquire the lands West of 105 Street between 95 and 96 Avenues in a land swap transaction that reflects current market value; and,
2. There will be no savings in servicing/development costs related to the resulting decrease in density along 105 Street.

Specific assumptions for the Include Private Land scenario:

1. The private lands will be acquired at their assessed value of approximately $7,693,000 plus a 10% contingency for acquisition costs. Acquisition costs will vary depending on the method of acquisition used by the City; and,
2. The private lands will be sold by the City post-redevelopment.

[1] Interest costs were calculated on the assumption that neighborhood development and city-building activities would be financed as separate projects in order to isolate the interest costs attributable to each project. As such, where positive cash flows are generated from neighborhood development in certain scenarios, they have not offset negative cash flows generated from city-building activities and related interest costs in those scenarios.

[2] Assumption only applies to the inflation adjusted forecast.

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Preliminary financial overview of scenarios – Including Inflation

Neighborhood Development (Includes Inflation)				
Item	**Base Scenario**	**Include Telus Field[3]**	**Exclude GoA Parcel**	**Include Private Land[4]**
Revenue	$ 47,556,809	$ 71,508,643	$ 40,201,505	$ 62,373,443
Roadway Costs	(13,422,910)	(13,422,910)	(13,422,910)	(13,422,910)
Urban Design/Public Realm Costs (Local)	(9,900,378)	(9,900,378)	(9,900,378)	(9,900,378)
Sewer, Water, and Drainage Costs	(7,898,191)	(7,898,191)	(7,898,191)	(7,898,191)
Soft Costs	(25,356,567)	(29,128,207)	(23,631,528)	(25,356,567)
Land Acquisition Costs	-	-	-	(10,575,291)
Demolition Costs	-	(10,886,168)	-	-
Interest Costs	(3,285,641)	(4,340,557)	(8,436,844)	(3,063,163)
Profit (Loss) - inflated dollars	$ (12,306,878)	$ (4,067,769)	$ (23,088,346)	$ (7,843,057)
Profit (Loss) - present value	$ (6,294,910)	$ (3,254,476)	$ (14,962,809)	$ (5,090,398)
City-Building Activities (Includes Inflation)				
Item	**Base Scenario**	**Include Telus Field**	**Exclude GoA Parcel**	**Include Private Land**
Added Arterial Roadway Costs	$ (6,684,179)	$ (6,684,179)	$ (6,684,179)	$ (6,684,179)
Urban Design/Public Realm Costs (Arterials)	(22,355,150)	(22,355,150)	(22,355,150)	(22,355,150)
Park Costs	(7,033,826)	(7,033,826)	(7,033,826)	(7,033,826)
Soft Costs	(15,600,648)	(15,600,648)	(15,600,648)	(15,600,648)
Interest Costs	(26,827,466)	(26,827,466)	(26,827,466)	(26,827,466)
Total Cost - inflated dollars	$ (78,501,268)	$ (78,501,268)	$ (78,501,268)	$ (78,501,268)
Total Cost - present value	$ (49,190,432)	$ (49,190,432)	$ (49,190,432)	$ (49,190,432)
Total (Includes Inflation)				
Total Loss - inflated dollars	$ (90,808,146)	$ (82,569,037)	$ (101,589,614)	$ (86,344,325)
Total Loss - present value	$ (55,485,342)	$ (52,444,908)	$ (64,153,241)	$ (54,280,830)

[3] This scenario assumes that no additional servicing and road development costs would be required to redevelop the Telus Field site and that no replacement facility would be required for Telus Field. Should either of these assumptions prove to be false, it would significantly impact the profitability of this scenario.

[4] A 10% contingency has been included in this scenario for acquisition costs related to private lands.

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Preliminary financial overview of scenarios – Constant Dollars

Neighborhood Development (Constant Dollars)				
Item	**Base Scenario**	**Include Telus Field[5]**	**Exclude GoA Parcel**	**Include Private Land[6]**
Revenue	$ 36,401,753	$ 49,958,643	$ 29,676,691	$ 47,230,637
Roadway Costs	(9,385,871)	(9,385,871)	(9,385,871)	(9,385,871)
Urban Design/Public Realm Costs (Local)	(6,663,446)	(6,663,446)	(6,663,446)	(6,663,446)
Sewer, Water, and Drainage Costs	(5,685,160)	(5,685,160)	(5,685,160)	(5,685,160)
Soft Costs	(17,899,564)	(19,899,564)	(16,899,564)	(17,899,564)
Land Acquisition Costs	-	-	-	(8,462,300)
Demolition Costs	-	(6,500,000)	-	-
Interest Costs	(1,431,857)	(1,983,561)	(6,096,281)	(1,534,902)
Profit (Loss) - constant dollars	$ (4,664,144)	$ (158,959)	$ (15,053,631)	$ (2,400,605)
Profit (Loss) - present value	$ (2,005,751)	$ (370,820)	$ (10,202,125)	$ (1,848,406)
City-Building Activities (Constant Dollars)				
Item	**Base Scenario**	**Include Telus Field**	**Exclude GoA Parcel**	**Include Private Land**
Added Arterial Roadway Costs	$ (4,689,593)	$ (4,689,593)	$ (4,689,593)	$ (4,689,593)
Urban Design/Public Realm Costs (Arterials)	(14,996,530)	(14,996,530)	(14,996,530)	(14,996,530)
Park Costs	(5,400,000)	(5,400,000)	(5,400,000)	(5,400,000)
Soft Costs	(10,849,058)	(10,849,058)	(10,849,058)	(10,849,058)
Interest Costs	(20,259,549)	(20,259,549)	(20,259,549)	(20,259,549)
Total Cost - constant dollars	$ (56,194,730)	$ (56,194,730)	$ (56,194,730)	$ (56,194,730)
Total Cost - present value	$ (35,928,909)	$ (35,928,909)	$ (35,928,909)	$ (35,928,909)
Total (Constant Dollars)				
Total Loss - constant dollars	$ (60,858,875)	$ (56,353,689)	$ (71,248,361)	$ (58,595,335)
Total Loss - present value	$ (37,934,661)	$ (36,299,729)	$ (46,131,034)	$ (37,777,316)

[5] This scenario assumes that no additional servicing and road development costs would be required to redevelop the Telus Field site and that no replacement facility would be required for Telus Field. Should either of these assumptions prove to be false, it would significantly impact the profitability of this scenario.

[6] A 10% contingency has been included in this scenario for acquisition costs related to private lands.

SECTION 4
Conclusions

The cost of city-building activities would be equal under all scenarios.

The following comments outline the key findings related to the financial impact of the neighborhood development under each scenario based on these preliminary analyses.

1. Base Scenario
    - This scenario results in the second largest financial loss to the City on a net present value (including inflation) basis.
    - Revenue from land sales is not sufficient to recover the neighborhood development costs.
2. Include Telus Field
    - This scenario results in the smallest financial loss to the City on a net present value (including inflation) basis.
    - The additional developable lots that could be sold on the Telus Field site post-redevelopment would result in significant revenues to the City.
    - There would be significant costs associated with the demolition of Telus Field. These costs have been included in this analysis.
    - Depending on the eventual development plan for the Telus Field site, additional servicing and road development costs may be required. No such costs have been included in this analysis.
    - If the City determines that a replacement facility would be required for Telus Field, it would significantly impact the profitability of this scenario. This would depend on the City's analysis of the future of the facility and of the future of baseball in Edmonton. No replacement costs have been reflected in this analysis.
3. Exclude GoA Parcel
    - This scenario results in the largest financial loss to the City on a net present value (including inflation) basis.
    - The exclusion of the saleable development lots on the site being considered by the Government of Alberta has a significant impact on the revenue potential and profitability of the project.
4. Include Private Land
    - This scenario results in the second smallest financial loss to the City on a net present value (including inflation) basis.
    - If private lands can be acquired at or near their current assessed values, gains can be achieved through the redevelopment and resale of those lands.
    - We understand that it may not be practical to implement the Urban Development Plan without the acquisition of the private lands.

We thank you for this opportunity to be of service.

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