Potential Downtown Arena

Alternative Funding Methods

Recommendation:
That the April 6, 2011, Finance and Treasury Department report 2011FT2902 be received for information.

Report Summary

This report provides information on the seat condominium/mortgage product as a potential funding model for the development of a downtown arena.

Previous Council/Committee Action

At the January 17, 2011, City Council meeting, the following motions were passed:

- That Administration in regards to the Potential Downtown Arena Development prepare a report on the potential models for seat licensing/condominium sale of seats in a new arena (reference Attachment 2 of the January 17, 2011, Finance and Treasury Department report 2011FT7366).

- That the City Manager meet with the Stadium Capital Financing Group, LLC and discuss what information would be required should the Stadium Capital Financing Group LLC wish to prepare a formal written proposal to the City of Edmonton.

Report

Prior to the March 2, 2011, City Council meeting, Administration met with representatives of Stadium Capital Financing Group to discuss the condominium sale of seats as a method of financing a new arena.

On March 2, 2011, Administration provided an update on Personal Seat Licenses in report 2011FT4062 and committed to City Council that information addressing the seat condominium model would be presented to City Council on April 6, 2011. This report addresses the condominium/mortgage product as a potential funding model for the development of the downtown arena.

<u>Condominium/ Equity Seat Rights</u>
Representatives of Stadium Capital Financing Group have indicated the potential to finance the entire capital cost of a new arena through Equity Seat Rights sometimes referred to as seat condominium sales or seat mortgages.

Equity Seat Rights are not the same as Personal Seat Licenses. Equity Seat Rights is an actual purchase of the rights to a seat in the arena that includes access to events and is transferable.

The owner of the Equity Seat Rights builds equity and value as the admission price to the facility increases.

The funding source for the purchase of the equity seat rights is the users of the facility. In this way, it is not a new funding source, but rather is a financing tool. If this tool was utilized for the development of a downtown arena it would result in a 100 percent user pay model.

Operations
An issue that arises with this product is whether the operations of a new downtown arena would generate sufficient revenue to pay all operating and capital costs, and provide a return on investment to the operations.

At this time, this model has only been tested at the University of Kansas and the University of California-Berkeley. The product has not been utilized to fund any facility for a pro-sports franchise.

Media reports have a representative of Stadium Capital Financing Group stating in 2009 that: "*one challenge would be structuring a financing program that allows enough revenue for a professional sports franchise that has higher operating costs than a college team.*"

This model is a financing tool that uses future operating revenue to pay for the initial capital costs of the facility. A key issue when considering this model for a pro-sports team is that it requires the party or parties otherwise entitled to the on-going revenues from annual ticket sales to give them up.

Potential Funding Framework
Administration had previously provided City Council with a potential funding framework for a downtown arena. The potential framework Administration was directed to negotiate does suggest a user pay component of $125 million and a franchise owner's contribution of $100 million to fund 50 percent of the capital cost. The Equity Seat Right model raises that user pay component to 100 percent so that all would come from private sector funding.

Funding a $450 million arena in downtown Edmonton from totally private sources would be difficult. Assuming an owner equity contribution of $100 million, the mortgage on $350 million would amount to approximately $23 million annually for 30 years at a 5 percent interest rate. The mortgage payments would need to come from the operational revenue of the facility. Given the costs of operating such a facility and the costs of operating an NHL franchise, the business case to proceed with 100 percent private funding may not be positive.

To put an Equity Seat Rights program in place to fully finance the cost of a downtown arena would not require the participation of the City. It would, however, require the agreement and participation of the Katz Group if there was an expectation that the Edmonton Oilers would be tenants of such a facility.

The Equity Seat Rights program could be considered to cover to a portion of the cost of financing the facility. However, it would still require the agreement and participation of Katz Group.