

# Update on the Potential Downtown Sports and Entertainment Facility

## Recommendation:

That the January 17, 2011, Finance and Treasury Department report 2011FT7366 be received for information.

## Report Summary

This report provides a progress update on Council motions related to a potential Downtown Sports and Entertainment Facility.

## Previous Council/Committee Action

At the July 21, 2010, City Council meeting, the following motions were passed:

- That Administration:
  1. Enter into discussions with the Katz Group of Companies and Northlands on a framework for the financing, not including an increase in current property taxes, and operations of a potential downtown arena and entertainment project.
  2. Develop a community consultation program, in line with City Policy C513, on a downtown arena and entertainment district project on a city-wide basis.
  3. Prepare a report for Council on Edmonton Northlands' anticipated impacts and opportunities relating to any potential downtown arena and entertainment district project.

## Downtown Arena – Potential Impacts

- That Administration prepare a report on potential impacts on City operations, infrastructure and investments of a potential downtown arena and include an update on any commitments of Federal and Provincial funding for this project.

## Downtown Arena – Private Development

- That Administration develop a benchmark scenario for private development of the facility and report back on the proforma for this. If it is Administration's conclusion that it is not feasible for an arena to be built privately, then detail and quantify the financial gaps that stand in the way.

## Community Revitalization Levy – (Downtown) Risk Leakage

- That Administration report to Council on the risks of leakage of development potential from the pending Quarters Community Revitalization Levy to the proposed Arena District Community Revitalization Levy.

## Report

Two additional motions were made at the July 21, 2010, City Council meeting pertaining to the Potential Downtown Sports and Entertainment Facility. Both of these motions (relating to Council questions, and a presentation by Northlands), were addressed at the December 10, 2010, City Council meeting.

This report provides a progress update on the motions related to a potential downtown sports and entertainment facility with a focus on the recommendation to enter into

discussions with the Katz Group and Northlands on a financial framework and operations of a potential downtown arena and entertainment project.

The report should be considered separate to the parallel zoning and land use process that is being addressed by Council in response to the Katz Group's planning and development application.

- On January 18, 2011, as part of a public hearing relative to the planning and development process, a presentation will be made on the process, roles, and timelines to be followed relative to the design of an arena. This presentation will focus on the integration of arena design into the principles of the Capital City Downtown Plan.

The motion to prepare a report on potential impacts on City operations, infrastructure and investments of a potential downtown arena and of any commitments of Federal or Provincial funding cannot be satisfied until further decisions are made by Council as to the specifics of City involvement in a downtown arena project.

Administration has been researching the development of a benchmark scenario for private development of a downtown arena. This is challenging as there appears to be no industry best practice for the private development of a sports and entertainment facility. Each community reflects a unique circumstance at different points in time. Administration will continue the research in this area and present a conclusion with the next report to Council as to the feasibility for an arena to be funded privately in Edmonton.

The report on the risks of leakage of development potential from the pending Quarters Community Revitalization Levy to the proposed Arena District Community Revitalization Levy will be incorporated into a report on an Arena District Community Revitalization Levy if City Council supports an approach which includes consideration of a Community Revitalization Levy as a source of City participation in the funding of a downtown sports and entertainment facility.

At the December 10, 2010, City Council meeting, Council was presented with the preliminary results of the Sports and Entertainment Facility Public Consultation (the Consultation). As indicated in the January 17, 2011, Community Services Department report 2011CSS003, subsequent to the December 10, 2010, City Council meeting, a statistically valid survey of Edmonton residents was also completed. The responses to the statistically valid survey were, for the most part, consistent with the responses from the online questionnaire. While this fulfills the motion approved by Council to develop a community consultation program, broad-based public engagement will likely continue if Council approves City involvement with advancing a downtown sports and entertainment facility (downtown arena).

As well, Administration has been meeting with both the Katz Group and Northlands Administration in order to move forward on the motions approved by Council at the July 21, 2010, and December 10, 2010, City Council meetings.

The work that Administration has done with the Katz Group and Northlands Administration has been informed by the Consultation. The message heard in the Consultation process for the City to take the lead when it comes to a downtown arena should only be realized if the City is a significant participant in the arena project.

### **Downtown Arena Framework**

Building on the information provided to Council in the July 21, 2010, report, Administration has met with the Katz Group and Northlands about a framework (the Framework) for financing and operations of a potential downtown arena. Following is an update on the components of the Framework that has evolved through discussions with the Katz Group. In order for an arena project to advance, Council would need to provide direction to Administration to negotiate City participation in the project. The Framework components could serve as the basis for that negotiation.

### **Capital Funding**

The target for the capital investment required for the downtown arena is \$450 million. This cost is for arena construction only. The cost of land, public infrastructure and any added amenities such as community ice facility are not included in this estimate. Any land acquisitions or swaps within the site to assemble the land that the City would require for the arena would be based on the fair market value achieved through an independent appraisal at the time of acquisition.

The Katz Group contribution is to be \$100 million committed to the arena construction. The City's potential investment through a combination of a Community Revitalization Levy and user fees has been identified in the Framework at \$250 million towards the arena construction. The City would own the arena. This would leave \$100 million to come from other sources yet to be identified. Administration has not had any discussions with either the Federal or Provincial Governments with respect to a funding contribution for this project.

### **Community Revitalization Levy**

Administration estimates that an arena district Community Revitalization Levy could generate revenue over a twenty-year period to provide for the full recovery of financing costs and debt repayment for up to \$160 million in capital investment. The Framework identifies \$125 million in Community Revitalization Levy funding as a source for half the potential City contribution towards the Arena itself. The balance of the Community Revitalization Levy would be utilized for other public infrastructure development in the area.

Attachment 1 to this report contains additional explanatory information on Community Revitalization Levy. If Council supports the use of a Community Revitalization Levy to contribute to the funding of a downtown arena, Administration will bring back a report detailing the proposed boundaries for an arena district Community Revitalization Levy, risk, the approvals required and the timelines and will respond to the issue concerning the

potential impacts to the Quarters Community Revitalization Levy.

### User Pay

A facility fee could be used to service the debt for a portion of the potential City commitment to the project. This facility fee would be similar to the ticket surcharge at Rexall Place adjusted to cover capital investment. Based upon Administration's analysis up to \$125 million in debt could be supported with the annual revenues generated by a user fee of this type.

The use of personal seat licenses to generate revenue for capital investment was also examined, but is not recommended at this time due to a perceived lack of market. There is more information on facility fees and seat licensing in Attachment 2.

### Governance Model

A number of different governance models were examined. Due to the often complex nature of ownership, operation and use of large sports and/or entertainment facilities, effective governance is a major requirement for success.

The Framework recommends pursuing a foundation model of governance that would provide oversight, as the Arena owner's representative, to oversee the construction, operations and management of the facility, including renovations and upgrades, but would be distinct from the party responsible for the day to day physical operation and management. A foundation would be a third party not-for-profit organization lead by an appointed board with the

professional, technical, and management experience necessary to provide an oversight function.

Administration would recommend a foundation be set up specifically for the purpose of governing the downtown arena operations. The make-up of the foundation board would need to be determined, but the Calgary model may provide an example to follow. As well, the City of Pittsburgh recently completed the construction of an arena with the use of a foundation type approach. Attachment 3 provides more information on this type of governance model.

### Arena Operations

There are a number of possible operating models for a downtown arena such as contracting operations to the major tenant (i.e. Katz Group/Oilers) and/or to a third party. Attachment 4 provides some general information on the NHL that has been derived from public sources. Included is a table summarizing data Administration has collected on 29 facilities that host NHL teams, including the year the facility was built, the total cost, public/private participation in financing, who operates and who owns.

In any operations scenario, the sustainability of the Edmonton Oilers hockey team would be a key consideration. The objective would be to provide the team with at least the same opportunities for success as the majority of the teams within the NHL if those opportunities are within local control. Administration thinks an operating model that supports the team's sustainability and investment could be achieved while still meeting the

City's requirements as the Arena owner. Elements of an appropriate operating agreement would include:

- a lease agreement of 30 years
- a location agreement with covenants that the team remain in Edmonton for 30 years
- covenants concerning the accommodation of existing tenants
- covenants concerning the number of community use days
- performance target that provide the facility is operated to achieve at a minimum the current levels of success in the entertainment market

Further discussion between Administration and the Katz Group is required before an operating model is recommended.

### Community Benefits

The benefits to the immediate and greater community from the development of an arena and entertainment district could be significant. Attachment 5 provides some research on community benefits derived from the development of major sporting and entertainment facilities.

Administration has had general discussions with the Katz group with respect to the community benefits that could be incorporated into an agreement should the City participate in funding a downtown arena. If Council directs Administration to negotiate an agreement with City participation, a Community Benefits component would be addressed.

### Next Steps

At present, Council has not directed Administration to negotiate an

agreement, but has directed Administration to discuss the development of a framework for the financing and operations of a potential downtown arena and entertainment district with the Katz Group. If Council supports City involvement in a downtown arena project at this time, Council could provide formal direction to Administration on components to be included in a negotiated agreement.

For the March 2, 2011, City Council meeting, Administration will bring forward reports, covering the following:

- A comprehensive 'Agreement Framework'. This will be a document agreed to by both Administration and the Katz Group that outlines the key components of a negotiated agreement. A discussion of the risk associated with City controlled funding sources, as well as general discussion on the risk and reward associated with the Agreement Framework will be included.
- An Arena District Community Revitalization Levy report.

### **Corporate Outcomes**

The development of a sports and entertainment facility within a downtown arena district has the potential to support a number of Council's 10 year goals, specifically: Improve Edmonton's Livability, Transform Edmonton's Urban Form and Diversify Edmonton's Economy.

### **Attachments**

1. Community Revitalization Levy
2. User Pay
3. Governance
4. NHL General Information
5. Community Benefits

**Others Reviewing this Report**

- L. Cochrane, General Manager, Community Services Department
- R. G. Klassen, General Manager, Planning and Development Department
- M. Koziol, General Manager, Capital Construction Department, and Acting General Manager, Asset Management and Public Works Department

