

Update on Northlands and Rexall Place

Recommendation:

That the January 17, 2011, Finance and Treasury Department report 2011FT8712 be received for information.

Report Summary

This report is a progress update on the assessment of Northlands sustainability, as well as a determination of long term plans for Rexall Place and the surrounding site, should a Downtown Sports and Entertainment Facility go ahead.

Previous Council/Committee Action

- At the December 10, 2010, City Council meeting, the following motions were passed:

Sustainability of Northlands

- That the City Manager work with Northlands and other relevant stakeholders, to prepare a report on the range of scenarios which could be pursued to ensure the sustainability of Northlands.

Long Term Plans for Rexall Place Lands

- That the City Manager prepare a report on what processes should be undertaken to determine the long term plans for the City-owned Rexall Place lands, should a new arena project be approved by City Council.

- At the July 21, 2010, City Council meeting, the following motion was passed:

That Administration prepare a report for Council on Edmonton Northlands' anticipated impacts and opportunities relating to any potential downtown arena and entertainment district project.

Report

Administration has engaged in initial discussion with Northlands Administration for the purpose of responding to Council's motions.

Administration believes that the first step is to identify an approach to assess Northlands financial sustainability and how a long term plan for Rexall Place and the surrounding site could support that sustainability.

This will require that an assessment of the potential uses for Rexall Place be undertaken. Administration will move forward on arranging for an assessment and report back to Council on progress once that assessment is complete.

Corporate Outcomes

This report is driven by Council's ongoing consideration of a Downtown Sports and Entertainment Facility. The development of such a facility, particularly within a broader 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.

Attachment

- Current Agreements Pertaining to Rexall Place

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
- D. H. Edey, General Manager, Corporate Services Department

Current Agreements Pertaining to Rexall Place

Excerpts from Responses to Council's Questions on the Potential Downtown Sports and Entertainment Facility

Contractual Responsibilities of the City

The City has several agreements with Northlands:

- The Master Agreement provides that at the time of the expiry/termination of the Northlands Site Lease, Northlands shall transfer or quit claim all of its right, title and interest in the "Demised Premises" (which includes Rexall Place) to the City, and that nothing in the Master Agreement or the Northlands Site Lease shall have the effect of making the City liable for any of the debts or liabilities of Northlands.
- The present term of the Site Lease is until July 31, 2034, with a 15 year right of renewal until 2049.
- The Site Lease provides that Northlands is responsible for all repairs and maintenance during the term.
- In the Revised Support Agreement between the City and Northlands, the City expressed a desire to assume responsibility for replacing certain defined major building components at Rexall Place ("Facility Capital Replacements"), subject to Council's decision to allocate grant funds for that purpose during the budget process.
- Under the Revised Support Agreement:
 - The City pays \$2.2 million dollars per year to Northlands, adjusted for inflation;
 - The City shares in the "Operating Profit" of Rexall Place after a certain threshold is reached, and the City must hold this money in a reserve to assist in funding the Facility Capital Improvements;
 - This agreement expires at the end of 2013, or if there is a Material Change in the financial status of Northlands or Rexall Place, being defined as:
 - a 30% decline for 2 consecutive years in the utilization rate;
 - loss of a major tenant or event at Rexall Place; or
 - a 30% or greater change in the accumulated operating surplus or deficit for 2 consecutive years.

The City does have a financial interest in the viability of Northlands as a lender. The City would want to ensure that Northlands can support the debt servicing related to borrowings done on behalf of Northlands for the score clock at Rexall Place and for the Northlands Expansion.

At the end of 2009, the score clock at Rexall Place had debt supported by the City of \$2,226,918 outstanding, with an expiry date of 2021 and annual payments of \$270,272 per year. Northlands has an agreement with the Oilers that includes annual contributions to support the score clock debt repayments until the City loan is repaid.

Should the Edmonton Oilers cease to play hockey in Rexall Place before the score clock loan is repaid; terms exist for the Oilers to make a payment of a lesser amount in support of this debt.

The City also has a borrowing and loan to Edmonton Northlands for the Expo Centre development. At the end of 2009 that outstanding balance was \$58,231,983. Only \$1,811,157 expires in 2014 and the balance of this loan does not expire until 2034, with annual debt repayments of just over \$2,022,984.

Further Detail on Support Agreement Between the City and Northlands

The City has provided support for Rexall Place to Northlands. This support agreement has been in place since 2004 and expires at the end of 2013. It exists to assist Northlands with the operating and capital costs of Rexall Place. The total payments to Northlands under this agreement since 2004 are \$16.352 million.

As part of this agreement the City shares in the operating profit of Rexall Place. That sharing is such that the City receives 20% of the profits earned in excess of the previous five year average of the actual net income of Rexall Place, adjusted for inflation. The City's share of profit since 2004 is \$2.752 million in total. This amount is reserved and provided back to Northlands for capital projects. Total capital funded from the reserve in the same period is \$1.799 million.

Northlands Payments under Support Agreement

Year	Support Payment to Northlands	Profit Sharing Payment to City contributed to Reserve	Capital Funded From Reserve
2004	\$ 2,200,000	\$ -	\$ -
2005	2,241,800	652,738	-
2006	2,291,120	423,584	-
2007	2,336,942	895,396	-
2008	2,388,355	391,835	-
2009	2,443,287	388,491	1,799,881
2010	2,450,617		
Total	\$ 16,352,121	\$ 2,752,044	\$ 1,799,881

Further Detail on Capital Cost Commitments of the City

The City contributes to capital maintenance projects that meet the terms of the support agreement between the City and Northlands. Under this agreement Northlands is required to submit annual capital budgets and any long term master plans to the City for consideration. Northlands presented its 2010-2012 capital plan on July 21, 2010 to City Council. That plan contained Northlands proposed capital expenditures of \$165,000 in 2010, \$715,000 in 2011 and \$660,000 in 2012 for Rexall Place. The plan also included City of Edmonton funded capital expenditures, currently estimated as approximately

\$500,000 in 2010 and \$880,000 in 2011. The projection for 2010 expenditure for the City of Edmonton is \$471,000 with deferral of some project costs to 2012-2013. This funding comes from the reserve established from the revenue shared with The City from Northlands Rexall Place operations. Question #20 elaborates on the reserve.

Over the past 5 years Northlands has completed the following capital rehabilitation work at Rexall Place:

Project Name	Year	Amount
Air Handling Unit Motors	2010	\$ 150,000
Secondary heating Loop	2010	\$ 350,000
Arena Lighting (design)	2009	\$ 40,000
Fire Alarm System	2009	\$1,151,000
Chiller Retrofit	2009	\$ 609,000
South Concourse/Plaza	2008	\$ 431,000
Ice Plant Replacement	2008	\$ 429,000
Boiler Replacement	2008	\$2,039,000
All Star Elevator	2007	\$ 414,090
Total		\$5,613,000

The Capital Plan for Rexall until 2023 is \$31 million or an average annual spend of approximately \$3 million.

Existing Ticket Surcharge

The City allows both the Oilers and Northlands to collect revenues generated in Rexall Place through admission surcharge bylaw C10841. All tickets for events at Rexall Place are subject to the ticket surcharge. Northlands collect the revenues for all non hockey events and the Oilers retain revenues for Oiler Hockey related events. The admission surcharge breaks down as follows:

- a) No Primary Admission Surcharge shall be charged for Tickets with a Ticket Price of less than seven (\$7.00) dollars;
- b) two dollars (\$2.00) shall be charged for every Ticket with a Ticket Price between seven (\$7.00) dollars and twenty eight dollars (\$28.00) dollars; and (S.2, Bylaw 11336, September 24, 1996)
- c) Seven (7%) percent of every Ticket with a Ticket Price over twenty eight dollars (\$28.00) shall be charged. (S.3, Bylaw 11336, September 24, 1996)

There is also a Supplemental Coliseum Admission Surcharge of \$.25 per ticket.

In 2009, Northlands generated \$2,400,000 from the admissions surcharge. We have estimated \$4,100,000 from the admissions surcharge for the Oilers.

A similar bylaw could be implemented in a new arena for a ticket surcharge. Revenue generated from this user pay surcharge could be directed to contribute to the capital

construction costs of a new arena and eventually to future capital rehabilitation. In the July 21, 2010 report the example used was based on a ticket tax of \$5 per ticket and sales for all events of 2 million tickets. This would annually generate \$10 million to service debt. Based on today's borrowing rates \$125 million in capital could be funded.

Oilers Contribution Toward Operating Costs

According to the Northlands 2009 annual report Rexall Sports Corporation ("the Oilers') under agreement receives all Oiler game revenues, including net food and beverage contributions. The Oilers are also entitled to all building advertising and sponsorship revenues, suite rental revenues, Oiler ticket surcharge revenues as well as Rexall Place parking revenues North of 118 Avenue. Northlands is responsible for building operating and capital costs, including the building event costs related to the playing of professional hockey. Under agreement, Northlands receives rent of \$1 per annum plus a contribution towards operating costs of \$73,180 per month or \$878,166 per annum for the period July 1, 2004 – June 20, 2014. Adjusted annually based on the Consumer Price Index, the 2009 contribution was \$1,182,089. Northlands pays remaining expenses using revenue generated from non hockey events.