

July 21, 2010 City Council Meeting
Item 5.4 – Sports and Entertainment Facility
Supplemental Questions from Mayor and Council
Questions for the Katz Group

Councillor Anderson:

The precise terms of an agreement between the Katz Group and the City of Edmonton remain the subject of negotiation. Accordingly, what follows below is the subject of ongoing discussions and cannot be considered final.

1. Who will own the new arena? (Katz Group)

Answer: We are presently working with a model where the City would own the arena.

2. Who will operate the new arena? (Katz Group)

Answer: It is a central part of achieving a sustainable financial model for the Edmonton Oilers that we operate the arena.

3. Who will pay the operating costs? (Katz Group)

Answer: We have yet to develop a proposed operating model in our discussions with City Administration. However, in principle, we would consider it appropriate that we would be responsible for operating costs.

4. Who will pay the maintenance costs? (Katz Group)

Answer: This is to be settled. One must distinguish between routine maintenance and capital maintenance requirements. We expect that both will be considered as our discussions with City Administration advance.

5. Is the \$100 m Katz dollars cash or land? (Katz Group)

Answer: There are a number of ways to deliver \$100m in value, but we recognize that this will have to be done in a fashion that is acceptable to the City.

6. Has a detailed analysis of the Katz lands been done (architects, planners, engineers, transportation experts, parking consultants, etc), to determine compatibility with the facilities program? (Katz Group)

Answer: We have worked closely with developers, urban planners, civil engineers, traffic consultants and arena programming experts. This process has reinforced our view that the subject lands are an optimal location for the arena district.

7. Can an NHL team in Edmonton generate enough revenue on its hockey operations to support itself? (without public assistance?) (Katz Group)

Answer: No. However, with revenues from a new downtown arena, we are confident that we can establish a model that creates long term financial sustainability for the Oilers.

Councillor Batty:

The Katz Group is a private company and in that they could not reasonably be expected to make their affairs public, there should be an acceptable process whereby independent professional financial advisors (legal, audit, investment bankers) to the City could review the Katz Group data on a confidential basis in order to provide "comfort" to the City that there is appropriate financial resources.

8. Who are the investors in the Katz Group? Is it just the family or are there other

Answer: Daryl Katz is the controlling shareholder of the Katz Group. His parents also have an interest.

9. Who are the major creditors of the Katz Group and what security do they have?

Answer: As you have observed, the Katz Group has a right to privacy in respect of the details of its financial affairs. However, we are prepared to work with City Administration to satisfy the City that we are able to meet our financial commitments to this project.

10. What is the assurance of 100 million – how would the money be raised?

Answer: The Katz Group has the wherewithal to honour this commitment.

11. Does the NHL have to sign on to a relocation agreement?

Answer: Subject to concluding a mutually acceptable agreement for funding for a new downtown arena, the Katz Group is prepared to sign a long term lease which includes a location agreement.

We are advised by the NHL as follows:

"Location agreements, which are intended to bind a franchise to a particular market for a stipulated period of time, are typically a term of a lease between the franchise and the building owner. The NHL would not expect to be a signatory to such an agreement. However, the NHL expects all franchises to honour the terms of their valid leases. The NHL recognizes that, in many cases, government entities commit significant public funds for arena construction and infrastructure and that they do so with an expectation of the NHL's and the franchise's long term commitment to the local market. Franchise relocation may make other cities less likely to invest in arena facilities and accompanying infrastructure. This harms not only potential NHL expansion but also those existing franchises seeking municipal participation in building new arena facilities and infrastructure.

Any franchise seeking to relocate to another market must have the permission of the NHL Board of Governors. While the first priority would be to keep franchises in their existing markets, a relocation application may be considered if the franchise does not have a binding lease. Such an application involves the consideration of some 24 factors, as set forth in the NHL Constitution and By-Laws, and is subject to a majority vote of the Board of Governors. The prevailing rules emphasize current local market viability first and foremost. Franchises whose markets are not viable due to the absence of a state-of-the-art arena and a sustainable financial model for the franchise may be considered candidates for relocation, again assuming there is no binding lease obligation. An important component of the analysis of local market viability is the assessment of the willingness of local government to participate in helping to establish the franchise's long term viability. In circumstances in which an NHL franchise is relocated, history indicates that a lengthy period of time is likely to elapse before another NHL franchise may be placed in that market, especially where the relocation was due to a failure of local support for the team from fans and/or local government authorities."

12. Should the Katz group suffer financial challenges does a relocation agreement ensure the team stays in Edmonton?

Answer: We are advised by the NHL as follows:

"The NHL has a critical interest in maintaining the viability of franchises in their home markets that have been assigned and approved by the Board of Governors. Should ownership of a franchise fail financially, all efforts would be made to find a viable local buyer to keep the franchise in the market and uphold the commitments made by the failed ownership. Alternate ownership candidates must, however, establish that they have the financial ability and wherewithal to support the team and make it successful in its current location, as well as otherwise meet the NHL's criteria for transfers of ownership under the review standards and processes set forth in the NHL Constitution and By-Laws."

13. Should other strategic partners become involved in either the financing a possible arena or in the running of the project would the City of Edmonton be required to give approval?

Answer: As to financing, yes, if the City is to own the arena, its agreement would be required in respect of all financing terms. As to operating the arena, any limitations on the Katz Group would have to be sorted out in discussions with the City Administration. We recognize the need to work with the City to best ensure that the arena development meets the needs of Edmontonians.

Councillor Caterina:

14. What was the specific offer to Northlands by the Katz Group in terms of being involved in a new arena?

Answer: Our discussions with Northlands took place over a period of about 18 months. They also took place within a context of a mutual expectation that the specifics of the discussions would remain confidential. We last made a written offer to Northlands in

September, 2009 which we thought would have given them a significant role in the arena but would also have allowed the Oilers to be competitive and sustainable.

Councillor Gibbons:

15. Arena operations: If the Oilers operate the arena and receive all revenues from the arena:

- a. **Who will have responsibility for such things as maintenance and repair, replacement of mechanical systems, structural repairs and maintaining financial reserves for major replacements and repairs?**

Answer: Please see Answer #4 above. This has yet to be determined.

- b. **Do you have an estimate of the annual fixed operating costs for this type of facility? Who will pay these costs?**

Answer: Please see Answer #3 above. As we are still in the design stage for the arena, we have yet to develop an operating pro forma.

- c. **Will the Oilers pay rent for the Arena? Will the Oilers pay Operating Costs for the Arena?**

Answer: The matter of rent remains the subject of further discussion with City Administration. We anticipate that we will pay operating costs.

- d. **Will the Oilers pay real estate taxes on the Arena?**

Answer: the matter of property taxes applicable to arena operations is another matter to be discussed with the City Administration.

Councillor Henderson:

My questions are about the non hockey revenues and probably are best answered by the Oilers and Northlands may also want to answer.

16. It is my understanding that in the old deal with the Oilers they had the non hockey business. At that time they chose to give it up, I presume because it was not lucrative.

Answer: It is our understanding that the EIG gave up control over the non-hockey revenues as part of an agreement with the City. We are not aware of all of the details and rationale that went into that agreement.

17. I am wondering what has changed in the interim that they now want the business back.

Answer: It was evident to us from the outset of our ownership of the team that it was essential to make fundamental changes in the Oilers' financial model in order to achieve long term sustainability of the team in Edmonton. While the sustainability model of NHL franchises is different from place to place by reason of differences in markets and local conditions, our challenge was to find a sustainability model that will work within the context of Edmonton's small media market where revenue sources have been both limited and essentially maximized. It became clear to us that there are two key elements to creating a sustainable financial model in Edmonton: firstly, having the enhanced revenue streams that would come with a modern NHL arena; and, secondly, having

control over non-hockey revenues in that facility. Long term financial sustainability of the Oilers in Edmonton cannot be achieved without the Oilers being placed on the same footing as the Calgary Flames where non-hockey revenues go to sustaining the hockey team. By controlling the non-hockey events, we would also have the opportunity to create synergies between the entertainment events in the arena, and between those in the arena and the entertainment events elsewhere within the entertainment district. This said, we recognize that a specific magnitude of profit from non-hockey events is not guaranteed and may not be consistent from year to year. However, with the benefit of the synergies which can be created by the new downtown arena and Entertainment District, we are confident that we can raise the calibre of entertainment in Edmonton.

The Katz Group is also in an advanced state of discussions with other NHL teams with the intention of creating a joint venture for arena operations. The object of such an arrangement would be to create new synergies and economies of scale in operation of multiple arenas and all events therein.

18. Would the deal be different? Has something changed besides Northlands management to suddenly make it lucrative?

Answer: We are not in a position to comment upon any changes that Northlands may or may not have made. However, it is our understanding that the concert business in Canada is currently relatively strong due to more bands touring because of piracy issues, in combination with Canadian venues being more attractive because of the relatively high Canadian dollar. We also understand that Rexall Place is more attractive than the Calgary Saddledome in respect of some entertainment events due to an inability to hang certain types of staging equipment from the Saddledome roof. We further understand that this has resulted in Edmonton attracting some events that otherwise may have gone to Calgary.

19. And if Northlands took a money losing proposition and turned it into a money making deal, why would they want to walk away from that expertise?

Answer: We are very confident that we have the personnel in place to successfully operate non-hockey events in the arena. We believe that we can develop a world class entertainment district in the heart of our downtown that will raise the caliber of entertainment in the City by providing both the modern amenities that will create a significantly improved fan experience and a platform for attracting the very best entertainment events.

Councillor Iveson:

20. Please explain exactly how a Location Agreement works from the Franchise perspective, including the contemplated duration of the agreement.

Answer: A location agreement would be a term of the lease pursuant to which the Oilers would play in the new building. It would bind the Oilers to playing only in that building for the full term of the lease. We are prepared to sign a long term lease in a new downtown arena that would bind the team to Edmonton for the term of that lease. We expect a term of 25 years or more.

21. What assurances can the Oilers or the NHL give with regards to the NHL arena standards, and how constant they will be over time; in other words, is there

any likelihood of the proposed new downtown facility becoming outdated in 20-30 years and requiring major investment or replacement?

Answer: As the history of Rexall Place has made evident, arenas require capital upgrades from time to time in order to remain current. The precise timing and nature of such investments is difficult to predict. However, with reasonable capital investments from time to time, we are confident that a new downtown arena will be a viable home for the Oilers for no less than 25 years, and very likely more.

22. Please explain all the competitive disadvantages the Oilers face in this market relative to other NHL franchises - including the particular revenue issues with today's lease - and provide a monetary estimate of the impact each of these disadvantages.

Answer: The Oilers have 2 fundamental competitive disadvantages: we play in the League's smallest media market and are the only team/ownership group in the NHL that does not receive non-hockey revenues from the building in which it plays. To put the former into context, a mid-market Canadian team like the Vancouver Canucks receives on the order of three times more for local television and radio broadcasts and sponsorships than does the Oilers. NHL teams do not disclose their non-hockey revenues, nor has Northlands disclosed their results to us. Accordingly, we are unable to reliably quantify the financial impact of not controlling non-hockey revenues.

23. What direct operating subsidy would be required to put the team in a position of sustainability, all other things held constant?

Answer: Please see Answer #22 above. We would not propose a specific figure. What we can say is that we accept that we cannot change the fact that Edmonton is the League's smallest media market. What we seek is to be placed on an equal footing with, for example, the Calgary Flames. While the Calgary Flames are also in a small media market, they are able to support their financial sustainability through non-hockey revenues.

24. Please provide the Oilers' Unified Report of Operations (URO) as submitted to the NHL for the last two year

We will not do that. Please see Answer #9 above.

25. Since the argument is that the team needs additional revenues to be sustainable, what assurances can be given that costs have been reduced and that the operation is as efficient as possible, (preferably with reference to league benchmarks)?

Answer: The largest expense component is player salaries which are subject to a cap and floor system under the Collective Bargaining Agreement. All other expense components for the Oilers are in alignment with the other teams in the League, except for travel expenses which, because of our relatively remote geographic location, are higher than almost any other team.

26. What is the Katz Group definition of sustainability for the team - in terms of rate of return on investment for the team and the \$100 million contribution for the arena?

Answer: We do not define sustainability on the basis of a specific rate of return. We would at least want to stop losing money. We seek a commercial operating model that places us on the same footing as the Calgary Flames.

Councillor Krushell:

I want to again thank you Mr. Katz for your presentation before City Council. I appreciated your speech in particular and your passion for Edmonton.

I apologize for not being able to be at the Council meeting in person as I was away for my 20th wedding Anniversary. As someone who is

Committed to family as yourself, I am sure you can appreciate that family comes first.

That said, I did conference call into the meeting because I do believe that the development of a downtown arena is of major importance. I also supported the motion to move forward with developing a framework for a downtown arena.

The questions I ask are not intended to offend in any way but to clarify potential risks for Edmonton Taxpayers. I would appreciate any answers you can provide to the following questions:

27. From your presentation it is my understanding the Katz Group requires all hockey and non-hockey revenues in order to be viable? Is this correct?

Answer: Yes.

28. Can you provide at least to City Administration in private, financial documents that demonstrate that the Edmonton Oilers are not making money?

Answer: Mr. Marcaccio should be able to satisfy City Administration with respect to this question.

29. Presently Northlands operates the existing arena and most non- hockey revenues, specifically the concert revenues, go to offset Northlands operations. Is it the Katz Group's intention to retain all of these revenues for its operations? Is it the position of the Katz Group that the existing arena cease to have concerts etc. and that all of this business transfer to the new arena? What if anything, does the Katz Group see happening to the existing arena?

Answer: Yes, without control of the non-hockey revenues from the facility, we will not be on the same footing as, for example, the Calgary Flames. These revenues are critical to the long term sustainability of the team. We believe that Edmonton is not large enough to have two facilities competing for arena based entertainment events. Neither facility would be sustainable in such a circumstance. We lack sufficient information and thus are not in a position to make recommendations as to what to do with Rexall Place. We respect that this is something for the City and Northlands to decide.

30. With the CRL model the City of Edmonton would need the surrounding development to be built at virtually the same time as the new arena in order to generate enough tax revenue to service the debt for the new arena. Can you provide any timeline for the surrounding development? Is the Katz Group prepared to provide the City of Edmonton with a letter of credit to ensure that if the surrounding development is not built the City of Edmonton would not be responsible for all of the risk?

Answer: CRL revenue would come from development in the entertainment district (the 16 acre parcel we are focused on) as well as other development by third parties outside this district that leverages off the Edmonton Arena District. We are not presently in a position to provide a specific timeline for the private sector development in the

entertainment district. However, our dialogue with our consultants and prospective tenants and partners leaves us with a high level of confidence that we will be able to develop a vibrant entertainment district around the arena. We have had substantive discussions with 6 major hoteliers and the level of interest in placing two hotels in the Arena District is very high. We are currently entertaining proposals from hoteliers in this regard. We have nine written Letters of Interest from a variety of international, national and local hospitality and entertainment providers and have had numerous other verbal expressions of interest. We have also had promising discussions with potential anchor tenants for the proposed office towers. We are confident that there will be a market within the District for both student residences and condominiums. However, for us to be able to move forward and secure these relationships, we require reasonable commercial certainty that the arena project will proceed. It is our intention to deliver as much private sector development contemporaneously with the arena as is economically feasible. As to the matter of risk, we seek a functional partnership with the City and a fair balancing of risk between the parties. Neither the City nor the Katz Group should bear risk disproportionately.

Councillor Leibovici:

31. Has there been any discussion with the Shaw Conference Centre Management (EEDC) to determine whether there are any synergies regarding the Shaw Conference Centre expansion plans and the proposed sports and entertainment district?

Answer: We have maintained an open dialogue with EEDC. We believe that the entertainment amenities in the Edmonton Arena District would support the expansion plans by enhancing the competitive position of the Shaw Conference Centre in attracting conventions to Edmonton. We also believe that the district would provide the additional hotel capacity that the downtown core requires to optimize the opportunities that an expansion of the Shaw would create.

32. Have there been any agreements reached with post secondary institutions regarding student housing?

Answer: We have had extensive and ongoing discussions with post secondary institutions and are satisfied that there is a demand for student residences in the core. We are working collaboratively with post secondary institutions to create a framework for the potential inclusion of such facilities in the arena district. However, there are no formal agreements presently in place.

33. What is the projected construction schedule for building the arena? What are the projected timelines for build out of the other facilities, i.e. residential and student housing, hotel complex, etc.?

Answer: Please see Answer #30 above. We are presently unable to provide a specific timeline but it is our intention to deliver as much private sector development contemporaneously with the arena as is economically feasible.

34. Can the Katz Group provide its business plan for the arena, as well as the sports and entertainment district?

Answer: Please see Answer #30 above. As we are still in the conceptual stage and have yet to achieve a reasonable degree of commercial certainty that the project will proceed, formal business plans cannot be prepared. We are anxious to move forward in

converting the expressions of interest referred to in Answer #30 into development commitments that will allow the formalization of a business plan for the district.

35. Given that under the proposal presented at the City Council meeting that the City will own the building is the Katz Group adverse to a design competition being held?

Answer: It is our desire that the arena and other elements in the district feature iconic design and that there be design continuity in the district. The design of the arena is a key element of the business case for the related private sector investments in the entertainment district. We believe that we should select the architects to best ensure that the design best meets our needs as the developer of the entire district. We recognize that the arena design must be in the interests of the City and we have consulted, and propose to continue to consult, with the City Administration in that regard.

36. Is it understood that all City owned buildings must be certified at a minimum LEED silver standard?

Answer: Yes

37. Is a Sports Hall of Fame museum envisioned as being part of the sport and entertainment district?

Answer: We are open to considering this possibility.

38. What will be the terms of the location agreement?

Answer: Please see Answer #20 above. The location agreement would bind the Oilers to play in the new arena until the expiration of a contemplated long term lease.

39. Has there been any indication by the Province, that casino revenues could be utilized to fund the arena?

Answer: No.

40. Explain the NHL requirements for arenas and provide information on the funding agreements that are in place between municipalities and NHL teams in both the United States and Canada for both capital requirements and operating revenues.

Answer: We are awaiting confirmation from the NHL as to all of their current standards. However, we do know that Rexall Place is currently not a building that is competitive in either the quality of the fan experience or revenue generating opportunities.

24 of 30 arenas in the NHL were built with a mix of public and private investment. We do not have disclosure of the specifics of each of these agreements. However, we expect that they each have their own nuances that are a product of the unique circumstances of each city, team, market and the means available to raise capital. Our object is to achieve a funding agreement which works in Edmonton and which recognizes the limited ability that the Oilers have to generate revenue in the League's smallest media market.

41. Explain what revenues personal seats or luxury suites licensing could provide?

Answer: To the extent that there may be the capacity to generate revenues through the sale of seat or suite licenses, we would consider such revenues to be operational

revenues of the team. This is another matter for discussion with City Administration in the context of a complete framework for an agreement.

42. What guarantees would the Katz group provide to the City of Edmonton if the CRL projections are not realized?

Answer: Please see Answer #30 above. We seek a functional partnership with the City and a sharing of risk. The precise terms as to how risk may be allocated between the parties have yet to be negotiated.

43. Has the Katz Group considered a community benefit agreement as entered into by the Staples Centre in Los Angeles and Millennium Southeast False Creek Properties Ltd; City of Vancouver and Building Opportunities with Business Inner-City Society?

Answer: We are aware of the type of Community Benefits agreement referred to. There are various tools available to ensure community engagement and we are open to further discussion as to what will best meet the needs of all concerned in this instance.

Councillor Sloan:

Re: Operational Business Case and Finances

44. Given that the Katz Group has stated that the financial viability of the Oilers is at stake, you must be prepared to disclose the details of the Oilers finances. Therefore, please advise as follows:

a. How much of the purchase price for the Oilers was financed?

Answer: Please see Answers #9 #28 above. The Oilers are a private company and do not publicly disclose financial details. We seek only the same operating model available to the Calgary Flames and all other NHL teams.

b. What is the annual cost to pay the interest and fees associated with that financing?

Answer: Please see Answers #9 and #28 above.

c. Since Mr. Katz acquired the team, what operating deficits have occurred?

Answer: Please see Answers #9 and #28 above.

d. How much does Rexall pay for the naming rights for Rexall Place?

Answer: Please see answer #9 above. The Oilers are a private company and do not publicly disclose financial details.

e. How much do the Oilers pay to related Katz Group companies for management and administrative fees each year?

Answer: Please see Answers #9 and #28 above.

f. Are you prepared to open the books of the Oilers to the City Administration to prove financial need?

Answer: Please see Answer #28 above.

45. The Edmonton Oilers often make reference to the fact that they are disadvantaged compared to the Calgary Flames in terms of not having full control of an arena. Let's assume then that the Oilers had full control over Rexall Place over the past 5 years. How would this have changed the Oiler's financials - in other words, what would have been the increases in revenues; what would have been the increases in costs now that the Oilers would have assumed all costs; and how would this have changed their operating income?

Answer: We have not had disclosure of Northlands operating results for Rexall Place. Accordingly, any estimates of what the differential would have been had the Oilers operated Rexall Place for the last 5 years would be speculative for that reason, as well as others. The Calgary Flames are also a private company and their financial results are also confidential. However, the Saddledome has approximately 3,000 more seats than Rexall Place and, with the benefit of a higher corporate base in Calgary than Edmonton, the Flames can charge more for their suites. Also the Flames, unlike the Oilers, control the non-hockey revenues in their building. Accordingly, while we cannot be specific as to the extent of the revenue differential, it must be evident that there is one and that it is significant.

46. Forbes has shown consistently over the past 3 years that the Oiler net operating income is better than the Calgary Flames anywhere from \$3 million to \$10 million per year?

Answer: That is not accurate based on our information.

47. The 2009 Forbes report entitled NHL Team Valuations show that 14 of the 30 NHL's teams have a net operating loss even before EBITDA (earnings before interest, taxes, depreciation and amortization). Another 6 teams have net operating income of less than \$5 million. This leaves only 10 teams with net operating income of more than \$ 5 million per year - one of which is the Edmonton Oilers. Given what appears to be the poor financial state of the majority of the NHL's teams, is there not a much bigger NHL problem on the horizon? How can Edmonton be assured that no matter how much public money is committed, the NHL is headed for a major financial crisis because of its current business model that will cost the City even more money?

Answer:

The Forbes estimates are not accurate. While financial results vary across the League, total NHL Hockey Related Revenues increased 4.4% last season compared with the prior season. Moreover, the Oilers are currently unable to subsidize their operation through non-hockey revenue. As the Oilers have relatively high hockey related revenues, there is often the false impression created that the team is on a strong financial footing. In fact, as the team is situated in the League's smallest market and does not receive non-hockey revenues, the Oilers operate at a significant disadvantage.

48. How does the Oilers cost structure compare to other teams? Is there any benchmark information? For example, all teams abide by an annual salary cap of \$56 million which will rise to \$60 million this year. But how do the Oilers compare to other teams in the terms of its management, coaching and operational costs?

Answer: Please see Answer #25 above. With the exception of travel expenses, the Oilers' costs are in alignment with other teams across the League.

49. \$100 million contribution: Please provide the following clarifications regarding the proposed contribution of \$100 million:

Answer: Please see Answer #5 above. These proposed details have yet to be negotiated with the City Administration.

- a. Who will contribute the money (Daryl Katz personally, Edmonton Oilers, Katz group related parties; third parties)?**

Answer: Please see Answer #5 above. The contribution will, in any case, come from Daryl Katz or a corporation or corporations that he controls.

- b. If the Oilers contribute the money, will this add to their debt service costs and therefore their annual deficit?**

Answer: Please see Answers #5 and #28 above.

- c. How will the money be contributed? Will there be a cash payment to the City to use in paying the construction costs?**

Answer: Please see Answers #5 above.

- d. Will any of the money be spent in land acquisition costs? Administration costs? Overhead?**

Answer: Please see Answer #5 above.

- e. When will the funds be invested?**

Answer: Please see Answer #5 above.

- f. Are you expecting that the funds will be repaid to you?**

Answer: No.

50. Surrounding development: Since the development of the "revitalization area" (arena district) surrounding the new arena is central to your financing proposal, please advise as follows:

- a. What types of development will occur in the area (please specify percentage of office, residential, retail, hotel, dining and entertainment, etc.)?**

Answer: Please see Answer #30 above. We remain at the conceptual stage in this process and do not presently have the degree of commercial certainty that the project will proceed for us to move forward and secure the opportunities we have identified with potential tenants and partners.

- b. Who will be the developer?**

Answer: We will be the developer, that is, a corporation controlled by Daryl Katz.

- c. Will any entities in the Katz Group of Companies be involved in the development?**

Answer: Yes.

- d. Other than AEG, what other companies or individuals will be involved in the development as investors, lenders, partners or joint venturers?**

Answer: AEG is not involved in the project as anything other than a consultant. We require reasonable commercial certainty that the project will proceed before entering into such arrangements with anybody, and we may never have any partners or joint venturers.

- e. Does the Katz Group or related companies or individuals (in or related to the Katz family) have an interest in, or have an option to acquire an interest in, any lands or properties in the area (other than the arena site itself)?**

Answer: We have the 16 acre T-shaped parcel under our control. We do not hold title to any other adjoining lands. What other lands we might have interests in is a confidential matter.

- f. How much of the area do you envision will be occupied by:**
- i. levels of government,**
 - ii. educational institutions,**
 - iii. non-profit organizations?**

Answer: Details such as this have yet to be determined.

- g. In your view, how much of the development must be committed to by the private sector before construction of the Arena can commence (for arena financing purposes)?**

Answer: We anticipate that this issue will be discussed in our negotiations with City Administration. The amount of development required to service the City's debt would be dependent upon the amount of that debt.

51. The Arena development: As the City is being asked to pay the majority of the cost of the new Arena:

- a. What is your present estimate of the cost of the new arena and what do these costs include: practice arena, casino, winter garden, infrastructure, soft costs?**

Answer: We are working with our consultants and with City Administration to refine costing estimates. These are not yet complete.

- b. Who will operate the casino? Who will receive the revenues from the casino?**

Answer: We do not know.

- c. Has the casino received regulatory approval?**

Answer: As you will be aware, there is a casino facility presently on the site. We assume it complies with all applicable regulations.

- d. Do you intend to sell seat licenses in the new Arena? Do you intend to market the naming rights to anyone but Rexall?**

Answer: These details have yet to be determined.

- e. As this is intended to be a City owned and financed public work, do you intend to follow City protocols with regards to the tendering and construction of the Arena?**

Answer: We anticipate being the developer of the arena but recognize the need to work with the City Administration to develop protocols that will ensure a transparent process. We have not made commitments to anybody for construction of the arena.

52. Business Plan: Understanding that a final business plan will be subject to deliberations:

- a. Please clarify the Katz Group current working business plan. How will the arena and surrounding developments be profitable to both the Katz group and the City of Edmonton?**

Answer: We are confident that the arena can be financed without an increase in City property tax rates and in a fashion where the City's investment is repaid in full over time. A new, and significant, stream of property tax revenue will continue long after once the City's indebtedness is repaid. We are also confident that there will be sufficient operating revenues from the arena to ensure the long term financial sustainability of the Oilers. While there will be commercial risk associated with the surrounding development, we are confident that there is sufficient market demand to make prudent private sector development viable.

- b. Is the City expected to partake in the adjacent development? If so, how does the Katz group envision this working in their business plan?**

Answer: No.

Councillor Sohi:

- 53. If the projected growth does not materialize, and revenues raised through the CRL are no enough, will Katz group take responsibility for debt servicing?**

Answer: Please see Answer #30 above. The allocation of risk between the parties has yet to be negotiated.

- 54. Who will be responsible for the life-cycle costs of the new arena? Will there be a fund set aside to replace the facility?**

Answer: Please see Answer #4 above. This has yet to be negotiated.

- 55. Who will be responsible for the ongoing operational, maintenance and renovations costs of the arena?**

Answer: Please see Answer #3 above. In principle, we would consider it appropriate that we would be responsible for the operating costs associated with the arena. However, the responsibility for these and other costs has yet to be negotiated with City Administration.

- 56. Can the projected non hockey revenue portion be used to pay the debt?**

Answer: Please see Answer #17 above. Revenues from non-hockey events are a fundamental component of the financial model required to keep the Oilers financially sustainable over the long term in Edmonton.

- 57. Are two arenas viable in Edmonton?**

Answer: No.

- 58. What is the current price of Oiler Game Tickets? What impact will a \$5.00 ticket surcharge have on the attendance?**

Answer: There is currently a 7% ticket tax on all Oiler game tickets. The Oilers have the League's highest percentage of non-corporate season ticket holders. As these tickets are being paid for with after tax dollars, there is a relatively higher sensitivity to what we can charge for a ticket. Accordingly, there are natural limits as to what ticket surcharge can be applied without negatively affecting ticket sales or constraining our ability to price our tickets in response to market demands. This said, we understand the desire to incorporate a user pay component into the arena financing model and we are prepared to further discuss this with City Administration.

Councillor Thiele:

59. \$100 million is committed to the construction of the arena and another \$100 million toward development around the arena. Please outline in as much detail as possible what type of development around the arena would be considered. (Katz Group)

Answer: Please see Answer #30 above. We remain in the conceptual stage of this development but we currently envision the district around the arena including two hotels, two office towers, two residential towers, student residences, a casino and an assortment of restaurants, lounges, live music venues and other hospitality and entertainment commercial development. Once we have a reasonable degree of commercial certainty that the arena project will proceed, we will be in a position to proceed with design and pricing of the other elements in the Entertainment District. Only then will we be able to enter into commercial negotiations with prospective tenants and partners in the Entertainment District.

60. What would be a realistic timeframe for such a development and what would be the turnaround time for the COE to realize benefits of the newly developed district? (Katz Group)

Answer: Please see Answer #34 above. We do not presently have the commercial certainty required to formalize a business plan for the district. This said, based upon our discussions with our consultants and prospective tenants and partners, we are confident that private sector development around the arena is viable and it is our intention to deliver as much of it as reasonably possible contemporaneously with the construction of the arena. The level of interest among prospective tenants and partners is very high. However, we anticipate that the development of the district will take place in phases and that it will take several years for the full development to be complete.

61. Do the cities of Los Angeles and London own their facilities? What contributions did each make? What are their annual revenues? (Katz Group)

Answer: We do not have this information. Financing and ownership models for facilities elsewhere each have their own nuances that are a product of the unique circumstances of each city, market and the means available to raise capital. We seek a "made in Edmonton" funding model that is reflective of our local realities and best meets the needs of all concerned.

62. What are the financial/revenue agreements (subsidy revenue, revenue sharing, taxes) in place with other NHL teams? With the Hockey Related Revenues and other revenue streams (i.e. concerts and entertainment events etc) available to these teams, what sorts of revenue are they able to realize annually? (Katz Group)

Answer: Please see Answer #40 above. While 24 of 30 arenas in the NHL were constructed with a mix of public and private investment, the specifics of the financial/revenue agreements and the total revenues derived have not been disclosed to us.

63. What are the opportunities to have funding from other orders of government? (Katz Group)

Answer: This has yet to be determined.

64. Would the City of Edmonton be able to initiate design and environmental competitions? (Katz Group)

Answer: Please see Answer #35 and #51(e) above.

65. If no new downtown arena district is built in Edmonton and the Oilers will not play in a renovated Rexall Place, where will they play? (Katz Group)

Answer: Our singular focus is upon negotiating a mutually satisfactory agreement with the City of Edmonton that will facilitate the construction of a new downtown arena. We are confident that this can be achieved.