

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

**Questions for Northlands**

**Mayor Mandel:**

1. *What is the breakdown of the revenue generated from Northlands from the arena site?*

After paying all of the operating expenses and building maintenance costs related to Rexall Place, Northlands generated net income of \$6,200,000.00 from Rexall Place operations in 2009.

2. *Ticket tax is an important part of the proposal. Can you breakdown what money Northlands receives?*

Northlands attracted and produced over 100 non-hockey events that generated \$2,400,000.00 in ticket surcharge in 2009. We estimate the Oilers brought in approximately \$4,000,000.00 in ticket surcharges in 2009 (based upon an average ticket price of \$75.00).

**Councillor Anderson**

3. *Has Northlands done a successful job of marketing the current Rexall Place? (Northlands)*

Northlands has done an excellent job of marketing Rexall Place and independent third parties verify our results. In 2007 leading publication Pollstar ranked Rexall Place 10<sup>th</sup> best worldwide and 3<sup>rd</sup> best in Canada for music/concert entertainment based on attendance figures.

In 2009 Venues Today, also a leading industry publication ranked Rexall Place 10<sup>th</sup> worldwide and 2<sup>nd</sup> in Canada for all non-sports franchise events, again based on attendance.

Northlands is also a major partner with Edmonton Tourism in national and international event bids and has been successful in bringing many events to the city that drive significant economic impact and profile and market our city nationally and internationally. These events include The Brier, World Curling Championships, Canadian Country Music Awards, Canadian Curling Championships, and the World Junior Hockey Championships.

**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.

4. *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.*

This is a question for the Oilers, however, when Northlands took back the building in 1998, concurrently with the purchase of the Oilers by the Edmonton Investors Group, the non-hockey business was losing approximately \$2,500,000.00 to \$3,000,000.00 annually. For that reason, the Edmonton Investors Group insisted that they would only purchase the team if Northlands reassumed the responsibility of operating Rexall Place, which included the payment of all operating costs by Northlands. Since reassuming control of Rexall Place, Northlands has built the non-hockey business such that Northlands currently attracts over 100 non-hockey events to Edmonton annually.

Operating this business successfully is important to the entire community in terms of economic spin off and cultural diversity, but it is also specifically important to the City as firstly, the revenue generated by these non-hockey events pays the operating costs for both hockey and non-hockey events and secondly, there is a direct financial return to the City from Northlands. Over the past five years Northlands has returned \$2,800,000.00 to the City of Edmonton from Rexall Place operations. This amount is reserved by the City and provided back to Rexall Place for capital projects.

Finally, the profit generated by Northlands from its Rexall Place operations (\$6,200,000.00 in 2009) is reinvested by Northlands in Rexall Place and as a significant part of its business operations it is returned to the community in the form of programs, facilities and business and entertainment options that might not otherwise be seen in this market. While some of these programs or initiatives may not be profitable themselves, they do create substantial economic spin off and other benefits in the City of Edmonton.

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

Northlands has built the business up over the years and has established a reputation for operational excellence and a strong working relationship with all the promoters, agents and artists. Through years of hard work and investment in people, Northlands has created an international reputation as a facilities operator.

In addition, Northlands has demonstrated an ability to maximize the Rexall Place schedule, satisfying multiple stakeholders and bringing in a diverse array of concerts and family shows. This involves transforming Rexall Place from an ice rink one night to a rodeo ground the next night and then to a concert venue. This ability is one of our greatest strengths.

Therefore, while it is true that live touring has become more prominent as a means of financial returns to artists in the last several years due to circumstances within the industry, Northlands has been able to seize the opportunity that has been presented both for its benefit and for the benefit of the City of Edmonton.

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

In addition to becoming excellent facility operators Northlands has also succeeded in building great working relationships with tour promoters and artists' agents. Obviously, turning Rexall Place into one of the top 10 venues in the world requires the attraction of the top touring acts. Attracting those acts is central to our success. We have had to build and maintain our reputation with the tour promoters and agents. They know us for our operational excellence, our focus on relationship building and our can-do approach. We enjoy very positive relationships with our partners in the concert business.

Although it is difficult to speculate on how the "deal" would be different if Northlands was not the operator of a new arena, it should be noted that there has been information presented that suggests AEG would be a partner and the deal, based on other AEG models in other cities, would indicate an exclusive or select entertainment arrangement.

This model has proven to be challenging in other markets, in terms of allowing competitive players into the market. Third parties within the industry have expressed concern that this model would reduce Edmonton's ability to bring in as many concerts and shows.

7. *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?*

We are highly committed to continuing to operate this line of our business.

We maintain that we have the expertise and are best placed to run this business in the primary interests of the entire community. In addition this line of business has produced a stream of net income that Northlands has used to support the Oilers building operations, assist in funding other important events and programs for the benefit of the community and return a profit share to the city.

**Councillor Leibovici:**

8. *Can Northlands provide the current operating budget for Rexall Place and Northlands? Detail all revenues and expenses for Rexall Place. Can Northlands provide a projected operating budget if Rexall is not part of its revenue stream?*

We have attached a budget document outlining that information. This document was part of a larger budget package that was presented to and approved by City Council in July 2010.

9. *Please provide the HOK report as well as the reasons that the report was commissioned. Does Northlands agree with the analysis in the HOK report of the need for renovations at Rexall Place?*

The HOK research presented in 2007 was an important part of Northlands ongoing due diligence as part of our overall stewardship of the Facilities Master Plan. HOK did not produce a report as such, they did an analysis and made a presentation to Northlands Board of Directors and invited Oilers representatives to attend. Patrick Laforge and Doug Goss attended on behalf of the Oilers. A second presentation on the following day was undertaken with City Administration and City Councillors were invited to attend.

Given that they are the facility specialists, Northlands would be pleased to invite HOK (now operating as Populous) back to repeat their presentation to the administration – and to Council if it so chooses.

Attached is a copy of the news release from April 2007 outlining our intent in undertaking this due diligence.

10. (a) *Please explain the different calculations that are in the media re: required renovations at Rexall Place, i.e. \$49m; \$200m; \$250m; any other figures.*

There are different numbers being used related to different scenarios: maintenance and capital improvements, and large-scale renovation.

The \$49,000,000.00 is a calculation made by the City of Edmonton Capital Construction Department in March 2010 that was based on a previous Northlands report that is outdated. Northlands has reviewed that report and the City Capital Construction Department's calculations and has updated the content of the report and determined that the city calculations did not factor in work that had already been completed. Northlands' revised report puts forward calculations that include an update on completed work and further forecasts future expenditures through 2023, allowing for inflation. Those calculations show a total maintenance and capital improvement cost of \$31.3 million.

The second and third figures relate to a possible large-scale renovation of Rexall Place as outlined in the HOK Report. The original estimate in 2007 was \$250,000,000.00. This number was recently updated by industry experts and is now estimated to be \$197,000,000.00.

(b) *Has there been a cost benefit analysis to renovate vs. building a new arena?*

No

11. (a) *Would Northlands be able to attract private capital to renovate Rexall Place and operate Rexall Place without any public subsidy?*

We are of the opinion that, if we had the same revenue generating opportunities that our current hockey partner has, we would be able to attract private capital to operate Rexall Place without public funds. As set forth in our answer to question #15 below, the existing license agreement between Northlands and the Edmonton Oilers provides significant benefits to the hockey club including all Oilers game revenues, and net food and beverage contributions. The Oilers are also entitled to all building advertising and sponsorship revenues including naming and pouring rights, and suite rental revenues. Under the current arrangement, these revenues are not available to assist in paying the operating expenses for the building.

In addition, given that the Northlands' business model is to reinvest its earnings back into the facility and into the community, Northlands would ensure that Rexall Place profits would stay at Northlands to be reinvested into more entertainment options for Edmontonians. The same may not be said of a more traditional arena operator who would potentially be taking any profits made by Rexall Place out of the business and out of the community.

11. (b) *Who is currently responsible for any capital improvement to Rexall Place?*

Under the current site lease, Northlands is.

12. *According to the 2007 HOK report how does Rexall Place compare as either a hockey arena or concert facility with other arenas?*

Based upon the 2007 HOK presentation, Rexall Place meets all NHL standards. It is also an excellent venue for concerts particularly given the ability to hang a large weight load in many configurations.

Further, our rankings by Pollstar and Venues Today, both leading industry publications, are extremely positive. In 2007 Rexall Place was ranked 10th worldwide in the top 100 concert venues by Pollstar Magazine for concerts and in 2009 Venues Today ranked Northlands non-hockey business as 10<sup>th</sup> worldwide and 2<sup>nd</sup> in Canada.

13. *Does the City currently receive any property taxes from either Northlands or Rexall Place? Does the City receive any revenues from Rexall Place?*

The property held by Northlands, including Rexall Place, is exempt from property taxes pursuant to the Municipal Government Act. This fact is acknowledged in the Master Agreement and in the Site Lease between the City and Northlands. However, it should be noted that, pursuant to these agreements, Northlands is required to pay property taxes on those portions of its property that are licensed for the consumption of alcohol. The basis for determining the amount of the taxes payable is set forth in the agreements. In addition, Northlands is required to pay any local improvement levies related to its property and Northland pays business taxes and license fees related to its operations. All in all, the amounts paid for these taxes are well in excess of \$170,000/year.

As for other revenues paid by Northlands to the City, Northlands pays the City a portion of any profit earned on an annual basis from the non-hockey events at Rexall Place. The amount paid is determined based upon a formula agreed to between the parties and it varies each year based upon the number and the success of non-hockey events held at Rexall Place. During the past five years, the total amount paid by Northlands to the City pursuant to this profit sharing arrangement has been approximately \$2,800,000.00.

14. *Are there any agreements in place with the City and Northlands which guarantee that Northlands will operate an arena after 2014 either at the current Rexall Place or any new arena?*

Our lease, which includes Rexall Place, extends to 2034. It is a term of the site lease that Northlands operates and maintains Rexall Place during that term.

15. *What is the current revenue sharing agreement with the Oilers and the City regarding: 1.) Rexall Place; 2.) Northlands?*

The City of Edmonton and Northlands have a profit sharing arrangement related to annual profits earned by Northlands in the operation of Rexall Place. As stated in our answer to question #13, over the past five years, Northlands has paid the City a total of approximately \$2,800,000.00 pursuant to this arrangement.

The current lease arrangement between the Oilers and Northlands can be summarized as follows:

- a) The Oilers pay rent of \$1.00 per year and contribute approximately \$1,100,000.00 to operating costs each year, plus the sum of \$270,000.00 per year towards repayment of the scoreboard loan;
- b) The Oilers receive all proceeds from hockey related activities, including all ticket sales and broadcasting rights;
- c) The Oilers receive all advertising and sponsorship revenues at Rexall Place;
- d) The Oilers receive all revenue received from the sale of the naming rights for Rexall Place;
- e) The Oilers receive all suite revenues for every event in Rexall Place;
- f) The Oilers receive all food and beverage revenue from hockey related events;
- g) The Oilers receive all parking revenue from the parking areas north of 118<sup>th</sup> avenue for hockey related events;
- h) Northlands pays all expenses and operating costs related to Rexall Place including all event staff, security staff, police costs, parking staff, building operation personnel, building utilities, maintenance and repair (the staffing cost is for all events including hockey).

In summary, the current lease arrangement gives the Oilers all of the revenues from hockey events but requires them to pay only a portion of their share of actual expenses related to the operation of Rexall Place. In 2009, the amount paid by the Oilers was \$1,100,000.00. The base expenses paid by Northlands in 2009 to operate Rexall Place to an NHL standard were approximately \$10,900,000.00 of which at least \$6,600,000.00 was attributable to the Oilers (based upon allocating 100% of the "Oilers only" expenses and 100/365 of the general base expenses to the Oilers). Yet the Oilers contributed only \$1,100,000.00 to these expenses. The rest of the expenses were paid by Northlands using non-hockey revenue generated as a result of the efforts and expertise of Northlands. Based upon this, the current lease arrangement is extremely favourable to the Oilers.

*16. Can Northlands confirm that they agree with the concept of a downtown arena?*

Since the Mayor's Leadership Committee released its report, we have been steadfastly supportive of a new facility as part of an overall downtown development plan. We have always wanted what's best for Edmonton and would always support an innovation in our community. Our support has always been for an arena that is financially viable and in the best interest of the entire community.

We've also been clear as part of our enthusiastic support that we believe that we are the best organization to operate the arena and continue to do what we do so well for this community – offer world class entertainment using a community investment business model.

**Councillor Sohi:**

*17. What is the cost of renovating Rexall? Will the renovations reduce seating capacity?*

The most recent renovation number that has been provided by HOK and verified by Mortensen Construction, is \$197,000,000.00.

The renovations were based on utilizing a benchmark facility. The Newark, New Jersey arena was used as comparator/comparative. The Oilers were involved in this process and requested a large number of private luxury suites included in the renovation analysis. If the number of suites were built out at the NHL benchmark then the seats would be reduced by less than 200.

*18. With renovations, can Rexall meet the NHL standards?*

We meet the NHL standards at Rexall Place now.

*19. If all non hockey revenue goes to Katz group, then what impact will this decision have on Northlands? Can it survive without that revenue?*

We've been clear as part of our enthusiastic support that we believe that we are the best organization to operate the arena and continue to do what we do so well for this community – offer world class entertainment using a community investment business model. If we were to cede all non-hockey revenue to the Oilers, this decision would have far reaching impacts that go far beyond Northlands. This decision would have impacts on the taxpayers of this city who enjoy the benefits of Northlands' community investment business model. It would have an impact on the community who currently feel that Northlands is "theirs". It would have significant impact on our agricultural partners who are supported and promoted through the work that we do.

With Northlands at the helm, all community interests are served and the profits are re-invested for the enjoyment of our entire population. We believe that this is an innovative and important business model.

To be clear: in 2009, Northlands generated sufficient revenues from its operation of Rexall Place to pay all the expenses related to Rexall Place (including the expenses attributable to the Oilers but paid by Northlands as explained in the answer to question 15 above) and to generate an operating profit of \$6.2 million. This is a significant part of our business operations and it is returned to this community in the form of programs, facilities and business and entertainment options that we might not otherwise see in this market.

Payment of the non-hockey revenue to the Katz group creates the following issues:

- a) If the Katz group did not agree to pay 100% of all expenses related to the ongoing operation of the new arena (including all base plus NHL expenses which would be higher in a larger arena compared to \$10,900,000.00 per year for the much smaller Rexall Place) then the City would have no revenue from which to pay the balance of the expenses not paid by the Oilers and the payment of these expenses would come out of the City's general revenues;
- b) If Northlands did not have the opportunity to generate an operating profit from Rexall Place (as we assume that the Katz group would insist upon the closure of Rexall Place), then it would have insufficient funds with which to pay for its community programming, its facilities and its existing obligations. Obviously, this would cause Northlands to significantly reduce its activities; and
- c) Alternatively, if a new arena was built without the involvement of Northlands, Northlands may have no choice but to continue to operate Rexall Place (under a new name we assume) in competition with the new arena in an attempt to retain some of its operating profit and to save its programming.

Given the additional revenue that the Oilers stand to receive from the additional ticket sales, food and beverage sales, advertising and sponsorship sales that will come from a new significantly larger arena, the Oilers should not require the non-hockey revenues from the new arena. However, these non-hockey revenues are required to pay the base expenses of the new arena and to assist Northlands in funding its community facilities and programs.

## 20. *Why are non hockey revenues vital for Northlands?*

Non-hockey operations form the core of our business.

We are known industry-wide for our operational excellence and strong reputation. The non-hockey events that we attract and produce are not only a key financial component to Northlands but truly are an important part of our city's cultural diversity. From Cirque du Soleil to Beyonce to Walking with Dinosaurs - this kind of entertainment range is critical to meet the needs of a broad stakeholder base in our city.

While Northlands non-hockey operations are profitable, the decisions to bring various events to the city are not always based on a bottom line. It is important to continue to provide a spectrum of events to our city that will serve the broader interests of the entire community.

Our more than 2,500 events attract over 4 million visitors to our city every year while generating \$1 billion in economic activity in Alberta and contributing to our high quality of life here. This is what would be secured with Northlands at the helm of a new arena in the downtown core.