

Sports and Entertainment Facility

Information Report

Recommendation:

That the July 21, 2010, City Manager report 2010CMO013 be received for information.

Report Summary

This report provides information about a potential Sports and Entertainment Facility.

Previous Council/Committee Action

At the June 23, 2010, City Council meeting, the following motion was passed:

1. That the June 28, 2010, Special City Council meeting be cancelled.
2. That Administration prepare a report for Council regarding the potential advancement of a new arena.
3. That Administration invite the Katz Group to make a formal presentation in public to Council.

Report

Background

As Council is aware, in 2007 a Leadership Team was struck to study the potential of constructing a new sports/entertainment facility in the City. The Leadership Committee membership included community and business representatives, as well as representatives of the Edmonton Oilers, Northlands and the City of Edmonton.

The Committee's objectives were to identify the physical requirements for a

new sports/entertainment facility that would:

- Have the potential to accelerate urban redevelopment, enhance our municipal image and further stimulate Edmonton and the region's economic growth and development.
- Meet current and future National Hockey League standards and the needs of the Edmonton Oilers.
- Maximize multi-purpose opportunities for non-hockey activities such as concerts and major events.
- Meet community expectations and inspire community support for the project.
- Estimate the total project costs associated with a new facility.
- Identify a range of financing tools and options.

Built in 1974, Rexall Place is one of the smallest and oldest sports venues in the National Hockey League. The Oilers' 10-year lease at Rexall will expire in 2014.

Earlier in 2007, Northlands had commissioned a study by *HOK Sports* to look at the future life and capacity of Rexall Place. The study estimated the cost of modernizing Rexall Place at about \$250 million. Northlands has indicated publicly that a recent review estimates the renovation costs for Rexall Place at less than \$200 million.

Northlands and the City currently estimate that \$49 million worth of rehabilitation work will be required at Rexall Place over the next 14 years.

The Leadership Committee issued a report entitled *City Shaping (The*

Summary Report of the Leadership Committee for a New Sports/Entertainment Facility for Edmonton) in March of 2008 to document the results of their study. A significant conclusion arrived at by the Committee was that the greatest opportunity for Edmonton lies in developing a new facility that would revitalize the downtown.

It is acknowledged that advancing a sports/entertainment facility in the downtown will impact Rexall Place and Northlands. Consideration will have to be given to those impacts.

The report supported a balanced funding model with both private and public participation and identified a number of potential revenue sources to pay for the facility, including:

- user pay such as a ticket surcharge
- a community revitalization levy
- a contribution from the team owner
- funding from other levels of government
- transfer of the current operating grant to cover debt servicing costs

In February of this year, the Katz Group started to make public presentations regarding a vision for an Edmonton Arena District that would place the Oilers at the heart of a vibrant downtown neighbourhood, home to restaurants, shopping, entertainment, new office space, hotels, ample parking and easy access to transit and pedway links to the greater downtown core. The vision includes:

- Arena
- Community Rink
- Retail and entertainment space
- Two hotels
- Two office towers

- Residential

The proposed location for the arena and associated entertainment district is in the downtown. The City of Edmonton's Municipal Development Plan, as well as the Capital City Downtown Plan contemplates the potential for these kinds of initiatives. If the proposed sports/entertainment facility is to be considered, the associated development parameters as defined in the zoning, development agreements and detailed design would need to be advanced in accordance with those defined land use processes.

Given the funding and ownership implications for the City of Edmonton of a potential downtown sports/entertainment facility, Administration has commenced a due diligence process, part of which is to review the options presented in the *City Shaping* report.

Capital Funding Options

Based on arena projects in a number of different cities, the cost of constructing a sports/entertainment facility in downtown Edmonton is estimated to be in the range of \$400 million to \$450 million.

Administration has studied a number of funding options with the potential to cover the cost of the capital construction.

Ticket Surcharge

The City has an admission surcharge bylaw in place that authorizes a surcharge on tickets for all events at Rexall Place. Currently, the ticket surcharge revenue from National Hockey League events accrues to the Edmonton Oilers and ticket surcharge revenue from all other events accrues to Northlands.

Administration estimates that a reasonable ticket surcharge (average of \$5 per ticket in 2010 dollars) in a new arena could generate sufficient revenue (\$8.8 million to \$10.8 million) to cover debt servicing for \$110 million to \$135 million in capital.

The rationale for the ticket surcharge and its utilization has changed since it was first implemented in 1994 to cover the costs of the Oilers' license fee. A ticket surcharge today is a common tool utilized to cover a variety of costs associated with facilities or event production, including capital costs.

The need for competitiveness in ticket pricing would also be a consideration. However, in Alberta there is already a pricing advantage as there is no provincial sales tax. Across Canada the Provincial Sales Tax adds anywhere from 7 percent to 8 percent to the cost of goods and services in those cities that have National Hockey League teams. And, in some United States cities, a local sales tax accrues as a revenue directly to the municipality.

A ticket surcharge directed toward payment of the capital construction for a new facility would be an effective way for the users of the facility to contribute to the cost.

Once the capital cost of the facility is paid, there is the potential for an on-going surcharge to contribute to the cost of capital maintenance and renewal.

Community Revitalization Levy

A Community Revitalization Levy (Levy) enables the City to borrow for new infrastructure and other costs associated with the redevelopment of land designed to revitalize a specific

part of the city. It does this without increasing general property taxes.

The Rivers in Calgary was the first Levy approved in Alberta. In Edmonton, the Belvedere (Fort Road) Levy has been approved by the Province but the bylaw has not been presented to City Council at this time.

The construction of public infrastructure facilitates private investment in the Levy area, which increases property values. The resulting higher assessed values increase tax revenues. The incremental revenues, including both Municipal and Provincial Education property taxes, can be dedicated to finance the public infrastructure redevelopment for a period of up to 20 years.

Based on 2010 tax rates, approximately \$1.6 million would be generated for every \$100 million of incremental assessment. Of this, about 25 percent comes from the education property tax and 75 percent from municipal tax.

A Community Revitalization Levy does appear feasible given the significant redevelopment potential in the downtown and could contribute to the costs of a sports and entertainment facility as well as other public infrastructure required for the redevelopment of the area. Preliminary estimates indicate that Levy revenues (\$9.6 million to \$11.2 million) could cover debt servicing for \$120 million to \$140 million of the facility capital costs. It would not be very feasible to generate the magnitude of redevelopment required to support this amount of debt outside of the downtown.

Other public infrastructure, such as roadway/traffic flow improvements, public park development, and connecting infrastructure could be

funded from the Levy. The type and cost of improvements would be determined through a planning process.

The development of a Community Revitalization Plan is necessary to define the specific geographic area that is to be revitalized and to specify the relevant details of the project. Public input plays an important role; therefore, considerable consultation with residents and businesses of the affected area is required. A statutory public hearing would be required prior to the establishment of any CRL zone. Provincial approval of a CRL is also required.

Owner Contribution

Team owner, D. Katz made a commitment prior to acquiring the Oilers to "contribute his time, energy and on the order of \$100 million towards the development of a new downtown arena following his acquisition of the Edmonton Oilers." (Katz Group press release, March 25, 2008)

Other Potential Revenue Sources

- Funding from the other two levels of government have been provided for other facilities of major importance in the Edmonton area. Contributions from the Province and the federal government could be requested.
- The proceeds from personal seat or luxury suite licences could be used to help pay the debt incurred in construction of the facility. These are tools that have been used in other markets to contribute to capital funding. A personal seat licence gives the holder the right to buy season tickets for a certain seat in an arena. This holder can sell the seat license to someone else if they

no longer wish to purchase season tickets. This type of funding could be applied to expanded seating and/or new suites in a new facility.

Operational Revenue

The population within the Edmonton Census Metropolitan Area is the second-smallest among the 30 National Hockey League teams. However, attendance at Oilers games is strong. Increasing operating revenue can positively impact the sustainability of the Edmonton Oilers Hockey franchise in this market.

A new downtown arena with an increase in the number of seats and other amenities can increase the revenue available to the team, thereby enhancing the team's financial competitiveness.

As well, existing City financial commitments to the operations at Rexall Place may be transferred to the operations of a new facility.

The objective of any financial operating model would be to ensure the long term sustainability of a well-managed operation.

Facility Ownership

If a Community Revitalization Levy is utilized as an option for funding a portion of a new sports/entertainment facility, the City would be the owner of the facility.

The facility could be built by either the City or the Edmonton Oilers as the major tenant of the facility. With either option, transparent and competitive purchasing practices would need to be followed. As well, the design of the facility would be undertaken on a collaborative basis.

If the City owns the facility, there are alternative operating models that could be employed.

- The City could operate the facility with City staff.
- The City could engage a new or existing third party to operate the facility.
- The Edmonton Oilers as the major tenant could operate the facility either on their own or with a third party.
- A combination of these options could be designed to best suit the Edmonton marketplace and accommodate all stakeholders.

Community Consultation

In mid-March, Administration held meetings with the Katz Group to share information on communications and consultation relative to the downtown sports/entertainment facility project.

Distinct and separate from the public consultation required in relation to zoning and any Community Revitalization Planning, it is acknowledged that community consultation is expected on the project in its entirety. As evidenced at the proposed zoning information meetings, citizens want more information about the development as a whole, including details about any proposed funding model.

When an information framework is available to support broader consultation, and prior to any City Council decisions on this project, Administration recommends a public/community consultation process that includes as a base some or all of the following:

- Two city-wide open houses for the public at large
- A web survey
- Two open houses for the communities adjacent to the proposed development site
- Focused discussions with stakeholder groups most affected by this development

Although this consultation is not legislatively mandated, Administration makes this recommendation given the significant and high profile nature of this project. Council might also choose to expand the consultation program beyond Administration's recommendation.

Next Steps

- At Council's direction, Administration would work with the Katz Group to develop a more detailed framework for advancement of a new sports/entertainment facility in downtown Edmonton, including location agreement provisions.
- Administration would enter into discussions with Northlands about the impact of a new sports/entertainment facility and the future of Rexall Place.
- Initial community consultation would be started.
- Progress on the development of the framework and the community consultation would be communicated to Council through the City Manager.

Focus Area

- Transform Edmonton's Urban Form
- Improve Edmonton's Livability

- Ensure Edmonton's Financial Stability

Justification of Recommendation

This report provides information on the potential development of a sports/entertainment facility in the downtown area.

Others Reviewing this Report

- L. Cochrane, General Manager,
Community Services Department