

Arena/Event Centre Update

June 15, 2017

Background

The purpose of this report is to present the results of the work undertaken since March to identify a suitable location for a new Arena/Event Centre. At its March 7th meeting Council approved several resolutions (CC 2017-62 through 65) with respect to the construction of a new Arena/Event Centre. These resolutions produced the following results:

1. Council accepted the market analysis and business case for a new arena/event centre and decided that a new Event Centre would include 5,800 seats, consistent with the recommendation provided by PriceWaterhouseCooper ("PWC").
2. Staff completed a site evaluation process, which is presented in this report, based on Council-approved criteria. Among the criteria, Council identified "cost", "economic impact" and "parking" as the highest priority elements. A site evaluation team comprised of PWC and senior staff representing Economic Development, Planning, Engineering and Real Estate completed the evaluation process. Altogether, 23 sites were assessed, with four shortlisted.
3. Technical specifications for a 5,800 seat event centre were developed concurrently with the site evaluation process based on a design/build procurement method and incorporated into a Request for Proposals ("RFP") that would be issued following a site selection decision. It was anticipated that the RFP might be ready for issue in June, although the resolution of site-specific issues may influence the timing of the RFP's release.
4. A Request for Prequalification process was completed to identify a shortlist of prospective design-build teams that would be eligible to bid on the Event Centre RFP when it is issued. Eight submissions were received and three have been shortlisted. The evaluation process of potential shortlisted teams is ongoing as of the report date.
5. Staff prepared a RFP for an Event Centre operator that is ready to be issued concurrent with the release of the Event Centre design/construction RFP. In contemplation of the operator RFP, a "term sheet" with the centre's key tenant, the Sudbury Wolves hockey club, is being negotiated to identify key lease terms that would apply in the new event centre.

6. A financing plan, presented in this report, was developed to support the project. In accordance with Council's direction, a plan that minimizes or eliminates any tax impacts was prepared.

This work was undertaken by staff and supported by a consulting team led by PWC. It required substantial effort from several disciplines across the organization, cooperation from property owners of the sites under evaluation, consultation with community stakeholders, negotiations with representatives of the Sudbury Wolves and regular updates to members of Council about the progress of the work. A "Large Projects Steering Committee", chaired by the CAO and including senior staff, provided overall direction.

Analysis

Site Evaluation

The attached report from PWC (Appendix A) describes the analysis done to identify potential sites for a new arena/event centre and to recommend a location. Eight site evaluation criteria were approved by Council for use in evaluating the short listed sites. These were: vision, complimentary benefits, ease of development, access, parking, cost, economic impact and city building. Council identified "cost", "economic impact" and "parking" to be of highest importance.

It is noteworthy that among the potential sites, four of them demonstrated strong potential but, of those, two were particularly suitable. Staff applied the criteria approved by Council to rank the sites, with the following result:

Criteria	Maclsaac Drive	Algonquin Road	Kingsway	Downtown
Parking	1	1	1	4
Cost	3	4	1	2
Economic Impact	3	3	2	1
Complimentary Benefits	3	4	2	1
Ease of Development	2	3	4	1
Access	2	4	3	1
Vision	3	4	2	1
City Building	4	3	2	1
Highest Importance	3	4	1	2
Extremely Important	3	4	2	1
Important	3	4	2	1
Combined	3	4	2	1

The evaluation indicates the Downtown site is the highest rated site. The Kingsway site is second-highest rated site on an overall basis, but is highest rated on the criteria which Council indicated was of highest importance.

It is important to remember the site evaluation team comprised subject matter experts with significant experience in their fields. Their work involved producing, or reviewing, technical details related to a variety of issues like soil condition, traffic patterns, infrastructure capacity and economic impacts. Nonetheless, the number of variables involved and the nature of the evaluation also required judgment. Overall, it is reasonable to describe the results of their work as a signal that there are two viable sites available for a new Event Centre.

Site Recommendation

The results of the site evaluation process revealed two of the four short-listed sites scored significantly higher than the other two, but overall their scores were very close to each other. The Downtown site had a higher overall score, but the Kingsway site scored highest on two of the three most important factors to Council (Cost and Parking). This is a positive result, since it indicates there are two viable sites that can support this important project.

Kingsway Site

The current property owner of the Kingsway site, Mr. Dario Zulich, leads a highly engaged team and promotes a vision for the property that anticipates the construction of an “entertainment district”. The vision includes a casino, hotel, motorsport park, restaurants and other retail. If all development comes to fruition, this could produce considerable economic growth. On June 13, Gateway Casinos issued a media release indicating it signed a Letter of Intent to build a “premier casino and entertainment property” at this location. Further details are unavailable as at the publication date of this report, but is nonetheless a positive signal.

In negotiations with staff regarding the land purchase option, Mr. Zulich agreed to pay financial penalties if he fails to use “reasonable efforts” to effect the development. However, further development is not guaranteed and would be subject to future real estate and financial investment decisions by third parties. The property requires rezoning, which would extend the time needed to commence Event Centre construction by a year or more.

Experiences of other cities that have built event centres outside their downtown areas have not realized the anticipated economic benefits from surrounding developments. While local circumstances include unique features that would not apply in other communities Medicine Hat, Mississauga and Windsor are examples of cities where event centres have not produced the expected complimentary developments.

The Evaluation Committee recognizes the potentially unique development opportunity presented by Mr. Zulich's vision. It is a viable location but overall, selecting the Kingsway site introduces more risk than the Downtown site and may require more time to be fully developed.

Downtown Site

The Downtown site offers the opportunity to complement businesses and infrastructure that already exists. Experience in other communities shows, as described by the PWC report presented to Council at its March 7, 2017 meeting, that a downtown event centre provides immediate benefits to the community. The proposed site is appropriately zoned, allowing construction to commence in a timely manner once real estate transactions are concluded.

A downtown arena/event centre supports key City policy documents including the Official Plan and the Downtown Master Plan. In the Official Plan, section 4.2.1.1 identifies an arena as one of the amenities in a downtown that would make it an attractive place to live. Similarly, the Downtown Master Plan identifies the Sudbury Arena as a key asset to be retained in the downtown. The Downtown Sudbury BIA has indicated it would provide a capital contribution toward the cost of the facility over a 25-year period equivalent to a one-time contribution of \$1.5 million.

However, there is a perceived issue with the Downtown site related to parking. While the downtown has sufficient parking within a 10 minute walk it is generally seen as inconvenient. A downtown arena/event centre could trigger the introduction of new private sector parking investments.

Ultimately, building on the downtown site offers more immediate benefits to the community and represents the least risk to the City. The necessary infrastructure and supporting businesses are in place.

Based on the site evaluation criteria approved by Council and as described in the PWC report, the Downtown site was the highest ranked site in all categories except Parking and Cost (where its total estimated cost is marginally higher than the Kingsway site). It scored highest in terms of access, ease of development and its ability to deliver complimentary benefits. It is best aligned with the stated long-term vision for the City and contributes most to city building.

Design/Build Teams

The work involved in assembling a competitive design/build proposal is significant. To manage the city's interest in attracting competitive proposals, a prequalification process helps manage the risk that otherwise competitive firms see the prospects of winning the bid as too low, based on the high number of other potential bidders, and opt out of the bid process. Staff issued a Request for Prequalification in late March to shortlist prospective Design/Build teams.

There were eight submissions. After an evaluation process, three firms were shortlisted. An update will be presented to City Council at the June 27th meeting.

Honorarium for Unsuccessful Shortlisted Bidders

While evaluations of the responses to the City's Request for Prequalification are ongoing as of the publication of this report, three firms will be prequalified to respond to the City's Design/Build RFP. It will take approximately four to six months of research and preparation, and requires expenditures for technical analysis that will inform the bidder's cost estimates for their proposals. For a project like an arena/event centre, the total cost of the bid would likely exceed \$500,000.

A number of municipalities offer an honorarium to Design-Build RFP respondents (payable only to those not awarded the contract) to demonstrate both their commitment to the project as well as to provide partial compensation to prospective design-build teams in recognition of the financial cost of participating in the bid process. For example, the Regional Municipality of Wood Buffalo offered \$200,000 to its three short-listed proponents, while Moncton offered \$225,000 to its two short-listed proponents. The City of Greater Sudbury recently offered an honorarium of \$100,000 to unsuccessful teams for their participation in the Biosolids project.

Based on the above, it is recommended that the City of Greater Sudbury offer a \$150,000 honorarium to each of the two unsuccessful Design Build teams shortlisted for the Event Centre project.

Site-Specific Factors Influencing the RFP Timing

When previously considering the issuance of a design/build RFP, neither Council nor staff had knowledge of site-specific conditions that could influence the timing of the RFP's release. Now, with the site evaluation complete, staff can advise of potential site issues that could alter the timing of the document's release.

For the Downtown site, purchase options need to be exercised and building demolition needs to occur. Staff could issue the Design/Build RFP concurrent with this process, likely in the third or fourth quarter of 2017.

If the Kingsway site is selected, the City would be required to submit a rezoning application, necessary to allow for a public arena. If the application is appealed to the Ontario Municipal Board, it is difficult to anticipate the amount of time required to resolve the appeal. Generally, staff anticipate a rezoning and appeal process could take at least 12 months. A Design/Build RFP can be issued before these issues are resolved. However, once the Design/Build team is selected, the site should be at or near ready for construction. Therefore, staff anticipate the Design/Build RFP would not be issued until Q2 or Q3 2018.

Event Centre Operator

Concurrent with the Design/Build process and described to Council in March, staff have prepared an RFP to identify and retain a venue operator. It will be released once terms with the key tenant have been established and a RFP for the Design/Build process is underway. This will allow selection of a venue management company at an early enough juncture to enable them to provide input into the final design of the venue.

Term Sheet – Sudbury Wolves

The City has exchanged a draft “term sheet” with the Sudbury Wolves with the aim of securing a new lease with the team as part of the Wolves commitment to playing in the new building regardless of location. The draft term sheet describes the amount of rent the team would pay in the new building, how various revenue streams would be shared between the team and the building, including revenue from sources such as advertising, food beverage as well as the length of the lease.

At the writing of this report the term sheet has not been finalized although the discussions can be characterized as very good. Staff is confident that a term sheet will be agreed to pending Council’s decision on the new arena location.

A new lease with the team is required before an RFP for a venue operator can be issued. The new lease with the team will provide potential operators with an understanding of the financial arrangements with the team so proposals can be compared on an apple to apples basis.

Financial Implications

Arena/Event Centre Financing Plan

Staff’s initial assessment of the city’s cost for a new arena/event centre was \$100 million, and the site evaluation process suggests this estimate continues to be reasonable. It can change when the results of the design/build Request for Proposals are available and/or when further, more detailed site condition technical assessments are undertaken. For the purposes of building a financing plan, staff used the following assumptions:

Principal amount to be financed:	\$100 million
Repayment term:	30 years
Interest rate:	3.6%
Funding source(s):	Tax levy
	Fundraising
	Facility revenues (naming rights, ticket surcharge)
	New funding sources

The annual cost to service the debt is approximately \$5.5 million, based on a 30 year amortization at a 3.6% interest rate. Debt repayment would start once construction is complete, likely in 2021. The municipality has sufficient debt capacity to obtain funding for this project and can secure the funds from either Infrastructure Ontario or via a financial institution. If the municipality obtained a corporate bond rating from one of the rating agencies, it could also issue its own debt.

Using Property Taxes as a Funding Source

Construction progress payments can be internally financed from reserves and reserve funds until such time that the facility is operational, anticipated to be 2021. At that time this has to be converted to external debt.

To manage the change in tax levy required to support the debt repayment, a “phase in” period of levy adjustments can be used to smooth any increase resulting from the debt obligation. Starting in 2018, for example, a three-year phase-in could commence such that a levy adjustment would be made in each of 2018, 2019 and 2020 so that sufficient funds were available to support the debt payment commencing in 2021. This is consistent with the three year phase-in used to finance the Biosolids facility.

Redirecting Funds from Current, Approved Uses

The levy adjustment could be reduced if Council wanted to redirect funds currently included as part of the existing tax levy. For example, the municipality provides grants to the Northern Ontario School of Architecture (NOSOA) and Advanced Medical Research Institute of Canada (AMRIC) totaling \$1.1 million with the last payment to AMRIC being 2018 and to NOSOA being 2020. These are funded by the tax levy, so after 2020 these funds would be available to apply toward other uses, such as the Arena/Event Centre.

However, applying these funds toward a debt payment for a new arena would be a change in policy. Currently, when a grant is no longer made to a community organization, it is removed from the operating budget and reduces the levy. These funds could instead be re-directed for asset renewal and address the significant infrastructure deficit associated with all of the city’s asset classes.

Other funds currently anticipated for asset renewal could be redirected toward paying for the arena. For example, the province announced the municipality will receive increased funding from the Ontario Community Infrastructure Fund (OCIF). Currently, the municipality receives \$4.3 million each year but by 2019, this permanent allocation will increase by \$5 million to \$9.3 million. This funding may only be utilized for roads, bridges, storm water, water and wastewater projects.

Historically, City Council directed this funding towards roads projects and in 2017, a small portion (\$80,000) was approved to partially fund the Asset

Management Co-ordinator position. Council may wish to reallocate a portion of these funds from Roads capital to annual debt repayment for the Arena/Event Centre. However, this would reduce funds needed for asset renewal/replacement.

Similarly, another example of how current, approved funds could be redirected relates to the annual allocation towards the construction of Maley Drive. Currently, approximately \$2.3 million is allocated to fund this project until 2023. When these funds become available, staff anticipated they would be redirected to asset renewal needs. Instead, they could be directed to fund arena payments.

As identified in the City's Asset Management Plan, infrastructure renewal or replacement needs are significant and exceed the financial resources available to fully address them. When combined with anticipated new infrastructure over the next ten years, it is reasonable to anticipate the additional OCIF funding could be used for infrastructure renewal and replacement.

So while OCIF funding and debt payments associated with retired debt could be directed toward debt payments for a new arena/event centre, staff do not recommend this approach. It has the appearance of reducing the levy requirement for the city's asset renewal needs but the most likely impact is to increase costs related to asset failure and increased repair/maintenance costs.

New Funding Sources

As new non-property tax revenues become available, consideration could be given towards funding of the Event Centre. One such example was in the 2017 Provincial Budget, where it was announced that municipalities can impose a hotel room tax. The tax, if implemented, would be shared between the municipality and a non-profit tourism organization. If a 4% hotel room tax was approved, based on historical occupancy rates, this would generate approximately \$1.68 million, \$840,000 to the City and \$840,000 to the non-profit tourism organization.

Fundraising

A potential source of revenue for the Event Centre is community fundraising. As an example, the City of St. Catharines established a fundraising target of \$5 million towards the construction of the Meridian Centre or approximately 8 percent of the total cost. A fundraising committee was composed of Councillors, City staff, members of arena advocacy groups and the community. Due to the community interest in the Arena/Event Centre, the campaign was a huge success raising \$6.4 million.

The City of Greater Sudbury could undertake a similar campaign with a potential target of \$5.0 million to be realized prior to construction completion.

Contributions from Senior Governments

It is unlikely that senior levels of government will contribute funds toward the construction of a new arena/event centre given the benefits that will be accrued to a private OHL franchise. Discussions with both federal and provincial representatives are ongoing, but experience in other communities indicates it is unlikely that the City can expect to receive capital funds from either the provincial or federal government for this project.

Where senior levels of government are more likely to financially participate are in public community arenas. Based on lessons learned from other communities as discussed during the March 7 meeting, combining an arena/event centre and community arenas is not recommended. In addition to increasing the net cost of the project, it also increases the risk that the user experience will not meet expectations. With more users attending for different, simultaneous events, access to parking and other amenities becomes more challenging to manage. This could lead to increased operating costs, excess capacity during non-peak periods and lower customer satisfaction.

Proposed Financial Plan

Based on the preceding analysis of funding sources, choices are available to pay for the annual debt payment. Any amount raised from fundraising would reduce the amount of debt financing required. Multiple funding scenarios exist:

Tax Levy

The Long Term Financial Plan ("LTFP") included debt repayments commencing in 2019 and anticipated the tax levy would fund 100% of the required annual amount.

This is a practical, straightforward financial plan. As illustrated in the LTFP, all financial indicator forecasts remain well within acceptable limits, including affordability indicators. This approach also maximizes the amount of funds available for asset renewal/replacement.

Tax Levy + Other Funding Sources

Other funding sources as described in this report would reduce annual levy requirements. Redirecting some of these funding sources to repay the Arena/Event Centre debt would increase levy requirements for asset renewal/replacement. A new funding source like, for example, a Hotel tax, requires further deliberation by Council.

The following table describes how each of the funding sources could be applied to pay the annual debt payment and when the payment stream would

become available. Council could adjust these during annual budget deliberations each year as circumstances require. As the table illustrates, funds available exceed the funds required to support arena financing. The extent to which other funding sources are used in any particular year could reduce the “Tax Levy” amount shown here:

	2018	2019	2020	2021	2022	2023
Arena/Event Centre Requirement (Note B)	Note A	Note A	Note A	\$5.5M	\$5.5M	\$5.5M
Funding Sources:						
Tax Levy	\$1.8M	\$3.6M	\$5.5M	\$5.5M	\$5.5M	\$5.5M
Completed grants		0.6M	1.1M	1.1M	1.1M	1.1M
Retired debt payment					1.5M	2.3M
OCIF (Note C)	6.0M	9.3M	9.3M	9.3M	9.3M	9.3M
New Funding Sources (Note D)	0.8M	0.8M	0.8M	0.8M	0.8M	0.8M
Total Funds Available	\$8.6M	\$14.3M	\$16.7M	\$16.7M	\$18.2M	\$19.0M
Funds Available in Excess of Arena Requirement	\$8.6M	14.3M	\$16.7M	\$11.2M	\$12.7M	\$13.5M

Notes:

A – If Council elects to replicate the approach used for funding the Biosolids project, an annual levy charge for three years equivalent to 0.7% each year would provide the funds needed for the annual debt repayment. None of the other funding sources would be needed for the Arena/Event Centre

B – Fundraising results could reduce the amount of financing required, lowering the projected repayment amount

C – OCIF funding is limited to certain uses. However, the increased funding level could reduce tax levy requirements for other capital projects, freeing up capital funds to be applied to the Arena/Event Centre.

D – This amount reflects an estimate of what a 4% hotel room tax could generate for the City. However, whether such a tax would ever be applied, or when it would actually take effect, is subject to further Council review and approvals.

As described in Recommended Motion #2, staff propose the inclusion of the financing plan for the Arena/Event Centre in the 2018 Budget that reflects staff's advice about how best to apply these funding sources in the context of all of the community's capital spending needs.

Next Steps

With the selection of a preferred site staff will:

- 1) Complete acquisitions for all private sector holdings with respect to the preferred site. The timeline for these acquisitions will be dependent on the site Council chooses. This process is anticipated to take up to 12 months.
- 2) Resolve all Planning considerations including rezoning, if required. If the selected site requires a rezoning, this process could take up to a year or more.
- 3) Enter into acceptable licenses/leases with the Sudbury Wolves. A report on these discussions will be presented to Council before the issuance of an RFP for a venue operator.
- 4) Issue a Design Build RFP at a date subject to the timing of site related acquisitions. It is anticipated that if the downtown site is selected, an RFP could be issued as early as Q3 2017.

Further to direction provided in March and in accordance with Council's direction on Resolution Two, staff will include a financing plan in the 2018 Capital budget.

References

City Council, April 11, 2017:

<http://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=23&id=1125>

City Council, March 7, 2017:

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&lang=en&id=1124&minutes=1>

City Council, December 13, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1034&itemid=12449&lang=en>

City Council, July 12, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=943&itemid=10989&lang=en>