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September 6, 2000

TO: The Board of Governors of Exhibition Place

FROM: Dianne Young  
General Manager & CEO

SUBJECT: IHL Project, Response to Request for Financial Support

Recommendations:

It is recommended that the Board of Governors of Exhibition Place (the "Board"):

1. Support the Coliseum Renovation Corporation ("CRC") project and request the City of Toronto to provide a loan guarantee to CRC of not greater than \$10.0 million to support no more than one-third of CRC's capital costs of the renovation of the Coliseum Arena and West Annex areas of the National Trade Centre (collectively the "Coliseum") subject to the terms and conditions as detailed in this report;
2. Request that City of Toronto Council consider declaring the renovated Coliseum to be a municipal capital facility for the purposes of the municipality and public use pursuant to section 210.1 of the *Municipal Act* and to pass a by-law to authorize the Board, on behalf of the City of Toronto, to incorporate into the lease agreement with CRC, on terms and conditions satisfactory to the General Manager & CEO of Exhibition Place, the Chief Finance Officer and Treasurer for the City of Toronto and the City Solicitor, the provision of the renovated Coliseum to the City of Toronto by CRC as a municipal capital facility;
3. Authorize the City of Toronto, if necessary in the opinion of the City Solicitor, to become a party to the lease agreement with respect to the provision of the facility to the City as a municipal capital facility;
4. Authorize the City Clerk to give notice of the agreement by-law as required under the *Municipal Act*; and,
5. Request staff to execute any documents and take all appropriate action to give effect hereto, including the introduction in Council of any bills which may be necessary.

**Background:**

At its meeting of July 27, 28, 29 and 30, 1999, Council adopted Clause No. 7 of Report No. 4 of the Policy and Finance Committee entitled "IHL (International Hockey League) Proposal for the Coliseum Building – National Trade Centre Complex" which proposed a long-term lease of the Coliseum to CRC for an IHL venue. Further at its meeting of September 28, 1999, Council adopted Clause No. 5 of Report No. 7 of the Policy and Finance Committee which approved the disposition of the Coliseum lands pursuant to By-law No. 551-1998. Pursuant to the authority granted by Council, the Board entered into an Offer to Lease with CRC setting out the substantial terms and conditions of the agreement between the parties and CRC provided the Board with a non-refundable deposit of \$25,000 to pay for expenses incurred by the Board in relation to this project.

At its meeting of Tuesday, September 5, 2000, the Board's IHL Steering Committee unanimously approved the motion that this report be forwarded at the same time to the Board for approval at its meeting of September 15, 2000 and the City Policy & Finance Committee for its meeting of September 21, 2000, for subsequent submission to the October 3, 2000 City Council meeting.

**Discussion:**

The CRC proposal is for the redevelopment of the Coliseum to transform this venue into the new home of the IHL franchise formerly known as the "Phoenix Roadrunners". The proposal would see a capital investment in the Coliseum Arena of approximately \$32.0 million that would upgrade the facility to a modern 11,000 seat hockey arena/concert venue. The term of the lease is 49 years and over the term, the Board would receive approximately \$42.7 million of incremental revenues from guaranteed rent, parking revenues and management fees and an estimated \$43.3 million in operating and staff cost savings and increase food and beverage revenues. In addition, the present users of the Coliseum will benefit from the upgraded seating, acoustics and climate control; the project will generate 107 person years of direct construction employment and approximately 130 person years of indirect employment; and the City will be in receipt of approximately \$800,000 in annual realty taxes to be paid by CRC on space that has been tax exempt. Attached as Appendix "A" to this report is a summary of the direct financial benefits that this project will provide to the Board/City.

In addition to the incremental revenues stated, this project allows the Board to avoid expenditures for required capital repairs of the Coliseum estimated to be approximately \$3.0 to \$4.0 million over the next five years.

Finally, this project addresses business and social objectives that are difficult to quantify but nevertheless are significant. It will be providing a state-of-the-art facility and new home for the Royal Agricultural Winter Fair ("RAWF") which will allow the RAWF to enhance its program. It will allow the Canadian National Exhibition ("CNE") to include concerts as a major part of its programming and once again, it will bring professional sports back to Exhibition Place. As part of the agreement between the Board and CRC, the ice rink will also be available for use by the public at no cost for a limited number of days each year and can be programmed by City Parks

and provided to the surrounding neighbourhoods that are presently under-serviced for such facilities. The renovated Coliseum also provides a venue that is needed and will be used for the 2008 Olympics.

For the last year a Steering Committee of the Board of Governors chaired by Councillor Pantalone, Chair of the Board, has been negotiating with CRC to finalize the details of the lease terms during the Due Diligence Period which was extended from April to September, 2000. During this time the parties have been working on drafts of a Long Form Lease agreement and also a Concession Services Agreement and Management Agreement which obligate CRC to use the Board's food service provider(s) and facility manager(s), respectively.

In addition, CRC has committed over \$1.0 million to move forward with this project. It has put together a strong project team and retained the services of Brisbin, Brook, Beynon as architects; PCL as its design-build contractor; Stadium Consultants Int'l as its marketing consultant; KPMG to provide financial advice; Mr. Ira Bailey and Mr. David Garrick to market its corporate boxes and other luxury suite products; International Management Group to lead its naming rights strategy; Core Media to sell sponsorships within the arena; and various other consultants to conduct heritage, structural and mechanic reviews. In addition to these consultants, the agreement with the Board requires CRC to reimburse the Board for all its independent consultant costs associated with the project.

To date, the corporate box sales have been extremely well received by the public with approximately one-half of the 37 boxes sold along with commitments from corporate sponsors. The draft financial proformas as presented by CRC provide a substantial annual net revenue to support the project. These proformas are now being reviewed by the Board's independent financial advisor, Arthur Anderson Accountants.

Subject to review of the proformas by the independent financial consultant, CRC expects to secure financing of \$22.0 of the \$32.0 million capital costs from a major financial institution on the basis of the cashflow estimates and the equity contribution from CRC in the form of the IHL hockey franchise. However, despite the efforts of CRC, it has been unable to secure financing for the remaining \$10.0 million of capital costs. One of the major issues in obtaining this remaining financing is the fact that as structured, the agreement with the Board gives CRC rights to the Coliseum for only two-thirds of the time while the Board maintains rights to the other one-third of the days throughout the 49 year term. This project was structured in this manner in order to accommodate the long-term licencees that presently occupy the Coliseum such as the CNE, the RAWF, the Sportsman Show, the Home Show.

The agreement with CRC not only secures for the Board the exclusive use of the Coliseum for 115 days of the year but secures the base (but not incremental) revenues that flow from these events. In addition, management of the Coliseum is to be through the Board's management team and concessions are to be managed by the Board's caterer. All these terms have an impact on the cashflows that CRC can generate from the project. While CRC and the Board negotiated these terms, they have now become a major issue with the potential financiers and securing secondary financing.

Given this major hurdle to implementation of this project, CRC has requested, in writing, a financial contribution of \$10.0 million from the City of Toronto toward the capital costs of renovating this City-owned facility. CRC has proposed that this contribution would be repaid, with interest, by CRC. The basis for this request by CRC is the fact that the Coliseum is to be used one-third of the time by the Board/City during the Term and will revert to the Board and the City upon expiry or termination of the Lease as a substantially improved City asset.

The request to the City comes at this time because of the deadlines imposed on CRC by the International Hockey League. CRC have advised staff that if by December, 2000, CRC is not able to present to the IHL a fully executed project with all agreements and financing completed and signed, a major financial penalty of US\$500,000.00 or more will be imposed on the franchise owners. CRC cannot afford to pay such a penalty and therefore, if it is not able to secure support from the City then it will likely seek available venues in the United States in order to meet the IHL end of year deadline.

As outlined above, it would be a huge financial loss to the Board if this project did not proceed. Accordingly, Exhibition Place staff have been reviewing the CRC request with City Legal, Finance and Economic Development staff. In order to meet the time constraints outlined above, this report would need to be considered at the meeting of the Policy and Finance Committee on September 21, 2000 and City Council on October 2, 3, and 4, 2000. At this point, there are several questions outstanding which will become clarified on or before September 15, 2000. These include the particulars of the financing from the primary lender and the terms of that loan; a review of these loan terms by City Finance and City Legal; and review of CRC's financial proformas by Arthur Anderson and City Finance.

On the initial question of the legal authority to consider a financial contribution or guarantee by the City, the City Solicitor has advised that the *Municipal Act* would ordinarily prohibit City Council providing such assistance. However, this situation is unique in that any funds and loan guarantee provided by the City would contribute to the renovation and improvement of a municipally-owned facility which is intended for public use throughout the term of the Lease and thereafter. Therefore, City Council has the option under section 210.1 of the *Municipal Act* to declare the proposed Coliseum renovations to be a municipal capital facility which is to be provided to the City by CRC pursuant to the terms of the Lease, as amended. This designation permits the City to provide assistance to CRC through the contribution of funds or as a guarantor.

Accordingly, Exhibition Place staff would recommend that the Board support in principle the request of CRC for financial support but this support be in the form of a loan guarantee not greater than \$10.0 million from the City of Toronto toward no more than one-third of the capital costs of the renovation of the Coliseum subject to a further review of this request by staff of Exhibition Place, the City of Toronto Finance Department and Economic Development & Culture Department and subject to the following terms and conditions:

- (a) The Long Form Lease Agreement, Concession Services Agreement and Management Agreement be executed by CRC by December 31, 2000, in a form satisfactory to the City Solicitor, General Manager of Exhibition Place and City's Chief Financial Officer;
- (b) CRC has completed to the satisfaction of the Board all conditions as set out in the Offer to Lease by December 31, 2000;
- (c) CRC has paid all reasonable consulting costs, including legal costs, incurred by the Board in negotiating the agreements and conducting its due diligence;
- (d) Any loan guarantee be for an amount not greater than \$10.0 million and be subject to any terms and conditions required by the City's Chief Financial Officer and the City Solicitor;
- (e) The Board/City maintains the right to use the Coliseum for at least 115 days throughout the 49-year Term even if the present "grandfathered" events as defined by the Offer to Lease cease to be an event licenced by the Board; and,
- (f) CRC provide the Coliseum to the Toronto Olympic Bid, or its successor, for use for the 2008 Olympics at no charge to the Toronto Olympic Bid or the City.

If the loan guarantee is approved by the City at its meeting of October 2, 3 & 4, 2000, and this project moves forward, CRC has requested that the commencement date of construction be deferred by one year to November, 2001 immediately following the 2001 Royal Agricultural Winter Fair. Staff support this extension and recommend it be granted by the Board/City as it would allow the necessary planning time essential to successful staging of the construction while at the same time meeting the Board's need to move forward immediately to rent the present Coliseum space for use in the 2001 trade and consumer show season thus mitigating revenue shortfalls in 2001.

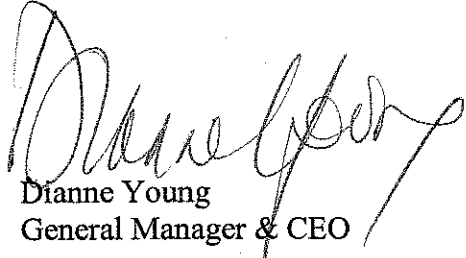
### **Conclusion**

This report requests City Council to consider providing a loan guarantee to CRC in an amount no greater than \$10.0 million to support no more than one-third of the capital infrastructure costs of the Coliseum project at Exhibition Place. Again, to summarize, the benefits of this project for Exhibition Place and the City are as follows:

- Transforms an out-of-date and underutilized facility to a modern state-of-the-art ice hockey and concert venue at a cost of \$32.0 million;
- Provides \$86.0 million incremental (guaranteed and estimated) revenues to the Board/City and approximately \$800,000 of realty tax revenues annually;
- Injects into the economy 107 person years of direct construction employment and 130 person years of indirect employment;

- Brings a new professional sports team to Toronto and to Exhibition Place and provides a venue to the Royal Agricultural Winter Fair and the CNE to allow expansion of their programming and a venue for the 2008 Olympics; and,
- Meets the goals as set by the Board of Governors, the Toronto Waterfront Plan, and Toronto's Olympic Bid.

The City Solicitor has reviewed this report and concurs with the comments on the *Municipal Act* and recommendations.



Dianne Young  
General Manager & CEO

## Appendix "A"

SCHEDULE C – Proposed Agreement to Lease with Coliseum Renovation Corporation ("CRC")								
		Guaranteed Lease Returns to Board		Expected Incremental Incomes		Expected Synergies From Cost Sharing		Grand Total
		Total	NPV @	Total	NPV @	Total	NPV @	Total
	# of	Income for	10.00%	Amounts	10.00%	Amounts	10.00%	Income for
Period	Years	Period		for Period		for Period		Period
Years:		A	B	C	D	E	F	G=A+C+E
1 - 10	10	\$ 3,000,000	\$ 1,843,370	\$ 3,065,916	\$ 1,855,084	\$ 5,146,356	\$ 3,113,891	\$ 11,212,272
11 - 20	10	4,000,000	947,599	3,737,329	871,843	6,273,364	1,463,449	14,010,693
21 - 30	10	5,000,000	456,675	4,555,784	409,742	7,647,180	687,785	17,202,964
31 - 40	10	6,000,000	211,282	5,553,473	192,569	9,321,863	323,239	20,875,336
41 - 49	9	6,300,000	89,072	6,030,781	84,207	10,123,068	141,350	22,453,849
Totals	49	\$24,300,000	\$3,547,998	\$ 22,943,283	\$ 3,413,445	\$ 38,511,831	\$ 5,729,714	\$85,755,114
<b>Sensitivity on Discount Rates</b>								
			NPV of					
			Guaranteed	NPV of	NPV of	NPV of	NPV of	
			Lease	Expected	Expected	Grand	Grand	
		NPV @	Returns	Incr	Synergies	Total	Total	
				Incomes				
		8.00%	\$ 4,577,451	\$ 4,383,089	\$ 7,357,321	\$ 16,317,861		
		9.00%	\$ 4,006,042	\$ 3,845,260	\$ 6,454,540	\$ 14,305,842		
		10.00%	\$ 3,547,998	\$ 3,413,445	\$ 5,729,714	\$ 12,691,157		
		11.00%	\$ 3,175,624	\$ 3,061,731	\$ 5,139,331	\$ 11,376,686		
<b>Guaranteed Lease Returns to Board</b>								
	# of	Annual	Annual	Total	Total Pay-	NPV @		
	Years	Guaranteed	Guaranteed	Annual	Payments	10.00%		
Period		Lease	Parking	Payment	For Period			
Years:		Payments	Income					
1 - 10	10	\$ 150,000	\$ 150,000	\$ 300,000	\$ 3,000,000	\$ 1,843,370		
11 - 20	10	200,000	200,000	400,000	4,000,000	947,599		
21 - 30	10	250,000	250,000	500,000	5,000,000	456,675		
31 - 40	10	300,000	300,000	600,000	6,000,000	211,282		
41 - 49	9	350,000	350,000	700,000	6,300,000	89,072		
Totals	49				\$24,300,000	\$ 3,547,998		

## Notes to Above:

1) Box and tickets to Box are free to Board (current value of approx. \$50,000 pa)

2) Board keeps rights to dates for specific grandfathered events, including CNE and RAWF.

No rent is charged to the Board for these events. These amounts are not reflected in the above.

3) Board retains first \$150,000 (subsequently escalated) of parking revenue (net of costs) associated with CRC events.

**SCHEDULE C – Proposed Agreement to Lease with Coliseum Renovation Corporation (“CRC”)**

**Expected Incremental Incomes**

						Gross	Total	
	# of	Management Fee	Food &		Other	Gross Annual	Amounts	NPV @
Period	Years		Beverage			Amount	For Period	10%
Years:								
1 - 10	10	\$ 225,000	\$ 55,000		\$ 0	\$ 280,000	\$ 3,065,916	\$ 1,855,084
11 - 20	10	274,273	67,045		0	341,318	3,737,329	871,843
21 - 30	10	334,337	81,726		0	416,063	4,555,784	409,742
31 - 40	10	407,555	99,625		0	507,180	5,553,473	192,569
41 - 49	9	496,805	121,443		0	618,248	6,030,781	84,207
Totals	49						\$22,943,283	\$ 3,413,445

**Notes:**

1) Revenues are escalated at 2% pa; per annum amounts shown above is the amount for the first year of the period indicated.

**Expected Synergies From Cost Sharing**

		Staff Cost	Utilities	Maintenance	Other	Gross	Total	NPV @
	# of	Savings				Annual	Amounts	10.00%
Period	Years	Per Annum				Amount	for Period	
Years:								
1 - 10	10	\$ 400,000	\$ 50,000	\$ 20,000	\$ 0	\$ 470,000	\$ 5,146,356	\$ 3,113,891
11 - 20	10	487,597	60,949	24,379	0	572,925	6,273,364	1,463,449
21 - 30	10	594,378	74,296	29,717	0	698,391	7,647,180	687,785
31 - 40	10	724,543	90,567	36,223	0	851,333	9,321,863	323,239
41 - 49	9	883,213	110,402	44,156	0	1,037,771	10,123,068	141,350
Totals	49						\$38,511,831	\$ 5,729,714

**Notes:**

1) Revenues are escalated at 2% pa; per annum amounts shown above is the amount for the first year of the period indicated.

2) Staff savings will result from the synergies of managing both the NTC and the "Coliseum". A percentage of staff costs will be allocated /paid by CRC. In addition CRC will pay for any direct dedicated personnel.