

Downtown Arena Negotiated Framework

October 25, 2011, Special City
Council

Recommendation:

1. That the revised negotiated framework to design and build a downtown arena, as outlined in Attachment 2 of the October 25, 2011, Office of the City Manager report 2011CMO010, be approved.
2. That Administration prepare the Master Agreement based on the negotiated framework outlined in Attachment 2 of the October 25, 2011, Office of the City Manager report 2011CMO010, and return to City Council for approval.

Report Summary

This report provides an overview of the changes to the May 18, 2011, Negotiated Framework for the development of a downtown arena.

Previous Council/Committee Action

At the October 14, 2011, Special City Council meeting, the following motion was passed:

Downtown Arena Framework Adjustments

1. That Administration provide a report to the October 25, 2011, City Council meeting, identifying the adjustments made to the May 18, 2011, Framework presented by Administration during the October 14, 2011, Special City Council meeting, for Council Approval.
2. That Members of Council provide written questions to the Office of the

City Clerk by noon on October 17, 2011, and that Administration provide an electronic version only of the responses as part of this report.

Report

Administration presented an update on Downtown Arena negotiations to City Council at the Special City Council meeting held on October 14, 2011. City Council had previously approved on May 18, 2011, a framework for agreement between the City and the Katz Group with respect to the funding of a downtown arena and specific associated land and infrastructure.

The significant points of the May 18, 2011, agreement are presented in Attachment 1 with the revisions proposed on October 14, 2011. The major revisions include:

- The Katz Group \$100 million contribution is to be paid over 35 years.
- A deadline of October 31, 2011, has been set for the land assembly.
- The design to a 60% level will be funded by the City with the cost still part of the \$450 million. The City will own the design.
- The Katz Group will no longer require a non-compete clause with Rexall Place.
- The City will enter into a marketing partnership with the Edmonton Oilers.

Responses to the written questions from Members of Council will be provided under separate cover and will be made available electronically to the public.

Corporate Outcomes

This report is in response to Council's ongoing consideration of a Downtown

Arena. The development of such a facility, particularly within a broader arena district, has the potential to support a number of Council's 10-year goals from *The Way Ahead*, Edmonton's Strategic Plan 2009-2018

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

Public Consultation

A Special City Council meeting has been called for October 25, 2011, for the purpose of a non-statutory public hearing on the financial framework of the negotiated agreement.

Justification of Recommendations

1. In order to move forward on the downtown arena project, a revised framework approved by Council is required.
2. The next step in finalizing a downtown arena agreement will be to complete a Master Agreement based on the revised framework.

Attachments

1. Summary of the Negotiated Framework
2. Revised Negotiated Framework for a Downtown Arena
3. Response to Councillors Questions
4. 2010 NHL Arena Report
5. Downtown Arena Funding Framework

Others Reviewing this Report

- L. Rosen, Chief Financial Officer and Treasurer
- R. G. Klassen, General Manager Sustainable Development

Summary of Negotiated Framework

May 18 Agreement	Revised Negotiated Framework (Oct 14)
Sustainability of NHL Hockey in Edmonton is a prime consideration.	No change
The arena building project (which includes 350 parking stalls) has a maximum price \$450 million.	The guaranteed maximum price for the downtown arena building is \$450 million. If the tenders received are over \$450 million, either party can walk away from the deal.
The Katz Group will contribute \$100 million of the capital cost of the arena with \$80 to \$90 Million provided proportionate to the City contribution over the period of construction; and \$10 to \$20 million plus interest paid over the term of the lease.	The Katz Group will pay the principal and interest costs associated with \$100 million of capital cost over 35 years through a lease payment of approximately \$5.5 million (based on October 2011 cost of borrowing – actual lease payment will be dependent on actual costs of borrowing).
User fee levied through ticket surcharge to generate \$125 million plus interest to fund the capital project.	No Change
City of Edmonton contribution of \$125 million to the arena building will include up to \$45 million to be funded by a Community Revitalization Levy.	No Change
Land assembly.	No Change with exception of deadline. City assumes obligations by October 31, 2011.
Land to be purchased at option price.	No Change
The City is to build an LRT connection to arena.	No Change
Pedway over 104 Avenue is required adjacent infrastructure funded outside of the arena building project.	Clarification that Katz Group agrees to pay half of cost, and City limits contribution to no more than \$25 million. Previous estimates placed the City contribution for the Pedway at \$20 million.
Community rink to be constructed adjacent to the arena contingent on funding from the federal and provincial government. City's share to be limited to one-third of the cost, which is not included in the cost of the arena building. City to own the community rink with the Katz Group operating.	Change – The City is to operate the community rink with all revenues and costs accruing to the City. All other conditions unchanged.
The Katz Group is to operate the new arena and is to pay all operating expenses, capital maintenance and repair	No Change

<p>(both major and minor) and taxes and receive all operating revenues, including naming rights parking revenues.</p>	
<p>The financing of the arena project is subject to securing necessary funding from other orders of government.</p>	<p>Change – The land assembly is to be completed by October 31.</p> <p>The design process is to commence as soon as possible. The City will fund the cost of design to a 60% level on which the tender documents will be based in order to get the best possible Guaranteed Maximum Price for the arena. The cost of the design would be part of the \$450 million cost of the arena. The conceptual design work completed to date is owned by the Katz Group. If either party elects not to complete the deal, the City will have ownership rights to the design work undertaken by the City.</p> <p>The City will continue to work to secure a \$100 million contribution to the project from the Province.</p>
<p>The City will use reasonable efforts to try and secure commitments that Rexall Place will not compete with the new arena for events. Simply stated, a non-compete clause.</p>	<p>Change – The Katz Group waives the requirement for the non-compete clause. The City has agreed that a competitive market between Rexall Place and the new arena requires a level playing field and so, once the new arena is open will eliminate any subsidies to Rexall Place. A supplementary ticket surcharge will also be levied against all admissions at Rexall Place in the future at the same percentage (currently estimated at 7%) as the ticket surcharge to be levied at the new arena. For as long as the ticket surcharge at the new arena is allocated to the City to pay for the costs of borrowing the \$125 million in construction cost to be paid by this user fee, the City will retain the revenue generated by the ticket surcharge at Rexall Place. City Council will determine the use of those funds; however, the intent of the agreement is for the funds not to go back to Northlands.</p>

The Edmonton Oilers Hockey Club will stay in Edmonton for 35 years.	No Change
Design process to be undertaken collaboratively between the City and the Katz Group.	No Change, however, clarity on the model has been provided, with both sides agreeing that the Pittsburgh approach is the model to follow for design and construction.
City access to the new arena for up to four weeks a year at its discretion.	No Change
The Katz Group will enter into a Community benefits agreement with the City, taking into account the activities of the Oilers Community Foundation.	No Change
The Katz Group commits \$100 million to associated adjacent investment subject to commercial viability.	No Change
Any method of personal seat licenses, condominiumization model or seat rights would not be pursued by the Katz Group.	No Change
The City or its nominee will be entitled to access a suite at an annual cost equal to 50% of the prevailing rate.	Change – The City will enter into a marketing partnership with the Edmonton Oilers, investing \$2 million annually in a program to promote the image of the City and to build City recognition with the Oilers brand. The City will enjoy a most favoured nation status in its marketing package that ensures the City's program is the best value the Oilers have to offer at any given time. The marketing package will be of a quality and impact that is consistent with arrangements with the private sector at a similar level. Included in the partnership program will be access to a suite that the City can share with other parties contributing to the marketing of the City of Edmonton.

Revised Negotiated Framework for a Downtown Arena

1. Sustainability of NHL Hockey in Edmonton is a prime consideration
2. The guaranteed maximum price for the downtown arena building is \$450 million. If the tenders received are over \$450 million, either party can walk away from the deal.
3. The Katz Group will pay the principal and interest costs associated with \$100 million of capital cost over 35 years through a lease payment of approximately \$5.5 million (based on October 2011 cost of borrowing – actual lease payment will be dependent on actual costs of borrowing).
4. User fee levied through ticket surcharge to generate \$125 million plus interest to fund the capital project.
5. City of Edmonton contribution of \$125 million to the arena building will include up to \$45 million to be funded by a Community Revitalization Levy.
6. Land to be purchased at the same price and on the same terms and conditions as in the current purchase agreements. City assumes obligations by October 31, 2011.
7. The City is to build an LRT connection to arena.
8. Pedway over 104 Avenue is required adjacent infrastructure funded outside of the arena building project. Katz Group agrees to pay half of cost, and City limits contribution to no more than \$25 million. Previous estimates placed the City contribution for the Pedway at \$20 million.
9. Community rink to be constructed adjacent to the arena contingent on funding from the federal and provincial government. City's share to be limited to one-third of the cost, which is not included in the cost of the arena building. City to own and operate the community rink with all revenues and costs accruing to the City.
10. The Katz Group is to operate the new arena and is to pay all operating expenses, capital maintenance and repair.
11. The Edmonton Oilers Hockey Club will stay in Edmonton for 35 years.
12. Design process to be undertaken collaboratively between the City and the Katz Group. Clarity on the model has been provided, with both sides agreeing that the Pittsburgh approach is the model to follow for design and construction.
13. City access to the new arena for up to four weeks a year at its discretion.
14. The Katz Group will enter into a Community benefits agreement with the City, taking into account the activities of the Oilers Community Foundation.
15. The Katz Group commits \$100 million to associated adjacent investment subject to commercial viability.
16. Any method of personal seat licenses, condominiumization model or seat rights would not be pursued by the Katz Group
17. The City will enter into a marketing partnership with the Edmonton Oilers, investing \$2 million annually in a program to promote the image of the City and to build City recognition with the Oilers brand. The City will enjoy a most favoured nation status in its marketing package that ensures the City's program is the best value the Oilers have to offer at any given time. The marketing package will be of a quality and impact that is consistent with arrangements with the private sector at a similar level. Included in the partnership program will be access to a suite that the City can share with other parties contributing to the marketing of the City of Edmonton.