

Business Case for Service Level Change

Request/Project Name: Financing for the Arena/Event Centre

Department: Corporate Services

Division: Financial Services

I. Executive Summary

Overview of Proposal

On June 27, 2017, City Council selected the Kingsway location as the future site of the Arena/Event Centre and directed staff to include an option for financing in the 2018 Budget. This business case addresses the funding for the Council approved Arena/Event Centre. The estimated cost of the project is \$100 million.

Service Level Impact

The proposed financing plan does not impact previously approved service levels.

II. Background

Current Service Level (Describe the existing level of service provided)

| Service Name | Service Description (What is the current level of service) |
|--------------------|--|
| Arena/Event Centre | Venue for ticketed sports and entertainment events that does not meet requirements for contemporary performances, leading to missed booking opportunities and lower facility revenues. |
| | |
| | |

Drivers for Proposed Course of Action

Council large project initiative.

III. Recommendation

Categorize your specific request (mark an 'X' for all that apply):

| | | | |
|-------------------------------------|---------------------------------|--------------------------|------------------------------------|
| <input type="checkbox"/> | Change to base operating budget | <input type="checkbox"/> | Change to base FTE allocation |
| <input type="checkbox"/> | Change to fees (unit price) | <input type="checkbox"/> | Change to revenues (volume change) |
| <input checked="" type="checkbox"/> | Investment in Project | | |

Recommendation (How/Why)

It is recommended that the City secure or issue debt to pay for the new Arena/Event Centre. The repayment obligation will be paid using a combination of taxation levy, new revenues, fundraising, and reallocating funds from the retirement of community obligations. The City is looking for senior levels of government funding to offset the costs, however if this is not successful the entire amount will be funded through debt.

Urgency

Debt repayment funding must be in place by 2021 to ensure that commencement of debt repayment can be made upon completion of the community obligations.

How does this align with Council's Strategic Plan?

This helps to achieve the Council priority of investing in large projects to stimulate growth and increase conferences, sports and events tourism, and celebrate cultural diversity.

IV. Impact Analysis

Qualitative Implications

Providing funding for the Arena/Event Centre is imperative for the success of the project.

Quantifiable Implications - Revenue & Expenditures

The project is estimated at \$100 million. A fundraising campaign will be initiated with the intent to achieving \$10 million in funds by 2021. This will leave \$90 million to be debt financed over 30 years requiring an annual debt repayment of \$5.2 million. Funding sources identified are a completion of community obligations (Northern Ontario School of Architecture [\$1 million], AMRIC [\$0.1 million]), new revenue sources (hotel tax [\$0.8 million], arena naming rights [\$0.1 million]) and a 0.3% special arena tax levy from 2018 to 2021. In 2018 the special levy is to be included within the 3.5% tax levy increase.

Operating Revenues - Incremental

Detail

| Description | Duration | Revenue Source | 2018 \$ | 2019 \$ | 2020 \$ | 2021 \$ | 2022 \$ |
|---------------|-----------------|----------------|--------------|---------|---------|---------|------------------|
| Hotel Tax | On-Going | | \$ (800,000) | | | | |
| External Debt | One-Time | | | | | | \$ (90,000,000) |
| Fundraising | One-Time | | | | | | \$ (10,000,000) |
| Naming Rights | On-Going | | | | | | \$ (100,000) |
| | On-Going | | \$ (800,000) | \$ - | \$ - | \$ - | \$ (100,000) |
| | One-Time | | \$ - | \$ - | \$ - | \$ - | \$ (100,000,000) |
| Total | | | \$ (800,000) | \$ - | \$ - | \$ - | \$ (100,100,000) |

Operating Expenditures - Incremental

Detail

| Description | Duration | Funding Source | 2018 \$ | 2019 \$ | 2020 \$ | 2021 \$ | 2022 \$ |
|--|-----------------|----------------|--------------|--------------|--------------|------------|----------------|
| Debt Repayment | On-Going | Levy | \$ 1,540,000 | \$ 1,380,000 | \$ 1,320,000 | \$ 860,000 | \$ 100,000 |
| Contribution to Capital | One-Time | | | | | | \$ 100,000,000 |
| NOSOA | On-Going | | | \$ (500,000) | \$ (500,000) | | |
| Health Sciences North Research Institute | On-Going | | | \$ (100,000) | | | |
| | On-Going | | \$ 1,540,000 | \$ 780,000 | \$ 820,000 | \$ 860,000 | \$ 100,000 |
| | One-Time | | \$ - | \$ - | \$ - | \$ - | \$ 100,000,000 |
| Total | | | \$ 1,540,000 | \$ 780,000 | \$ 820,000 | \$ 860,000 | \$ 100,100,000 |

FTE Table

Detail

| Position | Bargaining Unit | Duration | Full Time/Part | 2018 (FTE #) | 2019 (FTE #) | 2020 (FTE #) | 2021 (FTE #) | 2022 (FTE #) |
|--------------|-----------------|-----------------|----------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | | | | |
| | | On-Going | | - | - | - | - | - |
| | | One-Time | | - | - | - | - | - |
| Total | | | | - | - | - | - | - |

| Net Impact | 2018 \$ | 2019 \$ | 2020 \$ | 2021 \$ | 2022 \$ |
|-----------------|------------|------------|------------|------------|---------|
| On-Going | \$ 740,000 | \$ 780,000 | \$ 820,000 | \$ 860,000 | \$ - |
| One-Time | \$ - | \$ - | \$ - | \$ - | \$ - |
| Total | \$ 740,000 | \$ 780,000 | \$ 820,000 | \$ 860,000 | \$ - |

Implementation *(Likelihood; list any assumptions, constraints)*

The debt financing plan reflects a phased in approach to generating the total annual debt repayment amount of \$5.2 million. The funds will be contributed to reserve until the debt is secured.

Consequences *(What would be the negative results or drawbacks)*

The drawbacks to the plan is that the tax levy will be required to pay for part of the debt financing before debt is secured. However, if the decision was to finance the debt payment in one year, the impact to the tax levy would be significantly greater, requiring a 1.6% levy increase (based on the 2017 net levy).

Dependencies/Synergies *(Does the proposal depend on any other projects)*

This does not depend on any other project.

Capacity Impacts *(Is there enough capacity? Are other departments impacted?)*

There are no capacity impacts as the City has already assigned resources to the new Arena/Event Centre.

V. Alternatives

Alternatives Considered

| Solution Options | Operating Changes | Revenue Changes | Advantages/ Disadvantages |
|---|-------------------|-----------------|--|
| Redirecting funds from other capital projects | | | There is a significant funding requirement for the current infrastructure and redirecting funds away from infrastructure renewal could cause further deterioration of the City's current assets. |

VI. Risks

Risks *(What are the risks of not implementing this change?)*

If Council does not proceed with the phase in schedule of the debt repayment identified in this financing plan, this will result in a greater tax levy impact in future years.

