

Downtown Event and Entertainment District Funding Strategy Assumptions and Overview

Accommodation Funding Contributions

Overview

This funding tool is anticipated to take the form of either an accommodation tax or a direct agreement with local hoteliers.

An accommodation tax is a mandatory tax applied to short-term hotel, motel, hostel, and online platform stays and has been implemented in many provinces and municipalities across Canada. Most jurisdictions charge an ad-valorem (meaning based on value) tax rate anywhere between 3% and 6% of the daily room charge.

It is important to note that the calculations below are the Administration's estimates which are based on data available from the accommodation industry.

The Saskatoon hotel industry currently contributes the equivalent of a 3% room surcharge through a voluntary contribution model. Not all hotels participate in the program. The funds, known as the Destination Marketing Fund, are provided to Discover Saskatoon to promote tourism in the Saskatoon region. The Administration acknowledges Discover Saskatoon's perspective that going forward, we must work together to achieve appropriate contributions from the accommodation industry and the City of Saskatoon in a way that preserves Discover Saskatoon's ability to provide its services and does not put an undue burden on the industry nor patrons.

The revenues included in the funding plan have not been endorsed by the accommodation industry. The industry has expressed that they feel they are being asked to pay a disproportionate amount of contribution and note that other industries which will directly benefit from construction of the Downtown Event and Entertainment District (DEED) project should be participating financially as well.

The Administration acknowledges that the amount projected in revenue through the accommodation industry would result in a combined surcharge rate that is among the highest in Canada at 5.9%, which is comprised of an equivalent surcharge of 3.65% for the DEED project and 2.25% to keep Discover Saskatoon's current funding whole should the program be moved from voluntary to mandatory.

The Administration commits to working with industry to identify other sources of revenue for the project, and to also continue to strive to identify opportunities for cost reduction, with an expressed objective to reduce the reliance on the accommodation industry and on ticket surcharge amounts.

Estimated Annual Funding (Net)

- The funding plan includes \$5.7 million per year based on current accommodation statistics in Saskatoon.
- Forecasted to generate \$10.8 million per year by year 33 of the funding strategy.

Key Assumptions

- The Administration has calculated that this level of funding would require an accommodation tax or surcharge rate of approximately 3.65% on all fixed-roof and online platform stays.
- The 3.65% accommodation tax or surcharge rate does not include an allocation to Discover Saskatoon for its destination marketing program.
 - An additional rate estimated at 2.25% applied to all hotel stays would be required to maintain the existing funding levels of approximately \$3.69 million per year to Discover Saskatoon through the Destination Marketing Program as reported in Discover Saskatoon's [2023 Audited Financial Statements](#). The amount and potential funding mechanism will need to be further discussed with Discover Saskatoon and local hotelier partners. The Administration is not seeking endorsement of the amounts or rates at this time, the amounts included in this report demonstrate that the City's funding can be achieved with the stated levels of contribution. The Administration will continue to work with Discover Saskatoon and hoteliers to develop options. As with all components of the funding strategy, this matter will be the subject of future reporting and ultimately decisions by City Council.
- 2023 available rooms, occupancy rates and room rates are based on data available from Tourism Saskatchewan and industry statistics.
- An elasticity rate has been applied to account for the impact higher prices may have on room stays using the rate provided by KPMG.
- A growth rate of 2.1% per year was assumed based on the historical average growth in fixed-roof occupancy and room rate from 2016 to 2023 (excluding 2020 and 2021 pandemic years).

Next Steps

Legislative changes to *The Cities Act* would be required before the City of Saskatoon (City) can implement a mandatory accommodation tax. There is the potential for an alternative agreement with local hoteliers; however, it would be difficult to apply this agreement to online platform stays without legislative changes.

Risk

The risk with this revenue tool is regarding the City's ability to obtain the required legislative changes or agreements. If the required legislative changes or agreements

can be secured, the revenue generation and forecasts are relatively low risk aside from a significant disruption event such as a pandemic.

Alternatives

If a city-wide accommodation tax could not be achieved through legislative changes or alternative agreement with local hoteliers, the City could create a separate property class or sub-class for hotels, motels, and hostels and levy a separate property tax rate to generate approximately the same revenue as equivalent to a 3.65% accommodation tax rate. Instead of using room prices as the tax base, this approach uses the assessed value of the property in applying the tax rate. In addition, this approach would not capture online platform stays, which would represent approximately \$570,000 of the \$5.7 million of annual revenue projected in year 1 of the funding plan.

The accommodation industry has made it clear that they do not support the City's use of its existing legislative ability to collect the contribution from that industry through a property tax sub-class approach. The Administration has therefore committed to continuing to work with Discover Saskatoon and with the accommodation industry to pursue alternative methods of collection, including legislative change, or through contract, or other means available.

Facility Fee – Amusement Tax

Overview

A facility fee or amusement tax is either a fixed charge or an ad-valorem tax that is applied to event tickets and has been implemented at many event venues across Canada. SaskTel Centre and TCU Place currently charge fixed-rate facility fees on most of their event tickets.

Estimated Annual Funding

- Estimated \$1.4 million per year Interim Facility Fee at Existing Facilities.
- Estimated \$1.8 million in annual funding in the first five years of the new facility.

Forecasted to generate \$2.6 million per year by year 33 of the funding strategy.

Key Assumptions

- Proceed with amusement tax terminology to avoid confusion with existing facility fee.
- A 9.5% amusement tax rate on all TCU Place, SaskTel Centre, and event centre/arena tickets regardless of type (e.g., sporting events, concerts, theatre shows, entertainment events, etc.).
- Slight increase in the number of events in the first five years of the facility opening, returning to current SaskTel Centre event numbers following.
- A 2% annual growth rate applied to funding to account for increased ticket sales and per ticket price.

Next Steps

The Administration would propose amendments to Bylaw No. 7978, Amusement Tax Bylaw, 2000 to City Council to enable the charging of a 9.5% amusement tax on TCU Place and SaskTel Centre tickets. Revenue from this source would be placed in a reserve to be used to help pay for the future Downtown Event and Entertainment District project.

Risk

From an event attraction perspective, Saskatchewan is one of the few provinces that applies a Provincial Sales Tax (PST) (6% rate) to ticket sales. By adding an amusement tax at the proposed 9.5% rate, Saskatoon's tickets will have higher combined surcharges than those in other jurisdictions which may cause some promoters to bypass Saskatoon with their event. The financial forecast has not provided any contingency to account for this potential risk.

Similar to the concerns with the contribution through the accommodation industry, the Administration commits to identify other sources of revenue for the project, and to also

continue to strive to identify opportunities for cost reduction, with an expressed objective to reduce the reliance on the accommodation industry and on ticket surcharge amounts.

Alternatives

No alternatives are required as the application of an amusement tax is already within the City's legislative authority.

Parkade Revenues

Overview

The provision of at least 526 publicly accessible parking stalls on City-owned lands at 22nd Street and Idylwyld Drive is an obligation specified in the agreement to purchase the Midtown North lot that was approved by City Council.

Estimated Annual Funding (Net)

- \$572,000 in annual funding until the new facility is open.
- Estimated to generate \$1.26 million average per year in the first five years of the new facility.
- Forecasted to generate \$1.9 million by year 33 of the funding strategy.

Key Assumptions

- Equivalent amount of annual gross revenue currently being realized at Midtown North lot until the new facility opens.
- Annual growth in parking revenue (from a combination of increased usage and rates) of 2%.
- Higher utilization on event days once the new facility opens.

Next Steps

The parking structure must be completed and operational before construction can begin on the Midtown North lot as specified in the agreement to purchase. Therefore, the funding strategy needs to be finalized to begin design and construction of the new parking structure. Revenue currently received from the Midtown North lot is used to repay the Property Realized Reserve for the initial purchase of the land.

Risk

Minimal risk exists with this tool. As the existing Midtown North lot would no longer be in existence and with increased demand for downtown parking upon opening of the new facility, existing revenue should be obtained. There is some risk with the 2.0% annual growth rate if rates and usage do not increase over time, which could result in generating less revenue than forecasted.

Alternatives

There are no available alternatives.

Tax Incremental Financing

Overview

A popular instrument used in the United States and some provinces (e.g., Alberta), Tax Incremental Financing (TIF) is used in areas ripe for redevelopment. The way it works is that it divides property tax revenue earned on properties within a defined boundary or district into two streams, the base stream and the growth stream:

- The base stream is the total amount of property taxes applied on the taxable assessed value of the properties in the TIF district prior to any redevelopment.
- The growth stream is the incremental property taxes applied to properties in the district on any incremental increase in the assessed value after the redevelopment. Incremental increases may occur as a result of new construction/renovation and/or general economic improvement.
- All properties in the district are valued the same way as properties outside the TIF district, in accordance with provincial legislation. Similarly, property tax rates for the various classes of properties (e.g., commercial and residential) inside the district are the same for those outside the district.
- The attractiveness of a TIF is that incremental property tax revenues are generated from all taxing authorities (e.g., municipalities and school boards) in the district and are directed to pay the borrowing costs for the project(s).

For a pre-determined time period (e.g., 30 years), the base stream would continue to be directed to general municipal use while the growth stream would be directed to help repay the costs of the redevelopment. Once this time period expires, or the outstanding project debt is paid for, the two streams are combined and all property tax revenues go to general revenue of the appropriate taxing authority.

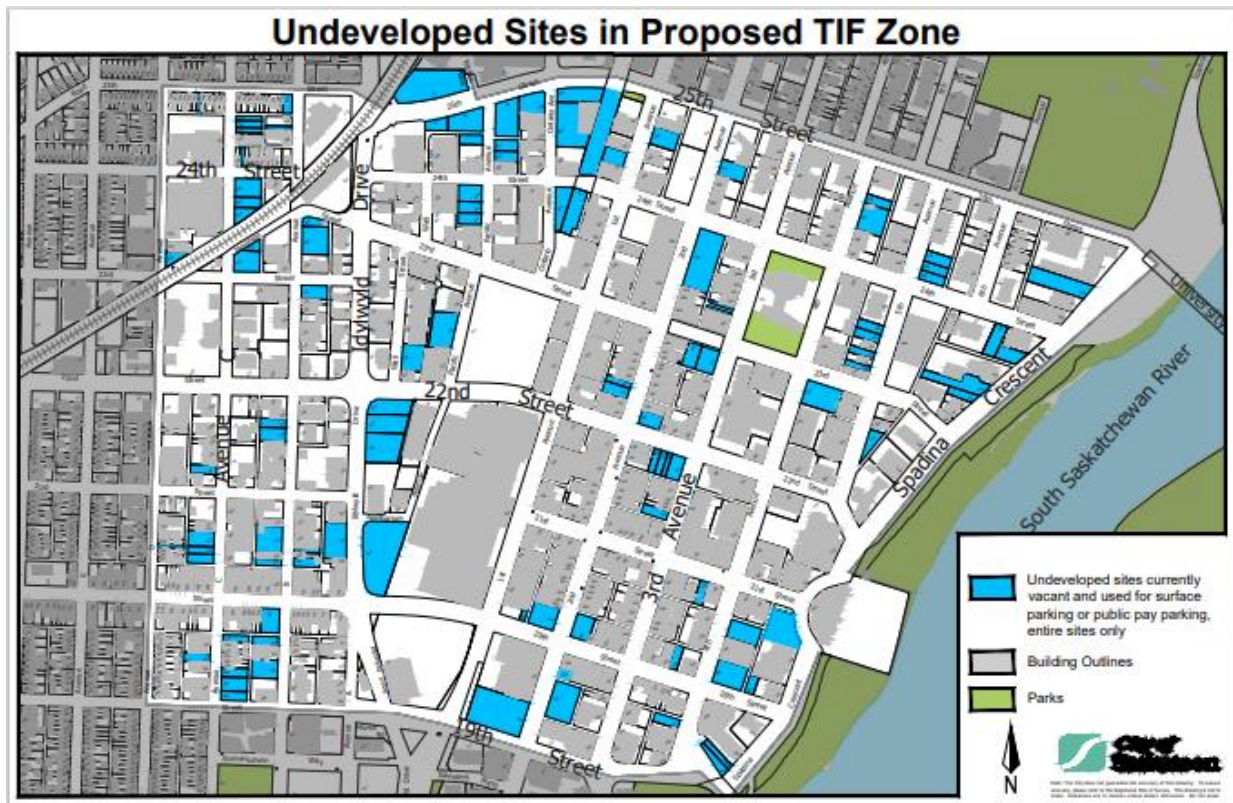
Estimated Funding

- An estimated \$66.6 million to \$241.4 million in cash flow may be generated by this revenue tool over 30 years based on a low-, medium-, or high-growth scenario.
- There is a degree of variability in the assumptions due to the difficulty in predicting long-run property values.

Key Assumptions

- Assumes no tax abatements for new builds within the TIF boundary.
- Assumes a baseline assessment value of \$2.18 billion for existing properties within the TIF boundary (based on 2024 assessed values).
- Three growth scenarios have been considered to calculate the incremental revenue of the TIF tool – low (0% growth), medium (1% growth), and high (2% growth), which will be allocated towards the Downtown Event and Entertainment District project.

- All growth scenarios exclude applying growth factors to the Midtown Development (assessment of \$301 million), the City's largest assessed property, to avoid overstating the potential TIF funding.
- \$150 million in new residential development within the first five years of the plan.
 - Roughly equivalent to three 250-unit residential developments.
- \$50 million in new non-residential development within the first five years of the plan.
 - Roughly equivalent to one new Nutrien tower or two hotels plus various smaller restaurant, bar, and retail developments.
- Ability to capture incremental education property taxes for 30 years estimated at \$23.4 million to \$84.8 million in cash flow over those years.
- Ability to capture incremental library property taxes for 30 years estimated at \$4.1 million to \$14.9 million in cash flow over those years.
- Preliminary Downtown Event and Entertainment District TIF boundary is shown in the graph below. Notably, the boundary has about 14% vacancy, limiting new development potential.



Next Steps

Legislative changes or agreement with the Government of Saskatchewan would be required for the City to capture the incremental portion of education property taxes within the Downtown Event and Entertainment District TIF boundary.

Risks

There are several risks regarding the TIF revenue tool:

1. The City currently requires legislative changes or formal agreement by the Government of Saskatchewan to be able to capture the incremental education taxes as allowed for in other provinces.
2. Saskatoon's TIF boundary is unique in comparison to recent TIF boundaries implemented in Calgary and Edmonton. While the size is comparable, Saskatoon's TIF boundary is estimated to have approximately 15% vacant land or surface parking whereby Calgary and Edmonton's TIF Boundary included 32% and 43% vacant land or surface parking area, respectively. As existing vacant land and surface parking provide a clearer path for development and property tax revenue from a tax incremental financing tool, Saskatoon's lower availability within the TIF boundary creates risk on the amount of new development that may be able to occur easily.
3. TIF is based on many assumptions, from the amount of new builds to increases in assessed value for existing properties within the tax incremental financing boundary. Changes in the original assumptions can have significant impacts on the funding availability and need to be monitored over time. As such, frequent updates to the revenue assumptions are needed to monitor progress.

Alternatives

If the City is not able to obtain the legislative changes or agreements from the Government of Saskatchewan needed to capture the incremental education property taxes, there are no readily available alternatives that could replace that amount of funding for the project, other than using the general property tax levy.

If the TIF does not generate as much revenue as originally forecasted over 30 years and required by the project, there are several options the City could use. The most common response by other municipalities who have faced a shortfall is to extend the TIF timeline beyond the original projection. That is, instead of ending the TIF timeline at 30 years and returning the property taxes to the general pool, they continue to be allocated to the project until a time when it has been fully repaid. Additional options would be to utilize other funding sources such as the City's Community Building Fund Reallocation Pool or Neighbourhood Land Development Fund dividends.

Reserve Contributions

Estimated One-Time Funding

- \$30 million allocation from the Property Realized Reserve.
- \$5 million allocation from SaskTel Centre.

Estimated Annual Funding

- \$500,000 per year contribution from SaskTel Centre over the first six years of the funding strategy.

Key Assumptions

- Uses Bylaw No. 6774, Capital Reserve Bylaw, 1993, to declare allocations from the Property Realized Reserve for priority projects.

Next Steps

Upon approval of the final funding strategy for the Downtown Event and Entertainment District project, City Council and SaskTel Centre board approval would be required to allocate these funds towards the Downtown Event and Entertainment District project.

Risk

A \$30 million allocation from the Property Realized Reserve would mean that only 57% of the land purchases made for the Downtown Event and Entertainment District (\$70.5 million) would be repaid to the reserve. It is anticipated that the Property Realized Reserve would still be healthy with a projected balance of \$50 to \$70 million once repaid. However, with the increasing cost of land for future development, there is a risk that Saskatoon Land would need to reprioritize purchases, and future land acquisitions may be impacted due to insufficient balances.

A \$500,000 annual contribution from SaskTel Centre over the first six years of the funding strategy is predicated on SaskTel Centre continuing to generate modest profit for the City and assumes this funding stream would be activated at least six years in advance of the new event centre/arena becoming operational. Should the annual contribution not be achieved, the term could be extended. Should the term need to be shortened, an increased annual target could be selected.

Alternatives

There are no available alternatives.

Private Partner Contribution

Estimated One-Time Funding

- \$20 million.

Estimated Annual Funding

- Revenue sharing contribution to the City of approximately \$150 million over 25 years.

Key Assumptions

- Annual funding is estimated as a projection of the City's portion of the net revenue share for the event centre/arena and convention centre, and after all applicable fees, annual capital improvements, and property insurance.

Next Steps

Upon approval of the Agreement Framework, the Administration would continue negotiations with the private partner and complete execution of a Master Agreement in accordance with the Agreement Framework terms.

Risk

Subject to City Council's approval of the Agreement Framework, successful negotiations are still required to achieve a detailed Master Agreement. Even with a Master Agreement in place, there is a risk that the private partner may terminate the agreement if the project does not proceed to detailed design and construction within a reasonable number of years.

Alternatives

The new venues could be operated under the same models as used at the existing SaskTel Centre and TCU Place. While the new venues will feature several amenities that are expected to greatly improve the revenue generation potential compared to the existing venue, there would be no private upfront capital contribution with this approach, and a performance incentive structure would not apply within a contract framework, as it would with what is being negotiated with the private partner.