Financing Options – New or Renovated Arena and Convention Centre

Recommendation
That the report of the CFO/General Manager, Asset and Financial Management Department, dated November 13, 2018, be received as information.

Topic and Purpose
The purpose of this report is to provide information to the Governance and Priorities Committee on the financing options available for a potential new or renovated arena and convention centre. It is not intended to provide a funding strategy for such a project, but to provide high-level information regarding what may or may not be possible. In addition, this report considers other similar major projects and the funding models for information.

Report Highlights
1. In cities without National Hockey League or major league professional teams, on average, about 60% of the funding for arenas or stadiums since 2005 has been funded by the municipality.

2. A number of convention centres have been built in Canada since 2010, and on average, about 25% of the funding came from the municipality.

3. Funding of large arena, stadium or convention centre projects include various sources of funds; however, borrowing remains the largest component.

4. The consultant's report from the study commissioned by the Boards of TCU Place and SaskTel Centre identified several approaches that have been used to augment public-sector funding for new/expanded venues which may or not be possible in the current legislative environment in Saskatchewan.

Strategic Goals
This report touches on many of the Strategic Goals including Asset and Financial Sustainability, Quality of Life, and Economic Diversity and Prosperity.

Background
TCU Place and SaskTel Centre serve the population of Saskatoon and visitors to the city, and are nearing the end of their useful lives. The Boards of TCU Place and SaskTel Centre jointly commissioned a study to complete a building condition assessment as well as an over-arching market, financial and economic analysis with options for expanded or new venues.

cc: Bob Korol, CEO, TCU Place
Will Lofdahl, CEO, SaskTel Centre

When considering the findings of the study that were presented on March 19, 2018, the Governance and Priorities Committee resolved that the Administration report back with respect to its perspective on this matter.

In the discussion at that meeting, it was suggested that financing options be presented by the Administration, but not a specific strategy, in order to understand what might be possible to limit the impact on the property tax.

In regard to the findings of the study, the consultant recommended replacement of these facilities on a downtown site rather than renovation of existing facilities in their current locations. The study also concluded that demand exists to support future operations of both TCU Place and SaskTel Centre but likely not at levels exceeding, in any meaningful way, the current demand.

The study identified the Saskatoon downtown core to be the ideal location for new or expanded venues, and estimated the capital costs associated with the downtown location (assuming development of both the arena and convention centre) range from $330M to $375M.

In terms of renovation, the consultant estimated that $101M would be required to renovate the existing SaskTel Centre at its current location; however, the cost for total renovation of TCU Place was not provided by the consultant. The consultant assumed TCU Place would remain at its current location and only estimated the necessary repairs and modernization of the theatre at about $18.5M. Therefore, a comparison of total cost of replacement of both facilities to renovation of both facilities was not available in the consultant's report but it would be assumed to be significant.

Report

This report focuses mainly on the available options for funding such a project(s) and is not meant to recommend a specific funding plan or strategy.

<u>Comparisons of Major Canadian Arena or Convention Centre Projects</u>

There have been a variety of arena or convention centre projects in Canada over the past number of years, which are identified in the report commissioned by the Boards. In Section 9 of the report, a one-page summary compares these projects (Attachment 1). It should be noted that the debt column is blank in this table. However, in order to use tax incremental funding (TIF), ticket surcharges or other taxes to fund the project, debt is required for the capital expenditure and then these sources of revenue are used to repay the debt. In discussions with the consultant, the debt column should have been relabeled as property taxes.

The study reported that for most part, funds for major sports arenas and convention centres, with the exception of a few National Hockey League (NHL) arenas, come from one or more levels of government. Arenas and stadiums have most often been funded at the local and provincial level, with limited federal involvement (except where an international sporting event such as Olympic and Pan Am Games are involved). This approach differs markedly from that in the United States where the majority of similar venues have been principally funded through public bond offerings, except in the cases of venues with professional sports teams.

Canada's larger convention centres, such as in Toronto, Montreal and Vancouver, are provincially owned and majority financed. Smaller and mid-scale convention centres, including Regina, Calgary and Edmonton, are generally a municipal responsibility.

Based on the consultant's data, there is a significant difference in the municipal share of funding for arenas in cities with NHL teams compared to cities without NHL or major professional teams. On average, about one third of the funding comes from the municipality, and in three of the larger cities in Canada (Vancouver, Montreal and Ottawa), there was no municipal funding (see table below).

Name	City	Year	City	Prov	Fed	Private	Total	City %
NHL Cities:								
MTS Centre	Winnipeg	2004	40.5	0.0	0.0	93.0	133.5	30.3%
Saddledome Calgary	Calgary	1993	31.5	31.5	34.7	0.0	97.7	32.2%
Rogers Centre (GM Place)	Vancouver	1995	0.0	0.0	0.0	160.0	160.0	0.0%
Bell Centre (Molson Centre)	Montreal	1996	0.0	0.0	0.0	270.0	270.0	0.0%
Canadian Tire Centre (Corel)	Ottawa	1996	0.0	27.0	0.0	143.0	170.0	0.0%
Rogers Place	Edmonton	2016	351.0	0.0	0.0	132.5	483.5	72.6%
			423.0				**1,314.7**	**32.2%**
Non-NHL Cities								
Videotron Centre	Quebec City	2015	185.0	185.0	0.0	0.0	370.0	50.0%
Tim Hortons Field	Hamilton	2015	54.3	22.3	69.1	0.0	145.7	37.3%
Mosaic Stadium	Regina	2017	173.0	80.0	0.0	25.0	278.0	62.2%
Save-On Foods Arena	Victoria	2005	28.0	0.0	0.0	0.0	28.0	100.0%
WCFU Centre	Windsor	2008	60.1	0.0	0.0	0.0	60.1	100.0%
TBD	Moncton	2018	92.0	21.0	0.0	0.0	113.0	81.4%
			592.4				**994.8**	**59.5%**
Renovation Projects Only								
BMO Field	Toronto	2007	9.8	8.0	27.0	18.0	62.8	15.6%
TD Place	Ottawa	2015	130.0	0.0	0.0	0.0	130.0	100.0%
Convention Centres								
International Trade Centre	Regina	2017	15.0	11.0	11.0	0.0	37.0	40.5%
Vancouver Convention Centre	Vancouver	2010	120.0	540.0	222.0	0.0	882.0	13.6%
Shaw Centre	Ottawa	2011	81.0	60.0	50.0	0.0	191.0	42.4%
Scotiabank Convention Centre	Niagara Falls	2011	30.0	35.0	35.0	0.0	100.0	30.0%
RBC Convention Centre	Winnipeg	2016	84.0	51.0	47.0	0.0	182.0	46.2%
Halifax Convention Centre	Halifax	2018	58.9	58.9	51.4	0.0	169.2	34.8%
			388.9				**1,561.2**	**24.9%**

The most recent major project that has garnered attention is Rogers Place in Edmonton. While the consultant only shows $81M as municipal funding, an additional $270M identified as TIF and ticket surcharges still need to be considered municipal funding in which debt is required for the capital expenditure and these sources of revenue are used for repayment of this debt. It is true that no existing or new property taxes are required for the repayment of the $270M; however, it is the City of Edmonton or its controlled corporation that controls and approves the use of incremental property taxes of $145M resulting from the new development for the repayment of the debt, as well as $125M in ticket surcharges over a period of 30 years.

In cities without NHL or major league professional teams, on average, about 60% of the funding for arenas or stadiums since 2005 has been by the municipality. Two of the main reasons for this is the lack of key major tenants such as a professional team or the lack of federal government funding for such projects. Even under the new federal infrastructure funding programs, arenas and stadiums are not an eligible project for use of these funds. This shifts the burden to the provincial and municipal levels of government for capital funding or other sources.

A number of convention centres have been built in Canada since 2010, and on average, about 25% of the funding for these projects comes from the municipality. The other levels of government are more likely to contribute to these projects since there is more of a perceived community and social benefit from such facilities, and generally, these facilities are not significant profit generators. Of the six convention centres identified in the consultant's report, the funding between the three levels of government are very close to being equal. There are no private contributions for such facilities.

One combined arena and convention centre project to take a closer look at is south of the border in Des Moines, Iowa. It is a joint arena/convention centre facility in a city that does not have a major professional sports team. The city's population is nearly 218,000; however, the metropolitan area has nearly 635,000 people. Its sports teams include an American Hockey League team, a National Basketball Association G League team (minor NBA team) and an indoor Arena Football League team.

In conversation with Polk County officials, the majority of the $217M project was financed through debt (bonds). However, the County is in a unique situation where it owns land on which a casino operates and receives a share of profit which is being used as a repayment stream on the debt. Therefore, property tax increases were not required for the debt repayment. In terms of operating, similar to Saskatoon, most of the revenues generated from the arena comes from concerts and not their sports teams. The arena does generate enough annual profit to offset operating losses on its convention centre.

<u>Funding Options Discussion</u>

Funding of large arena, stadium or convention centre projects includes various sources; however, borrowing remains the largest component. The principal and interest to repay these loans are raised through existing, or most often increased or new dedicated taxation, or taxes on hotel room stays, rental cars, taxis, etc. The approach to raising capital funds through increases to general sales tax or hotel taxes also permits the creation of reserve funds in jurisdictions where this is allowed. The discussion that follows considers what may or may not be possible in Saskatoon's situation.

The consultant's report identified several other approaches that have been used to augment public-sector funding for new/expanded venues. However, most of these are related to borrowing and how to repay the debt such as:

- ticket surcharges;
- tax incremental financing;
- business improvement levies;

- tourism taxes; and
- naming rights/sponsorship.

Ticket Surcharges (Amusement Taxes)

Currently in Saskatchewan, a municipality cannot charge an indirect tax (such as PST or GST) unless the particular type of tax is specifically permitted within legislation. An amusement tax would be considered an indirect tax. *The Cities Act* (the *"Act"*) permits this type of revenue collection.

The *Act* provides the City with broad authority to, by bylaw, charge an amusement tax. The tax can be targeted to a particular venue and may be a set amount or vary as a percentage of the ticket price. Given the wording of the *Act*, it would be possible to have a ticket surcharge for events at one facility.

For example, the City of Regina instituted an amusement tax on tickets for the new Mosaic Stadium and imposed a $12 facility fee per game ticket. This is projected to provide a revenue stream of $100M towards the facility over the span of 30 years.

Tax Incremental Financing (TIF)

The *Act* provides that the City can establish, by bylaw, a TIF program that would encourage investment or development in a specific area. This section is relatively new to the *Act* being brought into force in 2007. Saskatchewan legislation provides an expansive definition of what the funds could be used for and a new arena/convention centre facility would qualify for a TIF program.

As per Section 281.1 of the *Act*, the program would define the boundaries of a geographical area and essentially set a baseline of the property taxes levied in the area, and then for a set period of time, place the incremental taxes in a reserve that can be used to:

(b)(i) benefit the area by acquiring, constructing, operating, improving and maintaining works, services, facilities and utilities of the city;

(ii) repay borrowings associated with activities undertaken pursuant to subclause (i);

(iii) fund a financial assistance program for persons who invest in developing or constructing property in the area; or

(iv) give financial assistance to persons who invest in developing or constructing property in the area; or

(c) for any other matter consistent with the purpose of the program that the council considers necessary or advisable.

This is a valuable tool for brownfield areas that need redevelopment as the incremental assessment values from the redevelopment and associated taxes have the greatest opportunity for growth. Using this tool in an area that has already undergone a significant amount of redevelopment in the surrounding area may not be as beneficial as the redevelopment has already occurred; therefore, there is less opportunity to capitalize on further development.

In Alberta, the Community Revitalization Levy (CRL) is exactly the same as a TIF. However, there is one key advantage that the CRL has over the Saskatchewan TIF, namely, the Alberta CRL enables the full amount of incremental property taxes levied to be used to help pay for the redevelopment. The Saskatchewan legislation appears to limit the incremental property taxes levied to just the municipal portion, which is only about 45% of the total. This obviously increases the time to collect the same amount of funds by over double the period compared to the CRL. A legislative amendment to the *Act* would be required in order to include the education and/or library portions of the property tax to the TIF program. Without this additional portion of taxes in the TIF program, the financing business case is significantly weakened.

<u>Adding Levies to a Business District</u>
The ability to impose a levy on a business district is prescribed by Section 26 of the *Act* and is somewhat limiting. Section 26 provides that the revenue and expenditure estimates of the Business Improvement District (BID), once approved by City Council, constitute the 'requisition' of the BID. Also, the foundational bylaw for each BID provides a limit on what they can do in the purpose statement. Basically, the permitted expenses are set out. It is interesting that the Downtown BID can contribute to a downtown revitalization project, so presumably part of the levy or requisition could be used for a new facility if the BID wanted to contribute in this way. The Riversdale BID contains no such project in its purpose statement, and the bylaw would need to be amended to permit any such contribution.

The BIDs have not been consulted in advance of writing this report, and if any such program was further considered, this consultation would need to be undertaken.

<u>Indirect Taxes (e.g., Tourism Taxes, Consumption Taxes)</u>
In provinces with legislated hotel taxes, portions of these funds have been diverted to capital cost. For example, Tourism Vancouver, the recipient of hotel tax revenue in the city, committed to an annual funding stream as part of the Vancouver Convention Centre capital commitments.

With respect to Saskatchewan, indirect taxes are currently not allowed under the *Act*. New municipal indirect or consumption taxes such as a food and beverage tax, tourist tax, hotel tax or taxes on rental vehicle or taxis could not be imposed without an amendment to the *Act.*

With respect to hotels, Saskatoon currently has a voluntary destination marketing fee of 2% added to the hotel bill. These funds are used to promote Saskatoon through marketing and tourism campaigns, but there is no legislative foundation for this fee.

<u>Naming Rights and Sponsorship Opportunities</u>
This approach is more common for sports facilities than convention centres, but has recently become more common and may be in the range of $200,000 to $400,000 per annum. As identified by the consultant, major professional arenas command significant sums (with the recent Scotiabank/Maple Leaf Sports and Entertainment deal for $800M setting a new standard). As stated in the consultant's report, "A more realistic expectation in smaller market communities ranges between $300,000 and $500,000."

In terms of capital contributions acquired through the sale of naming rights or other sponsor opportunities in Saskatoon, this can be done and is the approach that the Friends of the Bowl Foundation utilized for the revitalization of the Gordie Howe Bowl complex. Council Policy No. C09-028, Sponsorship, is currently being revised and modernized, but this work is in the preliminary stages. It includes the naming rights and other sponsorship sections. The intent of the policy revisions is to maximize revenue for various existing or prospective civic projects.

Currently, naming rights and sponsorships are in place with TCU Place and SaskTel Centre and are used to help offset annual operating expenses. Reallocating these to pay for capital or debt repayment adds pressure to the operating financial performance of these facilities.

It is also common in naming rights agreements to have a service element defined. For example, TCU Place has the name on the facility for a fee, but within the agreement, the venue is also expected to use the services of the sponsor.

Of interest, the new Mosaic Stadium financial plan for its construction attributed $15M of the $278M project to advertising and sponsorships, or $500,000 per year.

<u>Parking Revenues</u>

Depending on the parking facilities or parking area, fees can be charged at different rates and used to help contribute to the repayment of capital debt. For example, this is being done for the River Landing Parkade where parking revenues, over and above the operating costs, are used to repay a portion of the debt of the parkade construction. There are no provisions within the *Act* that would limit the City's ability to do so, and could use revenue and direct it in any fashion that City Council deems appropriate. The one caveat is that at present, the BIDs receives a portion of this parking revenue and any changes to this would require a policy decision.

<u>Other Options for Capital Funding</u>

Other options for capital funding include upfronting capital through a contribution from suppliers, which has been suggested by the consultant.

This approach provides the ability to have some of the capital expenditures attributable to a service provider or supplier (e.g., kitchens, bars, freezers, etc.) paid in advance, based on the anticipated revenue by suppliers to a convention centre or arena. This approach has been common for consumables (e.g., pouring rights), but less so for services such as telecommunications. While this is likely possible, ensuring a fair and equitable procurement process could be a challenge. This approach is a form of sponsorship but with a business agreement that would see the supplier obtaining a commitment of business from the new facility.
Attachment 2 also identifies additional options to consider for capital funding. Further investigation of these options would be required once direction has been determined on the future of the facilities, but include:

- tenant contributions (direct cash contribution);
- other government contributions;

- partnerships to co-develop;
- use of internal reserves;
- private donations and fundraising;
- reallocation of proceeds from the sale of existing land and buildings should they relocate; and
- use of Private-Public Partnerships (P3).

Next Steps

As indicated in the consultant's report, both facilities are reaching the end of their useful lives and cost of maintenance, upgrades and replacement of aging or outdated building components and systems "appear to be increasing rapidly." Their ability to compete in the marketplace for events, conventions and concerts is of increasing concern.

The need to address some of these concerns, while not a critical point, will become increasingly important. This will require a decision to further invest in the existing facilities or make an investment in the replacement of the facilities at the same or alternative location. Once this decision is made, a great deal of work will be required to plan, fund and implement the update, and upgrade or replace these facilities.

Public and/or Stakeholder Involvement

The Chief Executive Officers of TCU Place and SaskTel Centre were consulted and involved in the preparation of this report.

Financial Implications

Financial implications are included in the body of this report.

Due Date for Follow-up and/or Project Completion

A report will be presented to the appropriate Standing Policy Committee or City Council as required.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. Comparative Data – Consultant's Report
2. Financing Options for the City of Saskatoon

Report Approval

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