MARKHAM

Report to: General Committee

Date Report Authored: April 19, 2012

SUBJECT: Proposed Markham Sports, Entertainment, and Cultural Centre in Markham Centre

PREPARED BY: Mark Visser, Sr. Manager, Financial Strategy & Investments

RECOMMENDATION:

1. THAT the report entitled "Proposed Sports, Entertainment, and Cultural Centre in Markham Centre" dated April 19, 2012 be received; and,

2. THAT Council approve the partnership and financial frameworks described in this report, to construct a Sports, Entertainment and Cultural Centre in Markham Centre, with approximately 20,000 seats, subject to due diligence results satisfactory to the Chief Administrative Officer, Council approval of final terms, and execution of final agreements satisfactory to the Town Solicitor and Chief Administrative Officer; and,

3. THAT Council endorse the development contribution amounts as outlined in this report; and,

4. THAT the Chief Administrative Officer be authorized and directed to continue with due diligence investigation and to finalize negotiations with GTA Centre, LP and its limited partner(s) and bring a report forward to Council on the final terms; and further,

5. THAT staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

Markham has been offered a unique opportunity to partner on a Sports, Entertainment & Cultural Centre ("the Centre") to be located in Markham Centre. The proposal is for a Private Sector Group to fund 50% of the construction costs, estimated to be $325 million for hard, soft and other costs, exclusive of construction financing. The Centre will be constructed on Markham-owned land and owned 100% by Markham.

PURPOSE:

To obtain Council approval to proceed with the Markham Sports, Entertainment & Cultural Centre under the partnership and financial frameworks as outlined in this report.

BACKGROUND:

Markham has been approached by a Private Sector Group to partner on a Sports, Entertainment & Cultural Centre, with approximately 20,000 seats (665,000 sq ft), to be located in Markham Centre. The Centre is to be located on an approximate 6 acre parcel of land situated west of the Unionville GO station, on the north side of the 407 corridor.

Because of its proximity to major transportation corridors and its central location within the Greater Toronto Area (GTA), Markham Centre is an ideal location for a major multi-use event facility, to host:

- Concerts
- Civic and cultural celebrations
- Sporting Events
- Trade shows/Conventions
- Community Use

Private Sector Group

The Private Sector Group is headed by W. Graeme Roustan, and financially backed by the Remington Group Inc. ("Remington"), a major developer within Markham. The Private Sector Group has established relationships with a team comprised of architects, builders, event promoters, and facility managers that have been active in this project since it was proposed to Markham. The following is a summary of some of the key players in the Private Sector Group:

W. Graeme Roustan, GTA Centre, LP

- GTA Sports and Entertainment ULC
- GTA Centre, LP

Rudy Bratty, Remington Group Inc.

- Remington is a major residential and commercial developer in the GTA and particularly Markham Centre, one of the largest LEED certified developments in North America
- Remington owns and manages a highly visible portfolio of commercial, office and retail space comprising over two million square feet, largely within the GTA

BBB Architects

- Architecture firm with a resume of high profile projects (Air Canada Centre, Rogers Arena, Madison Square Gardens, GM Place)

PCL Construction Leaders

- A group of independent construction companies which carry out diverse operations in the civil infrastructure, heavy industrial, and buildings markets (Air Canada Centre, Rexall Place, STAPLES Center)

Global Spectrum

- Provides management, marketing, operations and event booking services for public assembly facilities, including: arenas, civic and convention centres, stadiums, ice facilities, equestrian centres and theatres

Live Nation Entertainment

- One of the largest live entertainment companies in the world

Other Consultants in the Private Sector Group include Stadium Consultants International (Design Consultants), Arena Design Services (System Designers), Adamson Associates (Site Planners), Calthorpe Associates (Urban Planners), and the Devon Group (Communications).

Parking, Transportation and Transit

In addition to Markham staff's review of the proposed site, Genivar was retained to conduct a traffic and parking assessment. The findings of the reviews were as follows:

- Site has good accessibility and exposure for the proposed use
- Major transit improvements are planned for the area
- Road network improvements are also planned
- Transportation and parking issues will need to be managed for major events
- Use and site location are compatible with emerging plans for Mobility Hub area
- Estimated 4,400 parking spaces will be required
- Interim surface parking will need to transition to structured parking as Markham Centre lands develop

OPTIONS/ DISCUSSION:

The current proposal is a partnership with GTA Centre, LP, in which Markham and the Private Sector Group will each contribute 50% of the construction costs (estimated to be $325 million for hard, soft and other costs, exclusive of construction financing) with Markham owning the Centre upon completion.

Proposed Project Structure

GTA Centre, LP will enter into a lease with Markham and into contracts to design, build and finance the Centre for a fixed price. Markham will own the Centre and will borrow the required funds for reimbursement to GTA Centre, LP upon completion of construction. The Centre will be designated as a Municipal Capital Facility (MCF) by by-law. Additional details of the project structure require further due diligence and will be reported back to Council at a future date.

FINANCIAL CONSIDERATIONS AND TEMPLATE

Under the proposed project structure, Markham will be responsible for funding $162.5 million of the construction costs. The expectation is that Markham will repay the debt within 20 years using the following funding sources:

Lease Payment
GTA Centre, LP will pay Markham a negotiated annual lease payment.

Ticket Surcharge
A ticket surcharge, payable to Markham, will be added for most sporting, entertainment, and cultural events.

Parking Revenue
A traffic consultant (Genivar) determined there is a need for 4,400 spaces around the Centre. There will be a requirement for paid parking for major events around the Centre, which will generate revenue.

Section 37
Section 37 of the Planning Act is a tool that allows municipalities to grant an increase in height and/or density ("uplift") to a development in return for additional services, facilities and matters from the owner of the development. It is proposed that a portion of Section 37 payments be allocated towards servicing the debt on the Centre. The remainder of Section 37 payments will still be available for other projects within the municipality.

Tax Increment Financing (TIF)
The Tax Increment Financing (TIF) Act was adopted by the Province of Ontario in 2006 as a component of Bill 151. TIF refers to the allocation of incremental taxes to help fund the cost of specific development activities. When a property is rehabilitated or improved, the value of the property will increase with a corresponding increase in property taxes above a pre-development baseline and some or all of this tax increment could be used to support specific development activities.

The TIF Act is prescriptive in terms of the types of projects that would qualify and this project does not meet the Provincial TIF guidelines. However, it is proposed Markham implement a similar approach and apply the Markham-only portion of the non-residential property tax uplift in Markham Centre to service the debt. It is believed that the Centre will accelerate non-residential development in Markham Centre.

Development Contributions
Markham has established a framework with the following contribution rates:

Outside Markham Centre
- Singles and semis $5,000/unit
- Townhouses $4,000/unit
- Condos/Apartments $2,000/unit

Markham Centre
- Condos/Apartments $4,500/unit
- Townhouses $6,500/unit

The rates set out above will be indexed annually commencing March 1, 2013 and be phased-in over the first year, until March 1, 2013.

Financial Framework Summary

Applying the above revenue sources to the project, Markham will be able to service $162.5 million of debt (assuming 20 year borrowing at 4.6%).

Sources of Funds

Under the financial framework, over 90% of the $325 million Centre will be privately funded. Markham's share of the funding is from Section 37 and TIF. These proposed sources of funding will not necessitate an increase in the property tax rate.

Consultants' Review

Markham engaged consultants to validate the feasibility of the Financial Framework as well as the appropriateness of Markham's proposed contribution.

Financial Framework Review

The financial framework model was reviewed and endorsed by John McNeil, President of BDR, a Canada-based consulting firm specializing in Mergers and Acquisitions, and Business and Strategic Planning.

Economic Impact Review

Markham determined, through the Province's Tourism Regional Economic Impact Model (TREIM), the economic impacts of a new Sports, Entertainment & Cultural Centre in the GTA. The economic benefits (assuming 130 annual events and 780,000 annual attendees) were determined to be:

- 600 construction jobs over two years to build the Centre
- 886 post-construction jobs – ongoing, permanent
- $13.2 million provincial taxes annually
- $61.1 million GDP annually - includes $14.8 million retail, food & beverage, accommodation

Markham also engaged Dan Mason, Ph.D. who consulted for the City of Edmonton on their downtown arena project and Brad Humphreys, Ph.D., Professor of Economics at the University of Alberta, who has testified twice before the US Congress on the economics and the implications of public financing of sports facilities.

Mason and Humphreys applied "The Benefit Principle" in their review of the Centre proposal. The principle is based on the idea that if public funds are used to build an arena, the people who supply the funds should get benefits equal to the value of funds provided. Their research indicates that building such an event facility does not generate significant tangible economic benefits for cities since the activity at the Centre is not necessarily new activity, but rather displaced from another entertainment option. However, they did make the case that Markham could receive tangible economic benefits from residents who would have spent money outside Markham if there was no Centre in Markham, and from residents of other municipalities who will come to Markham to attend events at the Centre. Their research also indicates that there will likely be an increase in property values and demand for residential properties within the vicinity of the Centre.

In addition, Mason and Humphreys indicated the Centre would provide substantial intangible benefits to Markham in the form of more local entertainment options, sense of civic pride, a heightened sense of community, "putting Markham on the map," and prestige for residents. They estimated the intangible benefits to Markham would be between $28 and $56 million.

Mason and Humphreys looked at how Markham plans to service its debt and determined, based on previous studies using a Contingent Valuation Method approach, that Markham's proposed contribution level is appropriate based on benefits the Centre will provide to Markham and its residents, and how the debt will be serviced.

Summary

It is recommended that Council approve the partnership and financial framework described in the report to establish a Sports, Entertainment and Cultural Centre in Markham Centre, subject to satisfactory due diligence, Council approval of final terms, and execution of final agreements satisfactory to the Town Solicitor and the Chief Administrative Officer.

RECOMMENDED BY:

Catherine M. Conrad
Town Solicitor

Joel Lustig
Treasurer

Andy Taylor
Chief Administrative Officer