TORONTO STAFF REPORT

September 5, 2006

To: Policy and Finance Committee

From: Brenda Librecz, General Manager, Parks, Forestry and Recreation
Joseph P. Pennachetti, Deputy City Manager and Chief Financial Officer

Subject: Long Term Sub-Lease of 400 Kipling Avenue to Lakeshore Lions Arena Inc. and Capital Loan Guarantee (Ward 6 - Etobicoke-Lakeshore)

Purpose:

To seek authority to enter into a long-term sub-lease and capital loan guarantee with the Lakeshore Lions Arena Incorporated (the "Lakeshore Lions") for the property at 400 Kipling Avenue to faciliate the development of a new four-pad arena complex. This report responds to the directions of Council to negotiate and facilitate the development of this multi-pad arena facility at the site.

Financial Implications and Impact Statement:

Adoption of the sub-lease and the capital loan deficiency guarantee agreement will result in a capital investment of $29 million for a new four-pad arena complex located on land subject to a fifty year ground lease between the Toronto District School Board (TDSB), as landlord, and the City, as tenant. The facility will be funded and operated by the Lakeshore Lions. Upon expiry of the ground lease, the land and facility would revert to the TDSB.

Project Benefits:

Lakeshore Lions Club is a not-for-profit organization that has been active since 1931. Through their successful operation of the single-pad arena at the Gilbey site, they have contributed almost $4 million to the community over the past 55 years of operation. Due to the age of the facility, and the improvements necessary to continue to be the practice facility for the Toronto Maple Leafs and Marlies, as well as to provide opportunities to host other major events, a four-pad complex with an Olympic-sized rink is proposed. Such a complex provides the following community and City-wide benefits:

- addressing an under-supply of ice time;
- access and reduced rates for City and TDSB use of the facility;
- community use and continued charitable contributions;

- land rent to the City of 15% of gross revenues from years 35 to 50 once the debt is retired; and
- an energy efficient design.

Financing Terms:

The Lakeshore Lions have commitments from third party financiers for a $10 million 10-year renewable interest-only floating-rate facility at 0.75% below bank prime plus 0.25% agents fee, and a $19 million 35-year fixed–rate amortized (principle and interest) loan facility at 1.1% above the yield on the Government of Canada 30-year benchmark bond plus 0.25% agents fee. However, theses financing facilities are conditional upon a loan guarantee between the City, the Lakeshore Lions and its lending institution. In order to mitigate the financial exposure of the City with respect to the long-term fixed rate loan, staff recommend that the rate to be secured by the Lakeshore Lions and guaranteed by the City not exceed 1.0% above the yield on the Government of Canada 30-year benchmark bond, inclusive of agents fee, commensurate with the City’s loan guarantee and credit rating, and that this loan agreement include a provision for renewal or early retirement, at the City’s option and without any prepayment penalties, at the end of year 10 and year 20 of the loan.

The estimated total financial obligation of the $19 million 35-year fixed rate loan, including interest payments assumed at current proposed rates, is $46 million, and the estimated total financial obligation of the floating rate loan, including interest payments, assuming current rates and repayment by year 20, is $17 million. The loan guarantee will add to the City’s total debt and financial obligation limit and will be required to be recorded as a contingent liability in the City’s Financial Statements. As a result, an offsetting reduction in the capital debt target of City programs may also be required in the future should the City have to assume the liability of the loan.

Sensitivity Analysis:

On the basis of the business pro-forma provided by the Lakeshore Lions, the arena operations should be self-sufficient to retire the debt on the facility over the 35-year loan period. The pro-forma forecasts a first-year operating deficit of approximately $130,000, followed by net operating profits averaging $408,000 in years two through five. The Lakeshore Lions have offered they have $500,000 of its own funds that could be dedicated toward any operating deficits. Staff recommend that the Lakeshore Lions provide the City a letter of credit in this amount to ensure that some of their own funds are available to offset possible deficiencies.

In the event that pro-forma revenue projections are not met, the arena operations may result in a financial deficit. Under the loan guarantee, the City would then be obligated to fund such deficits at levels adequate to service the debt until such time that the funding deficiency is remedied by the Lakeshore Lions or the City assumes or reassigns the responsibility for the continued operation of the facility. A sensitivity analysis of the outcomes of revenue/expense risk is shown in the following chart:

Project Cash Flow Sensitivity Analysis

Cumulative Position - First 5 Years of Operation
At Revenue and Expense Levels varied from Forecast

Revenue Level	100%	100%	90%	90%	85%
Expense Levels	100%	110%	100%	110%	110%
Revenues	$21,032,176	$21,032,176	$19,278,855	$19,278,855	$18,402,195
Expenses	($9,645,763)	($10,567,524)	($9,645,763)	($10,567,524)	($10,567,524)
Net Operating	$11,386,413	$10,464,652	$9,633,092	$8,711,331	$7,834,671
Debt Service	($10,561,379)	($10,282,619)	($10,003,457)	($9,821,366)	($9,821,366)
Net Income - 5 yrs	$825,034	$182,033	($370,365)	($1,110,035)	($1,986,695)
Avg Annual net income (loss)	$165,007	$36,407	($74,073)	($222,007)	($397,339)

*Note debt service includes required debt obligation payments plus additional early repayment debt servicing amounts. In the event of operating deficiencies, optional early repayment amounts would be reduced or foregone.

The sensitivity analysis listed above shows that a negative variance of 10% on revenues from those forecasted, would result in deficits throughout the first 5 years of operations of the arena complex. Combined negative variances from forecasted levels beyond 10% of revenue and/or expenses would produce larger net income losses (deficits).

Risk Mitigation Measures:

Given the sensitivity of the Lakeshore Lions business proforma to revenue, market demand, expenditure, interest rate, and tenant risk, staff are recommending a number of conditions precedent to the City entering into the proposed capital loan guarantee agreement. These requirements are summarized as follows:

- a $0.5 million letter of credit to the City;
- all operating surpluses of Lakeshore Lions, commencing in year 3 of operations, be directed toward the repayment of principle portion of the floating rate loan;
- establishment of a fixed-rate loan deficit reserve, to be funded from all operating surpluses of Lakeshore Lions, commencing upon retirement of the floating-rate loan noted above, to an amount sufficient to retire any remaining balance on the fixed-rate loan;
- the interest rate to be secured by the Lakeshore Lions and guaranteed by the City not exceed 1.0% above the yield on the Government of Canada 30-year benchmark bond, inclusive of agents fee, commensurate with the City’s loan guarantee and credit rating; and
- the loan agreement include a provision for renewal or early retirement, at the City’s option and without any prepayment penalties, at the end of year 10 and year 20 of the loan.

Policy Exception:

Approval of the $29 million loan guarantee will require an exception to Council's existing Policy for Capital Loan and Line of Credit Guarantees for Cultural and Community Organizations, as amended in February 2005, which sets that the total amount of all financial guarantees provided by the City be limited to $10 million.

Recommendations:

It is recommended that:

(1) Council authorize the execution of a long-term sub-lease to be entered into with the Lakeshore Lions for the property at 400 Kipling Avenue, to facilitate the development of a new four-pad arena complex substantially on the terms and conditions outlined in Appendix "A" to this report and on such other terms and conditions as are acceptable to the Chief Corporate Officer and the General Manager of Parks, Forestry and Recreation and in a form acceptable to the City Solicitor;

(2) subject to Council approval of Recommendation No. 1 above, authority be granted for the execution of a capital loan guarantee agreement, also described as a loan repayment deficiency agreement, for a principle amount not to exceed $19 million for the fixed-rate loan facility, amortized over a 35-year term but renewable at year 10 and year 20 at the City's options as detailed in 2(iv) below, and for a principle amount not to exceed $10 million for the floating rate loan facility, and authority be granted to enter into any other such other agreements or documents between the City, the Lakeshore Lions and the Lakeshore Lions financial institution(s) as may be required, desirable or necessary in relation to the financing arrangement to facilitate the construction of the four-pad arena at 400 Kipling Avenue, on terms satisfactory to the Deputy City Manager and Chief Financial Officer, the General Manager of Parks, Forestry and Recreation, and the City Solicitor, and subject to the following:

   i) The capital loan guarantee be deemed to be in the interest of the City;

   ii) the Lakeshore Lions be required to provide the City with an irrevocable letter of credit, or similar security acceptable to the Deputy City Manager and Chief Financial Officer, in the amount of $0.5 million for the purposes of funding any debt service deficiencies associated with the project for the duration of the loan term;

   iii) the agreement between the City, the Lakeshore Lions, and their design-build guaranteed price contractor be limited to the proposed maximum price of $29 million, inclusive of any applicable taxes, and be to the satisfaction of to the Deputy City Manager and Chief Financial Officer, the General Manager of Parks, Forestry and Recreation, and the City Solicitor;

   iv) the Lakeshore Lions negotiating with their financier an interest rate for the proposed 35-year $19 million fixed-rate debt facility commensurate with the City's loan guarantee and credit rating to a maximum of 1.0% above the yield on the Government of Canada 30-year benchmark bond, inclusive of agents fee, and to the satisfaction of the Deputy City Manager and Chief Financial Officer;

v) the proposed 35-year $19 million fixed-rate debt facility include a provision for renewal or early retirement, at the City's option and without any prepayment penalties, at the end of year 10 and year 20 of the loan, at interest rates again commensurate with the City's loan guarantee and credit rating at those times to a maximum of 1.0% above the yield on the Government of Canada 30-year benchmark bond inclusive of any agents fees, and to the satisfaction of the Deputy City Manager and Chief Financial Officer;

vi) the Lakeshore Lions be required to dedicate on an annual basis, commencing in year 3 of operations, all operating surpluses, after required debt service payments, toward the retirement of the principal portion of the floating rate loan; and

vii) upon the retirement of the floating rate loan facility, the Lakeshore Lions be required to establish and fund a reserve account, funded by all operating surpluses on an annual basis, to cover any debt service deficiencies on any balances remaining on the fixed rate loan for the duration of the fixed rate loan facility to the maximum amount necessary to fully fund the remaining balance on the fixed rate loan;

(3) Council make an exception to its policy for Capital Loan and Line of Credit Guarantees for cultural and community organizations, as amended in February 2005, which establishes the total limit for all loan guarantees to $10 million, to allow for this loan guarantee without affecting the limit of the policy;

(4) in the event that any loan repayment deficiency not be remedied by the Lakeshore Lions within the remedy period,

(i) the Deputy City Manager and Chief Financial Officer be authorized to draw upon the letter of credit up to and including the full amount required to meet any initial loan repayment deficiency not remedied by the Lakeshore Lions; and

(ii) the General Manager of Parks Forestry and Recreation report forthwith to the appropriate Standing Committee(s) relative to any recreational operating deficiencies associated with this arena;

(5) the Chief Corporate Officer and the General Manager of Parks, Forestry and Recreation be authorized to administer and manage the lease agreements, including the provision of any consents, approvals (including approvals in relation to sub-leases), and notices (including termination) provided that the Chief Corporate Officer and General Manager of Parks, Forestry and Recreation may, at any time, refer consideration of any such matters (including their content) to City Council for its consideration and direction;

(6) the City Solicitor be authorized to complete the transaction(s) on behalf of the City, deliver any notices (including termination), pay any expenses and amend the commencement date or other dates to such earlier or later date(s), on such terms and conditions, as she may, from time to time, considers reasonable;

(7) the proposed four-pad arena complex be declared to be a municipal capital facility for the purposes of the municipality and public use pursuant to section 110 on the *Municipal Act, 2001*, and a by-law be passed to authorize the entering into of an agreement for the provision of the facility, and provide for a property tax exemption for the portions of the facility operated or sub-leased by the Lakeshore Lions at 400 Kipling Avenue for charitable and not-for-profit purposes, and request the City Clerk to give notice of the municipal capital facility by-law as required under the *Municipal Act, 2001*;

(8) the by-law referred to in Recommendation (7) exempting the arena complex, or portions of the arena complex, from taxation for municipal and school purposes, which tax exemption is to be effective from the latest of the following dates:

  (i) the commencement date of the lease between the City and the TDSB of 400 Kipling Avenue;
  (ii) the date the municipal capital facilities agreement is signed; or
  (iii) the date the tax exemption by-law is enacted;

(9) authority be granted to enter into a lease termination agreement with the Lakeshore Lions, and if required, the Toronto District School Board and the Lakeshore Lions Arena Corporation, to terminate the lease for the existing arena in the Don Russell Memorial Park on terms and conditions acceptable to the Chief Corporate Officer and the General Manager of Parks, Forestry and Recreation and in a form acceptable to the City Solicitor; and

(10) the appropriate City Officials be authorized and directed to take the necessary action to give effect to the foregoing, including the introduction in City Council of any bills necessary to give effect thereto.

Background:

Don Russell Memorial Park is a 4.484 ha (11 acre) city-owned district park containing major facilities which includes a single-pad ice arena (Lakeshore Lions Arena) and the Gus Ryder Pool and Health Club. The Lakeshore Lions Arena is leased to the Lakeshore Lions for a term of 20 years commencing in 1991 with an option to renew for a further term of 20 years. The TDSB owns a 4.026 ha (9.94 acre) parcel of vacant land, municipally known as 400 Kipling Avenue (also referred to as the Gilbey Site).

In early 2000, City staff were approached by the Lakeshore Lions with an unsolicited proposal to develop a 4-pad area complex to replace the existing single-pad facility at the Gilbey site. At its meeting on February 4, 5 and 6, 2003, City Council approved a report from the former Commissioner of Economic Development, Culture and Tourism related to the potential of the development of a multi-pad arena by the Lakeshore Lions on the Gilbey Site. In May 2004, Lakeshore Lions submitted a preliminary business plan to the City of Toronto outlining its proposal for developing the multi-pad arena. City Council at its meeting of April 12, 13 and 14, 2005, was updated on City staff's discussions with the Lakeshore Lions and the TDSB and, with its adoption of Clause No. 7 of Report No. 3 of the Economic Development and Parks Committee, directed staff to pursue the potential for a land exchange with the TDSB to facilitate the development of the multi-pad arena complex and to undertake technical studies and a precinct planning process in relation to this proposal.

At its meeting of December 5, 6 and 7, 2005, City Council adopted, without amendment, Clause No. 10 of Report No. 10 the Economic Development and Parks Committee, thereby authorizing staff to continue to pursue the potential for a land exchange with the TDSB and to negotiate with the Lakeshore Lions on the business plan, financial aspects, community consultation and community benefits of this project to determine if suitable terms and conditions can be reached.

City Council at its meeting held on January 31, February 1 and 2, 2006, adopted Clause No. 17 of Report No. 1 of the Administration Committee entitled "Declaration as Surplus – Don Russell Memorial Park for the Purposes of a Land Exchange with the Toronto District School Board", and authorized the Chief Corporate Officer to invite TDSB to present an offer to exchange a portion of the City's Don Russell Memorial Park for lands owned by the TDSB.

By its adoption of Clause No.15 of Report No. 4, of the Administration Committee at its meeting on June 27, 28 and 29, 2006, Council authorized the City to enter long-term ground leases with the TDSB for the exchange of the Gilbey Site for a portion of the Don Russell Memorial Park, such lease to be conditional upon the City entering into a sub-lese with the Lakeshore Lions on terms satisfactory to the City. Council further declared the City's leasehold interest in the Gilbey Site surplus to municipal requirements and authorized staff to negotiate a long-term sub-lease with the Lakeshore Lions and report back to the Administration Committee on the result of such negotiations and for approval of the proposed terms.

Comments:

The Lakeshore Lions is a corporate entity established by the Lakeshore Lions Club, a non-profit service club that has been active since 1931. Members of the Lions are community volunteers who abide by a constitution that calls for civic-minded philanthropic activities. The Lakeshore Lions have successfully operated the Lakeshore Lions Arena on a City-owned property and have never requested operating funds from the City during that time. This long standing relationship has not only provided sound operation of the arena, but the Lakeshore Lions Club has contributed almost $4 million to the community over the past 55 years of operation.

Pursuant to Council direction, negotiations between the City, the Lakeshore Lions, and the Toronto District School Board (TDSB) have been completed resulting in the recommended 50-year less a day sub-lease of 400 Kipling Avenue to facilitate the potential development of a new four-pad arena complex on the Gilbey Site substantially on the terms and conditions outlined in Appendix "A" to this report and in a form acceptable to the City Solicitor.

The negotiations have been complex. The original concept of an exchange of title to the parcels owned by each of the City and the TDSB, without the payment of additional compensation, was not acceptable to the TDSB. Instead, the TDSB will enter into a 50-year ground lease with the City for the TDSB lands upon which the facility will be constructed, and in turn the City will sub-lease the land to the Lakeshore Lions for a 50-year less a day term. A 50-year term was selected for the leases as a longer term would result in land transfer tax liability for this transaction. At the end of the 50-years, the land and structure will revert to TDSB, unless an extension is negotiated.

1. Facility Features:

The Lakeshore Lions propose to build a 262,000 square foot arena facility containing four ice pad surfaces and ancillary uses on the site to be sub-leased from the City. The proposed facility would contain the following components:

- three NHL regulation sized ice pads (85 x 200 feet each) with limited seating;
- one Olympic sized ice pad (100 x 200 feet) with seating for 2,500 spectators and expandable to 4,000 spectators;
- 24 dressing rooms (6 per ice surface)
- 2nd floor 6,300 square foot restaurant with viewing area of all four ice surfaces
- separate and restricted access space totalling 26,000 square feet to be leased by MLSE for training purposes for the Maple Leafs and Marlies hockey clubs;
- separate space totalling 18,000 square feet to be leased by Hockey Hall of Fame for limited displays and storage purposes;
- space leased for a Pro-shop
- snack bar and arcade
- limited meeting room and office space;
- parking for vehicles in accordance with the planning and zoning requirements of the City of Toronto.

2. Project Benefits:

(i) Addressing an Under-Supply of Ice Time

As stated, the Lakeshore Lions have proposed to construct and operate a four-pad arena complex which would address the lack of available prime time ice. Currently, there is excessive demand for hockey league play, including practice time and tournaments. The Lions intend to offer the additional prime time ice at reasonable market rates. The new state-of-the-art complex, complete with an Olympic sized ice pad and three regular ice surfaces has attracted a number of high profile potential tenants, including the Maple Leaf Sports and Entertainment Ltd. (“MLSE”), the Hockey Hall of Fame and Hockey Canada as base tenants. The Lakeshore Lions have obtained letters of intent from each of these entities.

The report, “A Sport Framework for the City of Toronto, August 2005” in a survey of community sport groups, combined with an inventory of sport and recreation facilities, described a critical lack of district and regional sport facilities. The report states:

> "The most critical gap is the lack of sport facilities at the district level. Toronto has a severe lack of facilities like multi-pad arenas, multi-field facilities, college and university facilities and premier grade public facilities capable of hosting major competitive tournaments. District level facilities are the practice and training facilities for elite competitions and ranked athletes. The lack of these facilities in Toronto disrupts the sport development continuum and is a constraint on hosting elite events like the Commonwealth Games and the Olympics".

The Recreation Facilities Report adopted by Council at its meeting on September 28, 29, 30 and October 1, 2004, states:

> "One of the most dominant trends in the provision of indoor ice facilities is the development of multi-pad facilities to achieve more economical operations and to improve opportunities for league and tournament play. The interest in twinned or multiple facilities should not be overlooked when developing provision strategies in the future for the City".

The construction of this complex will allow for the accommodation of the needs of a number of organizations that are currently unable to meet their ice time demands. An example of this is woman's hockey. The growth of this sector has outpaced the development of facilities that take into consideration the needs of woman's hockey. The new complex will allow this group to continue to grow and develop in an environment that addresses their concerns including provision of modern dressing rooms, as well as providing the additional ice time requirements that are not presently available.

There are also many local and GTA organizations that would benefit greatly by having their leagues able to operate out of a single facility, as opposed to multiple locations across the City, as is presently the case. By offering prime time ice for league play and adult hockey in the new arena complex, it is expected that some prime time ice in municipal arenas would be freed up to meet the pent up demand of community house leagues for games and practices.

The complex will also allow the growth and continuation of community house leagues such as the Faustina Minor Hockey League which has had a 55-year association with the Lakeshore Lions and their arena.

(ii) Access and Reduced Rates for City & TDSB use of facility

As part of the agreement, the Lakeshore Lions will provide the City with 800 prime-time hours of ice time per year, at the average City adult ice rate (currently at $130.00/hour) as opposed to the market rate of $240.00/hour that the Lakeshore Lions will charge for prime time ice. In addition, the TDSB will receive 500 hours/year of non-prime time ice at no charge. Over 20 years, the cumulative value to the City, with an inflation rate of 3%, is estimated at $1,694,806.00 and $736,599.00 to the TDSB for a combined total of $2,431,405.00. As previously reported, the City will gain access to the gymnasium at Lakeshore Collegiate on weekday evenings at no cost as part of its lease exchange with the TDSB. A basketball court or similar outdoor pad will be constructed by the City at no cost to the TDSB if resources become available to the City. The TDSB will also be allowed two (2) hours/week for 30 weeks in the Gus Ryder Pool for their use if scheduling allows. The TDSB intends to designate Lakeshore Collegiate as an elite athletic precinct and the recreational facilities, including the pool and sports fields will contribute to this endeavour.

The Lakeshore Lions will also provide meeting rooms, pending availability; at no charge to the City two (2) days/month during the term of the lease.

(iii) Community Use and Charitable Contributions

All funds earned at the arena, after expenses, go back into the community through Lions Club projects and donations. An example of this community work is the operation of Camp Bellaleo, a non-profit residential summer camp for kids which has a provision to include City of Toronto underprivileged youth at no charge. The new complex will allow the Lakeshore Lions Club to continue to support its many worthwhile projects and contribute to the many local community organizations that rely on the support of the Lakeshore Lions Club while at the same time providing improved ice facilities and services.

(iv) Energy Efficient Design

Several attributes in the design will maximize energy conservation, in particular, the heat recovery system. Lowering energy costs for the facility will be a key component of construction with engineering solutions used to collect and recycle the energy used to maintain the ice surfaces. This will provide abundant heating for the building and hot water for showers, ice resurfacing and snow melting systems. The system is designed to recycle 100% of the energy used to maintain the ice surfaces back into the building heating systems. This results in a significant reduction of energy costs. In addition, the system minimizes or eliminates the burning of fossil fuels, reducing the release of damaging greenhouse gases into the atmosphere. Although initial equipment and installation costs may be slightly higher than conventional systems, the payback time is surprisingly short. In fact, the complex is expected to produce excess heat that may be used to heat the nearby school or a redeveloped swimming pool in the future.

3. Business Plan

(i) Market Analysis:

The Lakeshore Lions submitted a market analysis in support of the proposal. This market analysis was requested by City staff in order to demonstrate adequate demand for the proposed 4 pad arena complex which would replace an existing one pad arena operated by the Lakeshore Lions.

The analysis reported that a service standard exists for the province of Ontario of 17,000 persons per ice surface. The City of Toronto, including both municipal and private rinks, has a population of over 27,000 persons per ice surface, which is considered an undersupply from the provincial average.

On a more local level, the defined market area for the proposed Lakeshore Lions four-pad arena complex was defined as South Etobicoke and South-Eastern Mississauga. The area is generally bounded by Eglinton Avenue to the north, Lake Ontario to the south, Jane Street to the east and Hurontario to the west. There are currently 11 ice surfaces within the study area, including the existing single ice surface currently operated by the Lakeshore Lions. Population service standards within the study area were not defined.

The market analysis did note that all arenas in the study area operate at close to 100% utilization for winter season prime-time ice. The winter season is defined as September through March, and prime time is defined as 5 pm to 11 pm Mondays to Fridays and 7 am to 11 pm Saturdays and Sundays. The analysis also indicates that winter non-prime time ice (ie generally weekday mornings and early afternoons) is more of a challenge to market with utilization levels below 50%.

Proposed winter prime-time ice rental rates at the Lakeshore Lions four-pad arena complex are forecasted to be in the range of $220.00 to $250.00 per pad per hour. This price range would be consistent with other commercial arenas in the City and significantly higher than City owned and operated arenas with comparable ice time rates in the range of $137.00 to $227.00 per pad per hour.

The market analysis provided by Lakeshore Lions and their consultant concludes that sufficient demand likely exists for winter season prime time ice to justify the net increase of three ice surfaces at the proposed Lakeshore Lions complex, and without negatively affected prime-time utilization at City owned and operated arenas within the study area. Such demand being demonstrated by letters of interest from various potential users in the form of teams and leagues.

In addition to the market analysis submitted by the Lakeshore Lions, the Parks Forestry and Recreation Division has analysis of ice time demand performed by consultants undertaking a review of the City arena facilities. Commenting on the market demand, those consultants noted that demand for ice-time at municipal facilities will likely remain stable or increase slightly in the longer term future. The consultants also noted that their research has also indicated that there is currently excess demand for ice time in the City regardless of the type of service provider. However, the magnitude of such overall demand is not available from any studies available to the City.

The risk associated with the market demand is that, on an overall basis, there may be unmet demand in the City, but on a local or sub-regional level, the proposed arena may not reach its required ice time utilization levels due to lack of market interest in the product. Ultimately such market risk would translate into a revenue risk.

(ii) Construction Costs:

The Lakeshore Lions would be responsible for the construction of the facility and have advised that the construction will be undertaken by Giffels Design-Build Inc. with a guaranteed cost of construction agreement. The cost of the facility including all equipment and interior improvements (exclusive of tenant improvements) is $29 million.

In order to mitigate construction cost risks, the sub-lease between the City and the Lakeshore Lions would be subject to the execution of a guaranteed price contract between the Lakeshore Lions and Giffels Design-Build Inc., such agreement to be satisfactory to the City Solicitor, General Manager of Parks, Forestry and Recreation, and the Deputy City Manager and Chief Financial Officer. Any changes to the building design would require City approval. Giffels will also be required to post a construction performance bond in the amount of 50% and a materials and labour bond of 50% of the total construction cost.

(iii) Revenue Sources:

The most significant revenue generator of the arena complex would be the rental of the ice pads. Within this category the vast majority of revenues derive from prime time winter season ice rentals as defined above. The business plan forecasts high prime time utilization rates from the four-pad arena, opening at 85% capacity in year one increasing to the maximum 100% capacity of all four ice pads by year three. Winter non-prime ice and summer ice/floor rentals would add marginal revenues in comparison.

Related ancillary revenues would flow from snack bar, vending machines and arcade sales occurring during and dependent on the ice rental periods. Revenues from contracts with MLSE for the Maple Leafs and Marlies training room rents and their related ice rentals would complement revenues from the prime time rentals, as their use of the facility would occur during non-prime time hours when utilization rates are much lower. Similarly rent from the Hockey Hall of Fame would be set in a contract with the Lakeshore Lions and would not be affected by ice time utilization rates.

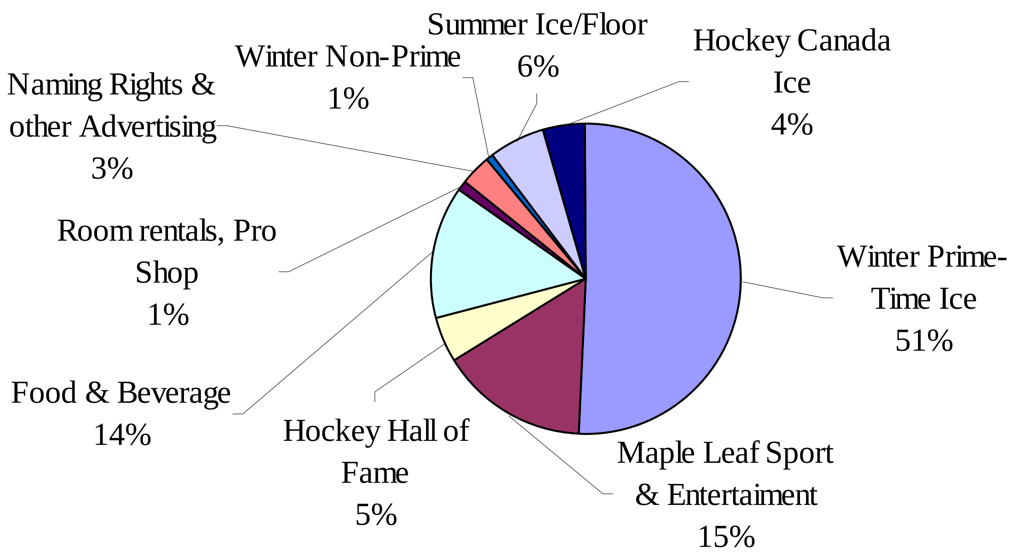
Other rental contracts would be entered with the proposed restaurant and hockey pro-shop that would contribute revenues toward the overall arena operations.

(iv) Naming Rights

A tentative agreement has been negotiated by the Lakeshore Lions with Maple Leaf Sports and Entertainment Ltd. for titling sponsorship or naming rights on two of the four pads, not including the Olympic size pad, and the exterior of the building. The MLSE “brand” will attract national advertisers and the arrangements at the Air Canada Centre would extend to the dasher boards on two of the ice surfaces. All signs need approval from the Lakeshore Lions and shall be in compliance with City policies regarding alcohol and tobacco and with any applicable by-laws. The City’s approval shall also be required for any proposed name or sponsor of the naming rights for the facility, such approval not to be unreasonably withheld. The Lakeshore Lions would receive annual revenues of 20% of $200,000.00 or $40,000.00 and 25% of any amount in excess of $200,000.00 less production expenses. Currently, on the single pad operated by the Lakeshore Lions, the revenue from advertising is $2,200.00 per year.

The following chart depicts the relative share of revenue sources:

Figure 1 - Lakeshore Lions Arena Projected Revenue Breakdown ($ yr. 1 Revenue Projection = $4.0 million)



As noted the Lakeshore Lions have forecasted high utlization rates of the prime time ice rentals. Despite the outlook provided in the market study and business pro-forma, should less favourable ice rental bookings occur, reduced revenues than those forecasted would be realized.

Other risks to revenue could occur with the loss of key tenants. For example the loss of MLSE as a tenant would result in a 15% reduction in revenues. However, the letter of intent with MLSE is for a 10-year period, with renewal options, and as such would provide adequate protections of such rental revenues over the initial operating period. Furthermore, any sub-lease with between the City and the Lakeshore Lions would be subject to further tenant sub-leases with major tenants to ensure the stability of such tenancies and related rent revenues.

(v) Operating Expenses:

The business pro-forma contains standard arena operating expenses, plus the provision for a major maintenance reserve fund to be self-funded by Lakeshore Lions. The maintenance reserve fund would commence after year 5 of operations and would have annual contributions of $145,000.00, equivalent to 0.5% of the $29 million construction cost. Pursuant to the terms of the sublease the City will have the option to perform building audits every three years and to require that the reserve fund be adjusted in accordance with the results of these audits.

Other expenses include rebates to the City and TDSB for guaranteed ice time in the arena complex at reduced rental rates, as described earlier in this report under the heading Project Benefits.

Risks associated with expenses would relate to increases beyond those forecasted for costs such as utilities, supplies and wages and together with revenue risks would reduce net operating income and ultimately the ability to service the debt.

4. Project Financing:

The Lakeshore Lions have made arrangements, through their agent Ollerhead and Christie, to acquire 100% of project cost financing through a third-party lender. In order to keep debt service payments at lower levels during the early stages of the operations, two separate loans have been proposed.

The primary loan would be a fixed rate loan with a 35 year term in an amount of $19 million. The interest rate proposed by the agent would be at 1.1% above the yield on the Government of Canada 30-year benchmark bond plus a 0.25% agent fee. Principal and interest payments would be made on this loan, however early repayment of the loan could incur a penalty, currently proposed as the interest rate differential between the loan rate and market rates at that time in the event that market rates are lower than the loan rate at that time.

For comparison, the City's estimated cost for 30-year debt would be approximately 0.65% to 0.75% above the Government of Canada 30-year benchmark bond, inclusive of commission.

The secondary loan would be a floating rate loan with a ten-year term in an amount of $10 million. The interest rate would be pegged to the Royal Bank of Canada prime rate of interest less 0.75%, plus a 0.25% agent fee. During the 10 year term only interest payments will be required to be paid. It is expected that the loan would be renewed for an additional 10 year period thereafter. Early repayment of the principal would be permitted under this loan. The Lakeshore Lions propose to dedicate 50% of net operating surpluses once the operations reach full capacity (between years 3-12), and 60% of net operating surpluses between years 13-20 toward the full retirement of the principal amount and interest amounts by year 20 of operations. The timing and amounts of such early repayments would be dependent on the revenues of the operations, and any variances of revenues from risks outlined in this report.

As a condition to acquiring both of the loans, the Lakeshore Lions have indicated that the lenders will require City guarantees for the loan payments over the terms of the two loan facilities.

City Council, at its meeting held on March 6, 7 and 8, 2001, by adoption of Clause No. 3 of Report No. 2 of the Policy and Finance Committee, established the Policy of Capital Loan and Line of Credit Guarantees for cultural and community organizations that have a direct financial relationship with the City of Toronto. This policy establishes that the total amount of all financial guarantees provided by the City of Toronto be limited to $5 million, which limit has subsequently been increase to $10 million by Council at its meeting of February 1, 2 and 3, 2005.

The chart below shows loan guarantees under the City's existing policy.

<u>Existing City Loan Guarantees (as at July 2006)</u>

Toronto Philharmonia	$200,000
Lorraine Kisma Theatre for Young People	$250,000
Artscape	$400,000
Toronto Symphony Orchestra	$2,250,000
Theatre Passe Muraille	$140,000
The Factory Theatre Lab	$200,000
Canadian Stage	$500,000
Young People's Theatre	$250,000
Toronto Botanical Gardens	$2,000,000
Sub-total –Cultural Guarantees	$5,940,000
Exhibition Coliseum Ricoh Centre	$20,000,000
Growing Tykes Childcare	$1,350,000
Chubb Insurance (Enwave)	$2,795,000
Total Loan Guarantees	$30,085,000

The estimated total financial obligation of the $19 million 35-year fixed rate loan, including interest payments assumed at current proposed rates, is $46 million, and the estimated total financial obligation of the floating rate loan, including interest payments and assuming repayment by year 20, is $17 million. Staff's recommendation to provide for renewal of the 35-year fixed-term loan at year 10 and year 20 reduces the maximum financial exposure on this loan facility to $19 million in principle, plus a maximum estimated interest obligation of $12 million. The maximum financial exposure on the floating rate loan facility is $10 million as this facility can be repaid at any time without penalty.

There is, however, an interest rate risk on the floating rate loan. Should, over the term of the loan, interest rates increase significantly, additional interest payments amounts would result in higher overall debt service payments on the project.

5. Project Sensitivity Analysis

From all of the risks described above, staff selected the revenue and expense variations from those forecasted as having the greatest risk impact on the project. In this regard, staff have conducted a sensitivity analysis to ascertain the business plan's tolerance for variances from the forecasted levels.

Table 1
Project Cash Flow Sensitivity Analysis
Cumulative Position – First 5 Years of Operations –
At Revenue and Expense levels varied from forecast

Revenue Level	100%	100%	90%	90%	85%
Expense Levels	100%	110%	100%	110%	110%
Revenues	$21,032,176	$21,032,176	$19,278,855	$19,278,855	$18,402,195
Expenses	($9,645,763)	($10,567,524)	($9,645,763)	($10,567,524)	($10,567,524)
Net Operating	$11,386,413	$10,464,652	$9,633,092	$8,711,331	$7,834,671
Debt Service	($10,561,379)	($10,282,619)	($10,003,457)	($9,821,366)	($9,821,366)
Net Income - 5 yrs	$825,034	$182,033	($370,365)	($1,110,035)	($1,986,695)
Avg Annual net income (loss)	$165,007	$36,407	($74,073)	($222,007)	($397,339)

*Note debt service includes required debt obligation payments plus additional early repayment debt servicing amounts. In the event of operating deficiencies, optional early repayment amounts would be reduced or foregone.

The business model is sensitive to negative variances in revenues and expenses from those forecasted by the Lakeshore Lions, most acutely during the initial 5-year operating period. The effect of continued negative variances at various levels throughout the initial 5-year period, as noted in the chart above, would prolong the annual operating losses beyond the first year as forecasted.

The consequences of continued operating losses under negative revenue/expense variances would result in the inability of the operator to pay operating costs and/or debt service payments. Under the proposed sub-lease agreement the City would be required to assume debt service payments in whole or part if the Lakeshore Lions defaulted and could not remedy such a default within a prescribed period of time.

6. Risk Mitigation – Protections to the City of Toronto

In order to reduce or mitigate the conditions that may cause default or in the event of default, staff have recommended the following terms.

(i) Letter of Credit to City

The Lakeshore Lions have indicated that they currently have $0.5 million in cash to off-set any early year operating losses that may occur at the proposed arena complex. As a condition of the lease, City staff recommend that such cash backing provided in the form of a letter of credit to the City for the sole purpose of funding debt service payments in the event of operating deficits. The $0.5 million in such an account would be required to be fully depleted prior to any default payments that the City would be required to fund under the capital loan guarantee.

For example, a 10% reduction in revenues from those forecasted by the Lakeshore Lions would result in a cumulative debt service shortfall of $370,365 throughout the first five years of operations, as noted in Table 1 above. The City could draw upon the letter of credit provided by the Lakeshore Lions to fund such deficits up to $0.5 million.

Any continuation of such negative variances on revenues or expenses beyond the first five years of operations, or any combination of negative variances on revenues or expenses beyond 10% within the first five year period, would result in shortfalls in excess of the $0.5 million provided in the proposed letter of credit. Upon full depletion of the letter of credit, the City would then be required to fund the required debt service payment shortfall.

(ii) Early Repayment of Floating Rate Loan – Principal Portion

As previously noted, the pro-forma submitted by the Lakeshore Lions includes (after the third year of operations) the dedication of 50% of net operating surpluses after required debt service payments toward the early repayment of the principal portion of floating rate loan. Such repayment levels would be maintained throughout years 3 through 12, and thereafter at 60% of net operating surpluses, until the principal is fully repaid. City staff recommend that all net operating surpluses be dedicated toward such repayments as a condition of the lease and capital loan guarantee agreement. The rationale is, given that this is an unsolicited proposal, with acceptance at the City's discretion, that reducing the City's financial exposure should take precedence over any other use of surplus funds.

(iii) Establishment of a Fixed Rate loan deficit reserve

Once the floating rate loan is fully repaid, there will remain annual payments to the fixed rate loan facility. In order to mitigate against any risks at that juncture, for the same reason noted previously, it is recommended that the Lakeshore Lions Arena Inc. be required to establish and fund a reserve account, funded by all operating surpluses on an annual basis, to cover any debt service deficiencies on any balances remaining on the fixed rate loan for the duration of the fixed rate loan facility to the maximum amount necessary to fully fund the remaining balance on the fixed rate loan. Again, the rationale is that reducing the City's financial exposure should take precedence over any other use of surplus funds.

(iv) Refining of Loan Terms and Default Provisions

With the City being requested to provide deficiency payments in order to service the debt, the terms of such debt (loans) should better reflect the reduced risks involved with such a guarantee. In this regard City staff recommend that the interest rate of the proposed 35-year $19 million fixed-rate debt facility, currently proposed at 1.1% above the yield on the Government of Canada 30-year benchmark bond plus 0.25% agents fee, be amended downward to a maximum of 1.0% above the yield on the Government of Canada 30-year benchmark bond inclusive of any agents fees, commensurate with the City's loan guarantee and credit rating to satisfaction of the Deputy City Manager and Chief Financial Officer. For comparison, the City's cost of borrowing for a similar term would be 0.65% to 0.75% above the yield on the Government of Canada 30-year benchmark bond inclusive of commission.

Furthermore the term of the capital loan guarantees proposed by the Lakeshore Lions and its financiers would be for the full term of the primary 35-year loan. Finance staff believe that such a long term at such premium interest rates would not be in the best interests of the City in the event of default. Consequently the CFO is prepared to recommend entering into such a deficiency agreement for a 10-year period with optional renewal(s) thereafter. Although the term of such loan would be reduced to 10 years the amortization would remain at 35 years and the annual debt service payments would remain as proposed. The benefits of the 10-year term are as follows:

- provides opportunity for City to review status of the operations after 10-years, including updated risk analysis;
- key tenants renewal options are exercisable at year 10; and
- in the event of project default in the early years of operations, the City would assume such premium lending rates for a short duration, and then potentially issue debentures to cover any remaining debt at rates more suitable to the City's credit rating.

7. Property Taxes and Land Rent:

Regulation 46/94 under the *Municipal Act, 2001*, lists the classes of municipal capital facilities which may be included under section 110 of the Act. This explicitly includes "municipal capital facilities used for cultural, recreational and tourist purposes". The proposed arena is a project that will be developed on land under a 50-year lease with the TDSB and dedicated to municipal purposes and public use. The Hockey Hall of Fame has a declaration as a municipal capital facility at its current location and is seeking the same consideration at the new four-pad arena complex. The private sector tenants, MLSE and any food and beverage operation would be subject to taxes.

Once the debt is completely retired, after year 35 as proposed, the Lions could have significant additional cash flow from the arena operations. In this regard and in consideration of the City's deficiency agreement over the course of the loans, the Lakeshore Lions shall commence land rent payments to the City in the amount of the greater of 15% of gross revenues per year or fair market rent.

8. Examples of Recent Arena Complex Developments:

Other multi-pad arena complexes have recently been developed in Ontario, and are listed in the Table 2 below for comparative purposes.

Table 2
Recent Multi-pad Ice Arena Complexes in Ontario
And Municipal Relationship

Municipality	Arena	Pads	Year	Cost	Financing/Operations
London	Western Fair	4	2001	$17.2 million	Muncipally Financed, Fair Board Operated, Revenue sharing
Hamilton	Mohawk	4	2005	$16.8 million	Municipally Financed, Private Operator
Ottawa	Sensplex	4	2004	$25.6 million	Privately financed with City loan guarantee, privately operated
Whitby	Iroquois Park	6	1997	$15 million	Municipally Financed & operated

From the examples listed above there are a number of financing and operating scenarios involving public/private responsibilities. In some cases public equity contributions are made together with public debt obligations toward an arena operating by a private entity, with revenue sharing options. In other cases, similar to the proposed Lakeshore Lions arena complex private financing is arranged with public guarantees for a privately operated arena.

Conclusions:
This report responds to an unsolicited proposal by the Lakeshore Lions for partnering towards the construction of a four-pad arena complex to replace the existing single-pad rink at Don Russell Park. The Lakeshore Lions have submitted a comprehensive proposal including a market study, business plan and proformas, guaranteed price construction agreement, and third-party financing arrangements. The facility capital cost is $29 million, which is to be 100% debt financed. A condition precedent to these arrangements is that the City provide a loan guarantee for the $29 million principle amount for the facility cost plus interest in accordance with the term of the loans, to be repaid over a 35-year term by the Lakeshore Lions through associated arena revenues. In the event that revenue and/or expenditure projections are not met, the arena operations may result in a financial deficit, which under the loan guarantee, the City would then be obligated to fund such deficits at levels adequate to service the debt until such time that the funding deficiency is remedied by the Lakeshore Lions or the City assumes or reassigns the responsibility for the continued operation of the facility. This report identifies a number of risks, such as revenue risk, interest rate risk and loss of major tenants risks, that may result in operating deficits that could lead to debt service deficiencies. Staff recommendations in this report are

intended to mitigate these risks to the extent possible. Given the magnitude of the loan guarantee amount, an exception to the City's current policy regarding Capital Loan and Line of Credit Guarantees for cultural and community organizations, which has an established total limit for all such loan guarantees at $10 million, will be required.

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List of Attachments:

Appendix "A" – Sub-Lease Terms & Conditions
Sketch No. PS-2006-038 & Site Sketch

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APPENDIX “A”

TERM SHEET

Parties	The City of Toronto (“the City”) as Landlord and Lakeshore Lions Arena Incorporated (the “Lakeshore Lions”) as Tenant.
Leased Lands	The City will sublease to the Lakeshore Lions approximately 4.026 ha (9.94 acres) of vacant land known municipally as 400 Kipling Avenue.
Licence Lands	Lakeshore Lions shall, as part of its sublease arrangement, also be granted a non-exclusive licence to make use of that portion of Don Russell Memorial Park shown cross-hatched on Sketch No. PS-2006-038 for parking purposes, subject to the Toronto District School Board (“TDSB”) agreeing to release the leasehold interest that was to be granted pursuant to the lease exchange involving Don Russell Memorial Park and 400 Kipling Avenue.
Term	The term will be for a continuous period of 50 years less a day with no right of renewal.
Net Lease	The sublease is carefree and absolutely net lease to the City.
Base Rent	One ($1.00) Dollar per annum for the first 35 years of the term. Beginning in the 36th year of the term the Lakeshore Lions will pay base rent in the amount of 15% of gross revenue per year or fair market rent, whichever is greater.
Construction	The Lakeshore Lions are required to construct a four-pad arena complex on the subleased property in accordance with approved site plan. The City’s Fair Wage and Trade policies/obligations must be adhered to in relation to such construction and Performance and Labour and Material bonds are to be in the amount of 50% and a materials and labour bond of 50% of the total construction cost and approved by the City’s Corporate Finance Division. The Lakeshore Lions and the City shall enter into such other agreements as may be required by the General Manager, Parks Forestry and Recreation and the Chief Corporate Officer to secure the obligations of the Lakeshore Lions in relation to the construction of the facility.
Use	Permitted uses in the complex shall include hockey and ice skating and training facilities for same; lacrosse and other sporting events; trade shows and conventions; meeting rooms; archival space; and ancillary office space, ancillary restaurants and banquet facilities

	and an ancillary arcade not greater than 500 square feet in area or such other uses that have received the prior approval of the City.
Assignment/ Subletting	Lakeshore Lions shall not assign the sublease without prior written approval of the City, which approval may be unreasonably withheld. City approval will be required for any sublease/license entered into by the Lakeshore Lions for which the term exceeds three years, or the annual rental rate is greater than $50,000.00 per year.
Reserve Funds and Financial Reporting	Lakeshore Lions will be required to establish a reserve fund for maintenance and capital repairs commencing in year five of the term, with annual contributions in the amount of 0.5% of construction cost. The City, at its option and expense, may perform a building audit every three years and the reserve fund will be adjusted in accordance with the results and recommendations of such audits. Lakeshore Lions will be required to establish an additional reserve fund for costs associated with demolition of the facility, beginning in year 36 of Term and based on the estimated cost of such demolition as determined by the City, acting reasonably. The City will be provided with audited financial statements on an annual basis and will have the right to review financial records on request.
Additional Terms:	Lakeshore Lions shall have right to grant or assign naming rights for the facility. The City's approval shall be required for any proposed name or sponsor of the naming rights, such approval not to be unreasonably withheld. Lakeshore Lions to provide the City with prime time ice usage in the complex, as set out below, at the average rate for adult ice time charged at City facilities from time to time, currently being $130.00/hour. Year 1 – 250 Hours Year 2 – 300 Hours Year 3 – 400 Hours Year 4 – 500 Hours Year 5 and each subsequent year – 800 Hours Lakeshore Lions to provide the TDSB with 500 hours of non-prime time ice time, at no cost to the TDSB.

The City will have the use of a meeting room in the facility two (2) days/month at no charge, subject to availability.

All advertising in the complex shall comply with the City's then current policies regarding tobacco and alcohol ads, if applicable and as amended from time to time.

The City will have the right to use the facility in the event of an Olympic Games or other international event, the cost of such use to be at market rates.

Paid parking will not to be introduced on the subleased lands without the City's prior written consent, and in the event that the Lakeshore Lions have requested paid parking, such request shall be subject to an option in favour of the City to assume control and operation of the parking facility, or assign same to the Toronto Parking Authority.

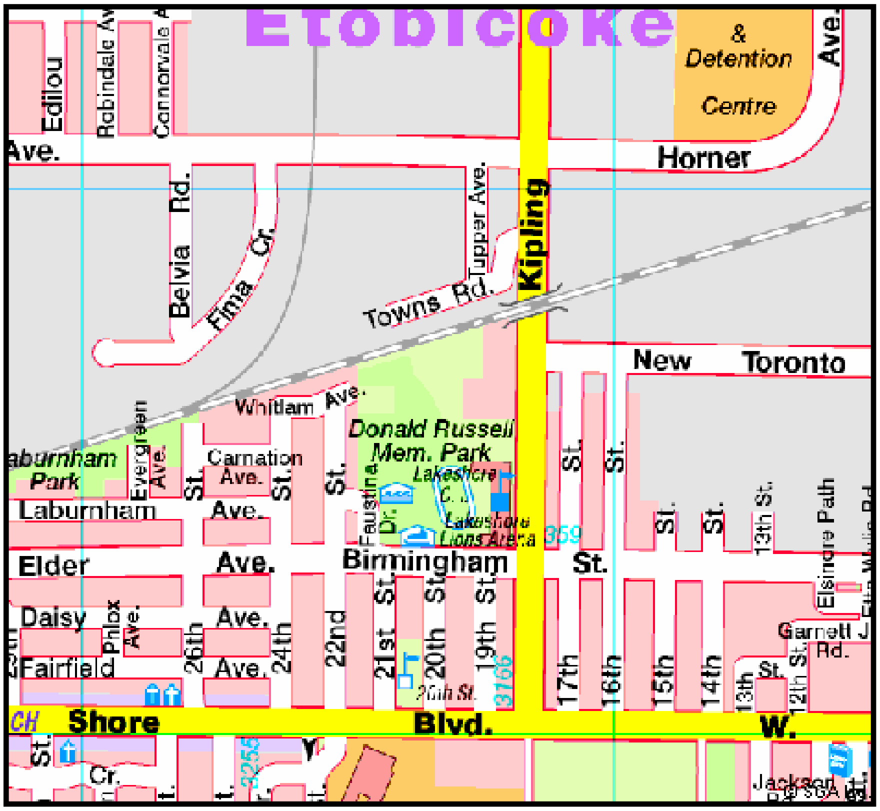
The City shall have the right to require the Lakeshore Lions to remove the four-pad arena at the end of the term and restore the property to its original vacant condition.

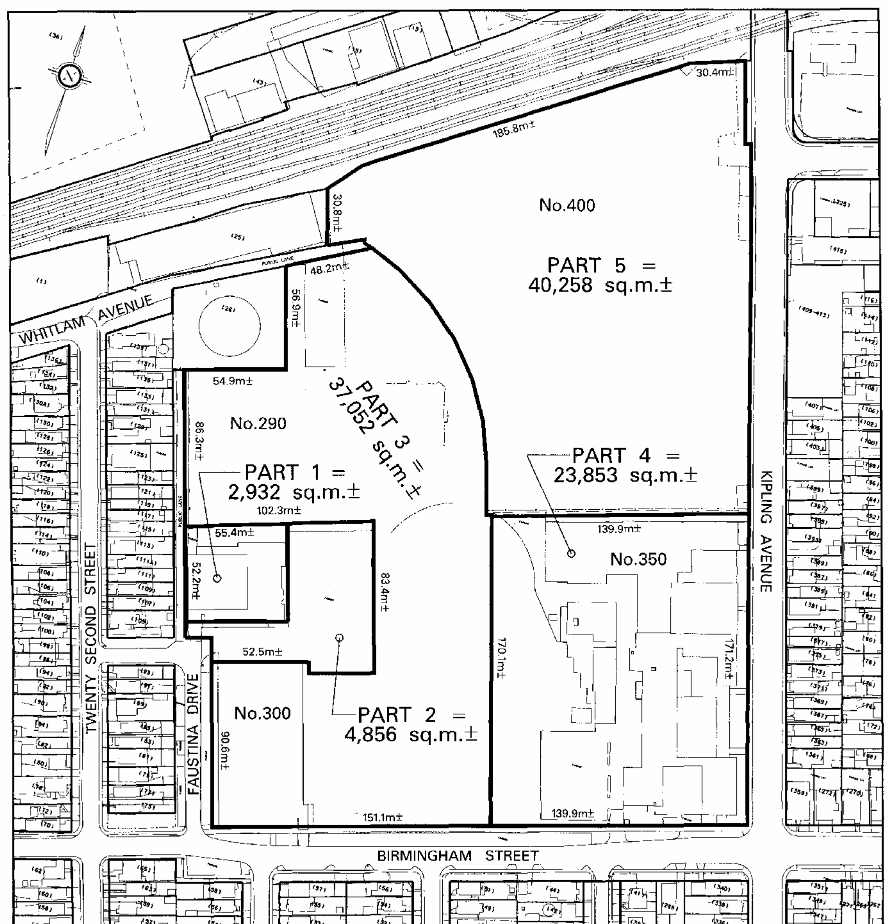
The Lakeshore Lions will release its leasehold interest in the existing arena in Don Russell Memorial Park and will enter into an agreement with the City and TDSB for such purpose.

The Lakeshore Lions will be permitted to continue use of the existing arena in Don Russell Memorial Park until the new four-pad arena complex is ready for occupancy.

The net revenue generated by the Lakeshore Lions from the four-pad arena complex located on the subleased lands will be used for the provision or support of community services and community organizations.

The Lakeshore Lions Club shall indemnify the City in relation to the obligations of the Lakeshore Lions Arena Incorporated pursuant to the terms of the sublease.





TORONTO

TECHNICAL SERVICES DIVISION
SURVEY & MAPPING SERVICES

NOTE:

THIS SKETCH HAS BEEN COMPILED FROM OFFICE RECORDS.

NOT TO SCALE

PROPERTY INFORMATION SHEET

CITY OWNED LAND
AT Nos. 290 AND 300 BIRMINGHAM STREET
(PARTS 1 AND 2) AND TDSB PROPERTY AT
Nos. 350 AND 400 KIPLING AVENUE (PARTS 3 AND 4)

WARD 6 – ETOBICOKE–LAKESHORE
DATE: APRIL 7, 2006

SKETCH No. PS–2006–038