TORONTO

STAFF REPORT
ACTION REQUIRED

Amendment to the Council Authority for the Construction and Operation of the Proposed Lakeshore Lions Arena Complex

Date:	April 12, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer General Manager of Parks, Forestry and Recreation
Wards:	**Ward 6 Etobicoke Lakeshore**
Reference Number:	P:\2007\Internal Services\CF\ec07017Cf – et (AFS #4827)

SUMMARY

The purpose of this report is to seek further authority for the City of Toronto to enter into a long term lease with Lakeshore Lions Arena Incorporated to facilitate the development of a new four pad arena complex. The final fixed price project cost has risen to $33,650,000, inclusive of a state-of-the-art heat recovery system that maximizes energy efficiency that would qualify the project for an interest free loan estimated at $1 million from the City's Energy Efficiency Office, and thereby reduce the total amount of financing required from the Lakeshore Lions lenders to $32,650,000. The original loan guarantee by the City will remain at $29,000,000, with the balance being provided by the lender as debt unsecured by a City guarantee with priority over the remaining credit facilities as outlined in this report. This report further recommends requiring the Lakeshore Lions to increase the proportion of operating surpluses directed toward retirement of debt (75%-85%) in order to repay the loans as soon as possible and mitigate the City's risk.

In addition to providing a facility that will address the lack of available prime time ice, the project will fill the need for hockey league play, including practice time and tournaments. The Toronto District School Board (TDSB) will have access to 500 hours of non-prime time ice and the City will have access to 800 hours annually of prime time ice at City arena rates. Additional City benefits include access to meeting rooms.

In order to proceed with the revised project, City staff have negotiated new terms and conditions for the construction costs and overall project costs. As time is of the essence to initiate construction, a Council Authority is required to modify this project.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the General Manager of Parks, Forestry and Recreation recommend that:

1. the recommendations adopted by Council at its meeting in September 25-27, 2006 under Clause 21 of Report No. 7 of the former Policy and Finance Committee be amended and supplemented as outlined in detail in Attachment 1; and
2. Staff be granted the authority to give effect to the foregoing.

Financial Impact

Revised Project Costs:

The total project cost authorized by Council in September 2006 was $29 million, inclusive of any applicable taxes. In December 2006, City staff were informed by the Lions that its contractor, Giffels Design-Build Inc. could no longer commit to the original construction price quoted, due to rising costs, and advised that the construction cost would now be $33 million. With additional identified development costs ($650,000), the total project cost is now acknowledged at $33,650,000, plus GST. The reasons and elements of the cost increase are discussed in the body of this report. The Lions advise and have provided a qualified opinion that the GST payments would be fully refundable from the Canada Revenue Agency (CRA), so that the cost of the project net of taxes would remain at $33,650,000.

Financing Terms:

The Lakeshore Lions have obtained a commitment from their lender to provide an additional floating-rate loan facility for the difference between the City's $29 million loan guarantee and the revised total project cost. Further, the lender has committed to a more favourable interest rate, for both the $10 million floating-rate loan to be guaranteed by the City and the additional loan estimated at $3.65 million (assuming a $1 million loan from the City's Energy Efficiency Office) on essentially the same terms, with the loan having priority over the remaining credit facilities. The interest rate to be obtained on the floating-rate facilities is 1.4% below the prime rate, currently estimated at 4.6%, as compared to the 5.5% (prime rate less 0.50% inclusive agent's fee) previously estimated in the September 2006 approval. The lower interest rate together with other construction timing savings improves the project cash flows and supports the higher project cost. An additional $1 million loan, interest free, is also anticipated to be provided from the City's

Energy Efficiency Office for the state-of-the-art heat recovery system incorporated in the design.

Given the revised project cash flows, and the additional condition recommended in this report that requires the Lakeshore Lions to increase their proportion of operating surpluses toward retirement of debt (75%-85%) in order to repay the loans as soon as possible and mitigate City's risk, the floating-rate facilities will be fully repaid in just over 18 years as compared to the originally anticipated timeframe of 16 years.

The proposed term of the floating facilities is competitive and commensurate with the City's guarantee.

With respect to the $19 million fixed-rate loan facility to be guaranteed by the City, the lender has changed the terms in response to the City's request for early retirement or prepayment options at years 10 and 20 without penalty. The interest rate can no longer be fixed for the 35-year term, but rather must be reset at each renewal period. The interest rate proposed by the lender is calculated as sum of: (i) the yield on the Government of Canada bond maturing closest to the maturity date of the initial term (or respective renewal term); (ii) the prevailing capital markets interest rate swap premium for an interest rate swap of equivalent duration; and (iii) 0.60% per annum for the initial term (reduced to 0.35% in subsequent renewal terms). For the initial 10-year term, the agent's fee of an additional 0.25% interest rate is to be included in the loan repayments to be made by the Lakeshore Lions.

The total interest obligation for all the loan facilities is estimated at $33.5 million inclusive of $2.5 million in capitalized interest arising during the construction period, made up of:

i) $10 million on the floating rate facilities,

ii) $10 million to the end of year 10 (the prepayment option juncture) on the 35-year fixed rate loan. This includes $1.5 million in capitalized interest, $425,000 as the agent's fee, and $8 million loan interest.

iii) $13.5 million of loan interest on balance of the term (years 10-35)

The proposed term of the fixed rate facility, before the addition of the agent's fee (0.25%) is competitive and commensurate with the City's guarantee, totalling 4.94% at current rates, or about 0.79% above the Canada 10-year benchmark bond yield of 4.15%. The City's current cost of borrowing for 10-year debt is about 4.75%, or 0.60% over the Canada bond, inclusive of commission, however, staff would still consider the proposed rate as favourable given that it is from a third-party lender. The September report put a limit on the fixed-rate facility not to exceed 1.0% above the 30-year Canada benchmark bond. Because the revised terms transfers interest rate risk to the City due to the shortened 10-year renewable loan terms, staff recommend that the interest rate on the fixed-rate loan facility now not exceed 0.95% above the yield on the Canada 10-year benchmark bond, inclusive of agent's commission over the initial 10-year term, and for subsequent renewal terms, not to exceed: (i) the yield on the Government of Canada bond maturing closest to the maturity date of the initial term (or respective renewal term); (ii) the prevailing capital markets interest rate swap premium for an interest rate swap of equivalent duration; and (iii) 0.35% per annum.

Sensitivity Analysis:

On the basis of the revised 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 revised pro-forma forecasts a first-year operating surplus of approximately $141,000, followed by net operating profits averaging $92,000 in years two through five, inclusive of conditions recommended in this report that increase the required contributions by the Lakeshore Lions towards repayment of principal on the debt.

In the event that pro-forma revenue projections are not met, the arena operations may result in an operating 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 condition imposed by the lender on the floating-rate facility is that this loan would take priority security interest in project cash flows. In essence, the interest on this loan would be paid first from project cash flows and ahead of the any interest repayment on the guaranteed loans.

The 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 Operations
At Revenue and Expense Levels varied from Forecast
(TOTAL PROJECT COST - $33.65 Million)

Revenue Level Expense Levels	100% 100%	100% 110%	90% 100%	90% 110%
Revenues	$21,032,726	$21,032,726	$19,279,350	$19,279,350
Expenses	($9,655,763)	($10,577,524)	($9,655,763)	($10,577,524)
Net Operating	$11,376,963	$10,455,202	$9,623,587	$8,701,826
Debt Service	($10,867,904)	($10,197,748)	($9,734,529)	($9,385,141)
Net Income - 5 yrs	$509,059	$257,454	($110,942)	($683,315)
Average Annual net income	$101,812	$51,491	($22,188)	($136,663)

The effects of the recent changes to the project cost and cost of financing results in lesser retained earnings accruing to the Lions during the first 5-years of operations at projected revenue, expense and debt service levels. The revised sensitivity analysis shows that a negative variance of 10 percent on expenses from that forecasted would result in reduced surpluses throughout the first five years of operations of the arena complex. Combined negative variances from forecasted levels beyond 10 percent of revenue and/or expenses would produce net income losses (deficits) as shown in the Chart above.

These financial risks, however, should be balanced against community benefits to be gained from this project. These include providing much needed prime-time ice rental capacity, 500 hours of non-prime time ice for the TDSB and 800 hours of prime time ice at City adult rates, and access to meeting rooms and facilities.

Additional Risk Mitigation Measures:

Given the sensitivity of the Lakeshore Lions revised business proforma to revenue, market demand, expenditure, interest rate, and tenant risk, together with the increased Project cost and debt servicing requirements, staff have reviewed the proposed changes and have identified and are recommending additional terms and conditions to mitigate the financial risk to the City and for continued support for this project by the City.

The risk mitigation measures precedent to the City entering into the revised capital loan guarantee agreement include:

(i) Contractual commitment by Giffels Design-Build Inc. for guaranteed maximum construction price of approximately $33,000,000, including contingencies and site risks (up from $29 million in the original Council approval);
(ii) A letter of credit to the City in the amount of $0.5 million, to be first drawn upon in the event of any debt service deficiency (no change);
(iii) Obtaining a $1 million interest-free loan for the energy efficient design of the arena;
(iv) Securing a lower rate of interest on the floating-rate loan facilities;
(v) A provision for renewal or early retirement of the fixed-rate loan facility, at the City’s option and without any prepayment penalties, at the end of year 10 of the loan;
(vi) Requiring a greater contribution by the Lakeshore Lions towards the early repayment of principal on the floating-rate loan facilities, and a greater contribution to a reserve for repayment of the fixed-rate loan facility; and,
(iv) A provision for the accrual with interest of any debt deficiency payments made by the City, and securing of 100% of any operating surplus by City until such deficiency is remedied.

DECISION HISTORY

At its meeting of September 25, 26 and 27, 2006, Council adopted a report from the Policy and Finance Committee, Report 7, Clause 21, recommending the execution of a long term lease with the Lakeshore Lions Arena Incorporated to facilitate the development of a new four pad arena complex, subject to certain terms and conditions.

This report can be viewed at:

http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/pof7rpt/c021.pdf

On June 27, 28 and 29, 2006, Council adopted a report from the Administration Committee, Report 4, Clause 24, that authorized the City to enter into a long-term ground lease with the Toronto District School Board to exchange land in order to facilitate the sub-lease to the Lakeshore Lions and allow for the development of the arena complex.

This report can be viewed at:
http://www.toronto.ca/legdocs/2006/agendas/committees/adm/adm060606/it024.pdf

ISSUE BACKGROUND

The Lakeshore Lions ("the Lions"), a non-profit service club, operate a single pad arena facility and have successfully provided a community ice facility since 1931 without requiring any operating funds from the City. They approached the City with a plan to develop and operate a four pad arena complex to be constructed on adjacent Toronto District School Board (TDSB) land. The complex includes three regulation sized ice pads and one Olympic sized pad. Anchor tenants, who will pay market rent, include the Toronto Maple Leafs, the Toronto Marlies and the Hockey Hall of Fame.

As well as providing a facility that will address the lack of available prime ice time, the project will fill the need for hockey league play, including practice time and tournaments. The TDSB will have access to 500 hours of non-prime time ice and the City will access 800 hours of prime time ice at City adult rates. Additional City benefits include access to meeting rooms and school facilities.

The Project proposal presented by the Lakeshore Lions to the City provided for total project cost of $29 million, to be entirely debt financed. The September 2006 staff report sought Council authority for a capital loan guarantee by the City, and in doing so, staff recommended a number of conditions precedent to mitigate the financial risks to the City.

The original estimate for construction costs was set in April, 2006, and formed the basis for the total project cost, loan principal and City guarantee, thereof. The final report authorizing this project was approved by Council in September, 2006. In December, 2006, City staff were informed by the Lions that its contractor, Giffels Design-Build Inc. could no longer hold the original construction price quoted, due to rising costs. The revised cost to build the arena had increased by $4 million to a total of $33 Million. Included in the list of price increases were specific items such as the price of steel and electrical design, increased costs associated with the proposed heat recovery system and the new requirements in the Building Code.

Furthermore, the Lions advised that in addition to construction costs quoted above, other project costs such as the retention of a Quantity Surveyor, two new ice flooding machines and furnishings and fixtures, legal costs and street lane improvements all totalling $650,000 would have to be included. Thus, the total project cost is now set at

$33,650,000. Any changes to the previous Council adopted total project cost of $29 million, and other changes to the terms and conditions, requires further Council approval.

COMMENTS

City staff met with Lions and their construction and financing representatives to consider the cost increases and possible ways of addressing the changes and mitigating the financial impacts. Reducing the size and scope of the project was not considered feasible to the Lakeshore Lions, with the exception of the reducing the main bowl spectator seating from 2,500 to 1,000 seats.

In addition to the increased costs, there have been further changes proposed to the financing terms and timing of construction that would provide offsetting savings to the project. The design-build contractor has also attempted to minimize the cost increases, such as by agreeing to pay the building permit fees that were not originally included in the fixed price contract, and to assume contingency and site development risks.

In an attempt to proceed with the project under revised costs and terms, staff has reviewed the proposed changes and have identified and are recommending additional terms and conditions to mitigate the financial risk to the City and for continued support for this project by the City. A description of these measures is provided in the following section.

1. Revised Business Terms

i) Construction Costs

The Lakeshore Lions would be responsible for the construction of the facility, to be undertaken by Giffels Design-Build Inc. with a maximum project budget not to exceed $33.65 million, inclusive of a guaranteed fixed price construction contract of approximately $33,000,000, plus a $650,000 allowance for the following: two ice flooding machines ($150,000), furnishings/fixtures ($100,000), and street lane improvements($100,000), and “soft costs” such as legal, quantity surveyor ($300,000). The value of the fixed price contract may be amended to include a portion of the $650,000 allowance for such additional costs provided that Giffels Design-Build assumes responsibility for completion of the related items and related payments. All totals are exclusive of GST.

Parks, Forestry and Recreation staff have reviewed the revised cost estimate for the fixed price contract and find it consistent and in line with current market construction prices.

The sub-lease between the City and the Lakeshore Lions would remain subject to the execution of a guaranteed fixed 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.

ii) GST payments and recoveries

In the previous report the total project cost was limited to a total of $29 million, inclusive of all taxes. The Lions have expressed concerns that its proposed fixed price contract was, and will continue to be exclusive of applicable amounts for the Goods and Service Tax (GST).

In support of this change, the Lions have indicated that the GST payable on the construction of the facility, for which they would pay as construction proceeds, would be fully refunded from the Canada Revenue Agency. In other words, although the payment of GST would be added to costs during construction, and funded from loan draws, it would be refunded back by CRA, normally on a 60 day cycle after it was paid. The net effect would be that the total project cost would remain at $33.65 million.

The Lions have provided an opinion from a qualified tax consultant that the GST, as a flow-through tax is borne by the end-consumer. The opinion notes that no tax should be included in the cost of property and services acquired by a registrant to make taxable goods and services in the course of a business. In this case, the persons or groups renting ice time, as end users, would ultimately pay GST on the services consumed at the arena, and the Lakeshore Lions would be entitled to recover GST paid as an input tax credit. Staff have recommended that all GST recoveries be directed toward the project debt.

iii) Project Cash Flow

The revenues and operating expenses associated with the arena complex remain largely unchanged from those reported on in September 2006.

However, the Lakeshore Lions and their lenders have provided updated projections that show improved cash flows by better matching construction completion and arena opening with the autumn hockey season. Previously the arena was scheduled to have opened in April 2008, which would have required carrying operating expenses until September/October without generating revenues. Under the current scenario construction completion in autumn 2008 would occur as the ice rental season has just begun.

This results in improved cash flow and a first year operating surplus is forecasted, whereas an operating deficit was previously forecasted for the first year of operations.

iv) Naming Rights

The arrangement for dasher board advertising on the two pads that M.L.S.E. uses is tied to the Air Canada Centre deal and for all intents and purposes, there is no revenue to be shared with the Lions. Accordingly, an amendment from the September approval is necessary to remove dasher boards from advertising revenue to be shared between the

Lakeshore Lions and MLSE. The Lions and M.L.S.E. will continue to share 50/50 the revenue derived from the naming rights for the facility.

v) Energy Efficient Design and Green Standards

At its September 2006 meeting, the Policy and Finance committee amended the staff report by adding a condition to require the arena complex development to conform with the Toronto Green Development Standards. City staff have been advised by Giffels Design-Build that, if fully implemented, such measures would add significantly to construction costs for the arena complex.

A green roof is not possible because the structure is clear span and cannot support the additional weight, however, reflective panelling will be installed. Also there can be no reuse of building materials as the site is vacant, and no grey water reuse and no rainwater harvesting are practical.

However, with respect to environmental measures, the arena is to be fitted with a state-of the-art heat recovery system that will provide considerable energy savings over the long-term operations of the facility. The Lakeshore Lions have requested that the significant environmental benefits of this system be recognized, and that the project will comply with many elements of the Toronto Green Development Standard. The reduced energy reliance of the arena complex, as a result of the heat recovery system is considered by staff to be a key environmental feature of the project. It should also be noted that this project will redevelop a brown field site.

Furthermore, the system would be eligible for an interest free loan from the City's Energy office under the Better Buildings Partnership program, described further in the Project Financing section listed below.

2. Project Financing

The Lakeshore Lions had made arrangements 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 arena operations, two separate loans had been proposed: (i) a $19 million 35-year fixed rate loan facility, and (ii) a $10 million floating-rate renewable loan facility. Both these facilities require a capital loan guarantee by the City; such guarantee was previously approved by Council in September 2006. With the subsequent increase in project cost, the lender has offered an additional floating rate loan facility to fund the increased project cost, unsecured by a City guarantee, but otherwise on similar terms as the other floating rate loan facility. It is understood that this loan would provide the lender priority security interest in the Project assets and/or cash flows.

i) Fixed Rate Loan

With respect to the $19 million fixed-rate loan facility to be guaranteed by the City, the lender has changed the terms in response to the City's request for early retirement or prepayment options at years 10 and 20 without penalty. For such a structure, the interest rate can no longer be fixed for the 35-year term, but rather must be reset at each renewal period. The interest rate proposed by the lender is calculated as sum of: (i) the yield on the Government of Canada bond maturing closest to the maturity date of the initial term (or respective renewal term); (ii) the prevailing capital markets interest rate swap premium for an interest rate swap of equivalent duration; and (iii) 0.60% per annum for the initial term (reduced to 0.35% in subsequent renewal terms). For the initial 10-year term, the agent's fee of an additional 0.25% interest rate is to be included in the loan repayments to be made by the Lakeshore Lions.

The total interest obligation of the $19 million 35-year fixed rate loan at current rates is estimated at $10 million to the end of year 10 of the loan (the prepayment option juncture). This includes an estimated $1.5 million in capitalized interest, $425,000 as the agent's fee, and $8 million loan interest. The loan interest on balance of the term (years 10-35) is estimated at $13.5 million.

The proposed term of the fixed rate facility, before the addition of the agent's fee (0.25%) is competitive and commensurate with the City's guarantee, totalling 4.94% at current rates, or about 0.79% above the Canada 10-year benchmark bond yield of 4.15%.
The September report put a limit on the fixed-rate facility not to exceed 1.0% above the 30-year Canada benchmark bond. Because the revised terms transfers interest rate risk to the City due to the shortened 10-year renewable loan terms, staff recommend that the interest rate on the fixed-rate loan facility now not exceed 0.95% above the yield on the Canada 10-year benchmark bond, inclusive of agent's commission over the initial 10-year term. For subsequent renewal terms, staff recommend that this interest rate not exceed: (i) the yield on the Government of Canada bond maturing closest to the maturity date of the initial term (or respective renewal term); (ii) the prevailing capital markets interest rate swap premium for an interest rate swap of equivalent duration; and (iii) 0.35% per annum.

For example, the current 10-year Government of Canada bond is yielding 4.15%, the capital markets interest rate swap premium for an interest rate swap of the appropriate duration is currently 0.44%, together with the 0.60% lenders premium for the initial 10-year term results in an interest rate of 5.19%, which exceeds the 10-year Government of Canada benchmark bond plus 0.95% allowance being 5.10%. Thus, the maximum permissible interest rate for the initial 10-year term would be 5.10% inclusive of agent's fee.

ii) Floating Rate Loan

Subsequent to the September 2006 proposal, the lender has committed to a more favourable interest rate, for both the $10 million floating-rate loan to be guaranteed by the City and the additional loan estimated at $3.65 million on essentially the same terms. A condition imposed by the lender on the floating-rate facility is that this loan would take priority security interest in project cash flows. In essence, the interest on this loan would be paid first from project cash flows and ahead of the any interest repayment on the secured loans.

The interest rate to be obtained on the floating-rate facilities is 1.4% below the prime rate, and currently translates to a rate of 4.6%, as compared to the 5.5% (prime rate less 0.50% inclusive of agent's fee) previously anticipated in the September 2006 approval. Part of this reduction is due to the elimination of the agent's fee on the floating rate loan. The lower interest rate together with other construction savings improves the project cash flows and supports the higher project cost. An additional $1 million loan, interest free, is also anticipated to be provided from the City's Energy Efficiency Office for the state-of-the-art heat recovery system incorporated in the design.

Given the revised project cash flows, and the additional condition recommended in this report that requires the Lakeshore Lions to increase their proportion of operating surpluses toward retirement of debt (75%-85%) in order to repay the loans as soon as possible and mitigate City's risk, the floating-rate facilities will be fully repaid in just over 18 years as compared to the originally anticipated timeframe of 16 years.

The proposed term of the floating facilities is competitive and commensurate with the City's guarantee.

In the event that pro-forma revenue projections are not met, the arena operations may result in an operating 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.

iii) City endorsed Loan under Better Buildings Partnership program

There is also the availability of a ten-year interest free loan from the City's Better Building Partnership. The amount that could be advanced to the Lions from this source, up to one million dollars, could be used to reduce the $4.65 million amount additional funding from the Lions private lender and result in further reductions in debt costs for the Lakeshore Lions. The loan is available for projects that demonstrate energy savings by installing systems to recover energy. The heat recovery system in the arena complex will capture excess heat from ice making and use it to heat the facility, resulting in a significant reduction in energy requirements.

3. Project Sensitivity Analysis

With the revised cash flow and debt servicing requirements described above, staff have conducted a sensitivity analysis to ascertain the project's tolerance from variances to the forecasted levels as shown in Table 1 below. For illustrative purposes the project sensitivity as reported on in September 2006 is reprinted in Table 2 below.

Table 1 – Revised Project Cost and Lending Terms
Project Cash Flow Sensitivity Analysis
Cumulative Position – First 5 – Years of Operations
At Revenue and Expense Levels varied from Forecast
(TOTAL PROJECT COST - $33.65 Million)

Column	(1)	(2)	(3)	(4)
Revenue Level	100%	100%	90%	90%
Expense Levels	100%	110%	100%	110%
Revenues	$21,032,726	$21,032,726	$19,279,350	$19,279,350
Expenses	($9,655,763)	($10,577,524)	($9,655,763)	($10,577,524)
Net Operating	$11,376,963	$10,455,202	$9,623,587	$8,701,826
Debt Service	($10,867,904)	($10,197,748)	($9,734,529)	($9,385,141)
Net Income - 5 yrs	$509,059	$257,454	($110,942)	($683,315)
Avg Annual net income	$101,812	$51,491	($22,188)	($136,663)

Table 2 – September 2006 Project Cost and Lending Terms
Project Cash Flow Sensitivity Analysis
Cumulative Position – First 5 – Years of Operations
At Revenue and Expense Levels varied from Forecast
(TOTAL PROJECT COST - $29 Million)

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

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

The business model continues to be sensitive to negative variances in revenues, and expenses from those forecasted by the Lakeshore Lions, most acutely during the initial 5-year operating period, although to a lesser extent under the revised business terms.

At the projected proforma revenue and expense level, a positive net income (after debt servicing) would be achieved, totalling over $0.5 million over the first five years (column 1 of Table 1). The revised net income is slightly lower than previously projected because the new staff recommendation (recommendation 2(vi)) which requires 75% of operating income in years 1 through 3 to be dedicated toward the early repayment of principal, compared with the previous recommendation that required no repayment of principal in years 1 and 2, and 50% in year 3 .

The performance of the revised pro-formas, however, improves comparatively under various negative variances in revenue and/or expenses (Columns 2 - 4). For example, under a negative variance of 10% for both revenues and expenses (Column 4), the total project deficit would be $683,000 over the initial five years (Column 4 - Table 1), compared to $1.1 million under the original terms (Column 4 - Table 2). This improvement is a result of the combined effect of offsetting reductions in loan rates and improved construction cash flow timing, plus the effect of increased conditions on early loan repayment.

The critical period for this project is the first five years. After the initial five-year critical period, even under such negative variance scenarios, the projections indicate the project would generate positive cash flows. This report also recommends, as a condition of consent to the requested changes and in recognition of the financial risks being taken by the City, the Lions increase their land rent payments to City after year 35 from the original 25% of net income, to 50% of net income.

4. Risk Mitigation

In order to reduce or mitigate the conditions that may cause default or in the event of default, the following measures have been incorporated into the general terms of the agreement to be entered into:

(i) Contractual commitment by Giffels Design-Build Inc. for guaranteed maximum construction price of approximately $33,000,000, including contingencies and site risks (up from $29 million in the original Council approval);
(ii) A letter of credit to the City in the amount of $0.5 million, to be first drawn upon in the event of any debt service deficiency (no change);
(iii) Obtaining a $1 million interest-free loan for the energy efficient design of the arena;
(iv) Securing a lower rate of interest on the floating-rate loan facilities;
(v) A provision for renewal or early retirement of the fixed-rate loan facility, at the City’s option and without any prepayment penalties, at the end of year 10 of the loan;

(vi) Requiring a greater contribution by the Lakeshore Lions towards the early repayment of principal on the floating-rate loan facilities, and a greater contribution to a reserve for repayment of the fixed-rate loan facility; and

(vii) A provision for the accrual with interest of any debt deficiency payments made by the City, and securing of 100% of any operating surplus by City until such deficiency is remedied.

CONTACT

Len Brittain
Director, Corporate Finance
Tel: 416-392-5380; E-mail: lbrittai@toronto.ca

Doug McDonald
Manager, Business Services, Parks, Forestry and Recreation
Tel: 416-392-8578; E-mail: dmcdona0@toronto.ca

SIGNATURES

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

ATTACHMENTS

Attachment 1 – Detailed Recommendations

ATTACHMENT 1
Detailed Recommendations

Clause 21 of Report No. 7 of the former Policy and Finance Committee ("Long-Term Sublease of 400 Kipling Avenue to Lakeshore Lions Arena Inc. and Capital Loan Guarantee" – Adopted by Council on September 25-27, 2006) be amended and supplemented as follows:

1. By replacing recommendation 2 (iii) concerning maximum project cost with the following:

   "2(iii) the maximum budget for the project, inclusive of the Giffels fixed-price construction contract and all other capital or soft costs, fees, or charges relating to construction of the project shall not exceed $33,650,000.00, exclusive of GST provided that all GST refunds received in relation to the project shall be applied to the payment of project debt such that the funds may be re-used for other project expenditures;"

2. By replacing recommendations 2(iv) and 2(v) concerning the $19 million fixed-rate loan facility with the following:

   "2(iv) 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,"

   "2(v) the Lakeshore Lions obtaining from their lender an interest rate, and loan terms and conditions to the satisfaction of the Deputy City Manager and Chief Financial Officer, for the proposed 35-year $19 million fixed-rate debt facility commensurate with the City's loan guarantee and credit rating with the interest rate to be fixed for the initial 10 year term, and for each subsequent renewal term, with such rate to be determined 3 days prior to the initial funding date or renewal date as applicable, as proposed by the lender as follows:

   (1) for the initial 10-year term, inclusive of the agent's fees, the lesser of the following:
      (a) the sum of: (i) the yield on the Government of Canada bond maturing closest to the maturity date of the initial term (or respective renewal term); (ii) the prevailing capital markets interest rate swap premium for an interest rate swap of equivalent duration; and (iii) 0.60% per annum for the initial term (reduced to 0.35% in subsequent renewal terms) compounded semi-annually, and
      (b) 0.95 percent above the yield on the Government of Canada 10-year benchmark bond.

(2) For each subsequent renewal term, the sum of (i) the yield on the Government of Canada bond maturing closest to the maturity date of the respective renewal term; (ii) the prevailing capital markets interest rate swap premium for an interest rate swap of equivalent duration; and (iii) 0.35% per annum compounded semi-annually.

3. By adding a new recommendation 2(ix) concerning the floating-rate loan facility:

"2(ix) the interest rate for the $10 million floating-rate facility to be guaranteed by the City, and the additional floating rate facility under new recommendation (14) described below, shall not exceed the CIBC prime rate of interest less 1.40% per annum, compounded monthly, and the loan terms and conditions shall be to the satisfaction of the Deputy City Manager and Chief Financial Officer."

4. By adding a new recommendation 14 concerning the additional floating-rate loan facility to finance the project cost in excess of the $29 million to be guaranteed by the City, as follows:

"(14) the Lakeshore Lions obtaining from their lender an additional floating-rate loan facility unsecured by a City guarantee in a principal amount not to exceed $4,650,000 at the same interest rate provided for in new recommendation 2(ix) above (CIBC prime less 1.4%), and on terms and conditions to the satisfaction of the Deputy City Manager and Chief Financial Officer, including providing the lender priority security interest in the Project cash flows."

5. By replacing recommendation 2 (vi) concerning operating surplus to be used of debt service, with the following:

"2(vi) the Lakeshore Lions be required to dedicate on an annual basis, the following percentage of operating surpluses after required debt service payments, toward the retirement of the principal portion of the floating rate loans – 75 percent in years 1 though 10, 80 percent in years 11 through 13, and 85 percent in year 14 and thereafter until the principal is fully repaid;"

6. By amending recommendation 2 (vii) by deleting the words "75 percent" and replacing with "85 percent" such that the recommendation now reads:

"2(vii) upon retirement of the floating rate loan facility, the City will establish and the Lakeshore Lions will be required to fund a reserve account, funded by 85 percent of all operating surpluses on an annual basis to cover any debt service deficiencies on any balance 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, including interest and penalties that would apply in the event of prepayment, on the fixed rate loan with a review of the risk assessment on the balance of the loan in year 20;"

7. By adding to recommendation (4) concerning any deficiencies in debt service payments by the Lakeshore Lions:

"4(iii) At the City's sole and absolute discretion, in the event that: (i) required debt service payments are not fully made; and, (ii) the City is called upon to make payments under its loan guarantee; and (iii) the City elects not to invoke default provisions under the sub-lease agreement; then, at the City's sole option and discretion, the debt service deficiencies shall be accrued, with interest, to the account of the City, and repayment by the Lions shall be funded from the remaining available operating surplus in each year of the sublease term. For greater certainty, the Lions shall make payment of 100% of any operating surplus before discretionary expenditures in each year of the sublease term to the City until the debt service deficiency and accrual with interest has been reimbursed;"

8. By amending recommendation (11) by deleting the words "25 percent" and replacing with "50 percent" such that the recommendation now reads:

"11. beginning in the 36th year of the term, the Lakeshore Lions will pay base rent in the amount of 50 percent of annual operating surpluses;"

9. By amending recommendation (10) by deleting reference to dasher boards advertising proceeds, such that the recommendation now reads:

"10. the proceeds from the naming rights for the complex be split 50/50 between the Lakeshore Lions and M.L.S.E.;"

10. By adding a new recommendation 15:

"(15) the Lakeshore Lions applying for an interest free loan from the City's Energy office under the Better Buildings Partnership, for the maximum amount under eligibility requirements in relation to the provision and costs of the heat recovery system included in the construction costs, and the principal amount of the additional floating-rate loan facility referred in new recommendation (14) above to be reduced by the corresponding principal amount of the loan under said Better Building Partnership program;"

11. By adding a new recommendation 16:

"(16) the Olympic sized ice pad shall have an initial seating capacity of 1000, expandable in the future up to 5000 seats."

12. By replacing Recommendation (B) concerning Green Development Standards with the following:

> "(B) The entire site, and in particular the parking lot, be landscaped in consultation with Forestry and Urban Design and built in a manner consistent with the Toronto Green Development Standard and the City's environmental objectives, to the extent possible within the maximum project budget, recognizing that substantial environmental benefits will be realized through alternative measures, including a state-of-the-art heat recovery system that maximizes energy efficiency;"