



**STAFF REPORT
ACTION REQUIRED
with Confidential Attachment**

**Amendments to Sub-Lease - Lakeshore Lions Arena
Project**

Date:	August 4, 2009
To:	City Council
From:	Deputy City Manager and Chief Financial Officer General Manager, Park, Forestry and Recreation
Wards:	Ward 6
Reason for Confidential Information:	This report relates to the security of the property of the municipality or one of its agencies, boards, and commissions
Reference Number:	P:\2009\Internal Services\Cf\Cc09023cf – et (AFS #10300)

SUMMARY

The purpose of this report is to seek Council authority to increase the City’s Capital Loan Guarantee for the Lakeshore Lions Arena Project by \$5.0 million, to a revised guaranteed amount of \$34 million, and to secure additional financing.

The Lakeshore Lions Arena Project is on target for substantial completion in time for the scheduled September 1, 2009 opening date. The Lakeshore Lions Arena Incorporated (“Lakeshore Lions”) have made a number of construction changes, including the installation of a state-of-the-art energy efficient dehumidification system and other changes intended to increase the rentable space and rent revenues for the Project.

RECOMMENDATIONS

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

1. The recommendations contained in the Confidential Attachment 1 to this report be adopted.

2. Confidential Attachment 1 remain confidential under the provisions of the *City of Toronto Act, 2006* as it relates to the security of the property of the municipality or a local board.

Financial Impact

There are no immediate financial implications as a result of this report. As outlined in the confidential attachment to this report, there are future financial risks to the City should the guarantee be called.

ISSUE BACKGROUND

On September 25-27, 2006, Council authorized the execution of a long-term sub-lease to be entered into with the Lakeshore Lions for the property at 400 Kipling Avenue owned by the Toronto District School Board (“TDSB”) to facilitate the development of a new four-pad arena complex. As part of this authority, Council provided a capital loan guarantee agreement totalling \$29 million in relation to the financing arrangements between the Lakeshore Lions and their lender to facilitate the construction of the four-pad arena. Council’s approvals in this regard can be viewed at:

<http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/pof7rpt/cl021.pdf>

In 2007, the Lakeshore Lions again approached the City to request an increase in the Project Budget and capital loan guarantee. As a result of further considerations, Council on April 23 and 24, 2007 authorized amendments to the sub-lease agreement to increase the maximum fixed price project budget to \$33.65 million, excluding capitalized interest costs of approximately \$2.7 million. In doing so, Council also imposed additional terms and conditions on the Lakeshore Lions in order to mitigate the some of financial risk to the City from the additional financial burden this request made on the Project. The City’s loan guarantee was not changed and remained at \$29 million, however, the project’s lender, Pacific and Western Bank, was given priority status on the net revenues from the project in respect of the additional financing.

<http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-2875.pdf>

COMMENTS

The Lakeshore Lions is a corporate entity established by the Lakeshore Lions Club, a charitable, 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 approached the City to enter into a public-private partnership wherein the City would enter into a sub-lease with the Lions for the land and provide a capital loan guarantee to enable the Lions to build a new four-pad arena.

The Lakeshore Lions are responsible for the construction of the facility, to which they entered into a contract with Giffels Design-Build Inc. (“Giffels”) to construct with a maximum project budget not to exceed \$33.65 million. The sub-lease between the City

and the Lakeshore Lions was subject to the execution of a guaranteed fixed price contract between the Lakeshore Lions and Giffels Design-Build Inc. Such agreements were executed on September 29, 2007. These agreements require that any changes to the building design be made only with the written consent of the City. The total cost of the original scope was approximately \$36.375 million including capitalized interest costs.

The project is financed by three separate loan facilities supplied by Pacific & Western Bank of Canada to the Lakeshore Lions:

- a \$19 million fixed rate facility and a \$10 million floating rate facility both guaranteed by the City; and
- a \$4.65 floating rate facility secured against the net revenues of the project.

Revised Construction Cost

City staff and the project's lender have become aware of significant changes to the project's scope and undertook an investigation to determine the extent of the construction cost changes. The confidential attachment to this report provides additional detail in this regard. Since then, City staff, Pacific and Western Bank ("the Lender"), Lakeshore Lions and Giffels have met and the Lakeshore Lions and Giffels were asked to review the capital budget to reduce the total and/or secure additional funding and financing with a view to ensure substantial completion of the Project by September 1, 2009, to ensure that ice rentals and other revenue generating activities continue. Capital cost reductions have been agreed to by Lakeshore Lions and Giffels and additional funding options examined.

Revised Business Case

On June 2, 2009, Lakeshore Lions submitted a revised business plan to support increasing the Project Construction Budget. The revised business plan was independently reviewed and analysed by City staff and the Lender. Both groups have come to the conclusion that the revised business case, after making adjustments to the expected revenues and financing rates, can support the additional financing recommended in the confidential attachment of this report.

Project Benefits

This four-pad arena complex will help address the lack of available prime time ice in the City. Currently, there is excessive demand for hockey league play, including practice time and tournaments that cannot be accommodated in existing facilities. 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 part of the agreement with the City, the Lakeshore Lions will provide the City with 800 prime-time hours of ice time per year, at the average City adult ice rate. In addition, the TDSB will receive 500 hours/year of non-prime time ice at no charge.

CONCLUSION:

The additional recommended financing, along with actions taken by the Lakeshore Lions and Giffels to secure additional cost reductions and funding, would ensure that the services continue to be provided to the public and tenants.

The City will assemble a team to closely monitor the ongoing operations of the Lakeshore Lions arena during the balance of the 50 year sub-lease to protect the City's interests per the terms of the executed agreements between the City and the Lakeshore Lions.

Staff has consulted with the City Solicitor on the recommendations contained in this report.

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SIGNATURE

Cam Weldon, Deputy City Manager
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Brenda Patterson, General Manager
Parks, Forestry and Recreation

ATTACHMENT

Confidential Attachment 1
Amendments to Sub-Lease - Lakeshore Lions Arena Project