



**STAFF REPORT
ACTION REQUIRED**

Proposed Basketball Training Centre at Exhibition Place

Date:	August 6, 2014
To:	Executive Committee
From:	City Manager
Wards:	19
Reference Number:	P:\2014\Internal Services\Cf\Ec14025Cf (AFS #20143)

SUMMARY

This report seeks Council's approval for the long-term lease of a land parcel at the west end of the Exhibition Place grounds to Maple Leaf Sports & Entertainment Ltd. ("MLSE") for the construction and operation of a 68,000 sq. ft. high-performance basketball development and training centre and to declare the subject lands surplus to City requirements. This training centre will include two indoor basketball courts along with a range of ancillary areas.

MLSE has committed, as part of the proposed lease agreement, to making the majority of the daytime and evening basketball court time available for community use. The majority of the remaining time will be used for the training of the Toronto Raptor National Basketball League team. Parks staff have indicated that the availability of these basketball courts for community use will address a shortage of premium indoor basketball space in the south downtown.

Staff have also determined that the proposed level of community usage will make the portion of the centre that is open to the public eligible for a property tax and development charge exemption if the facility is designated as a Municipal Capital Facility. This report recommends that Council direct staff to enter into a Municipal Capital Facility agreement with MLSE for the proposed facility.

The proposed land lease will result in an annual rental payment of \$205,000, with periodic adjustments for inflation, to the Board of Governors of Exhibition Place. The financial terms for the proposed lease have been determined through an independent appraisal carried out for the City by Altus Group Limited and have also been reviewed by the City's Real Estate staff.

This report recommends approval of the attached Letter of Intent ("LOI") between the City, the Board of Governors of Exhibition Place and MLSE because the proposal will achieve the following City objectives:

- Extensive public access to a premium grade indoor basketball facility
- Substantial fiscal benefit to Exhibition Place as a result of the ground rent that will be paid by MLSE
- Consistent with the goals set out in the Exhibition Place 2014-2016 Strategic Plan.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council exempt the approximately 1.4 acre shown on the sketch attached as Appendix "B" (the "Leased Lands") from the notification requirements set out in Item MM52.17 adopted by City Council at its meeting held on June 10, 11, 12 and 13, 2014.
2. City Council declare the Leased Lands surplus and approve the City and the Board of Governors of Exhibition Place entering into a lease agreement with Maple Leaf Sports & Entertainment Ltd. for use of the Leased Lands for the construction and operation of a basketball training facility, substantially on the terms and conditions of the Letter of Intent ("LOI") contained in Appendix "A" and on such other terms and conditions deemed appropriate by the Board's Chief Executive Officer, the City's Chief Financial Officer and the City Solicitor.
3. City Council authorize and direct staff to take all steps necessary with respect to the Leased Lands to comply with the City's real estate disposal process set out in Chapter 213 of the City of Toronto Municipal Code.
4. City Council pass a by-law pursuant to Section 252 of the *City of Toronto Act, 2006*, providing authority to:
 - a. enter into a municipal capital facility agreement with Maple Leaf Sports & Entertainment Ltd. in respect of the portions of the high-performance basketball training centre ("Basketball Training Facility") within the Leased Lands that will be used as an eligible municipal capital facility for cultural, recreational and tourist purposes as a result of public use for the majority of the operating hours of the facility, when such portions can be determined ("the MCF Portion of the Facility");
 - b. exempt the MCF Portion of the Facility from property taxation for municipal and school purposes, which tax exemption is to be effective from the later of the following dates: the date the municipal capital facility

agreement is signed, the date the tax exemption by-law is enacted, or the commencement date of the Lease with Maple Leaf Sports & Entertainment Ltd.

- c. exempt the MCF Portion of the Facility from development charges if such charges would otherwise be exigible.
5. Council declare the MCF Portion of the Facility to be for the purposes of the City and for public use.
6. City Council authorize the City Clerk to give written notice of the By-law when enacted pursuant to the requirements of the *City of Toronto Act, 2006*.

Financial Impact

Rental Income for Exhibition Place

Under the terms of the Letter of Intent ("LOI"), the Board of Governors of Exhibition Place will, following completion of the proposed facility, receive an annual land rent of \$205,000 which will be adjusted once every 5 years in accordance with the Consumer Price Index. The total value of rental payments over the base 20-year term is estimated to be approximately \$4.4 million in nominal terms or \$2.6 million in present value terms. If MLSE elects to extend the term by 10 years, this estimated total amount will increase to approximately \$7.6 million in nominal terms or \$3.7 million in present value terms.

Capital Costs

In order to compensate for the reduction in parking inventory resulting from the proposed development, Exhibition Place has proposed that the underutilized baseball diamond located to the east of the proposed development site be converted into surface parking. It is estimated that this conversion will have a total construction cost of approximately \$1 million. This amount will be funded from the Exhibition Place capital budget as Exhibition Place will receive all of the parking revenues from the lot.

The capital cost to construct the basketball training facility is estimated to be \$30 million. This cost is to be entirely funded by MLSE. All other capital costs for the project, including any unanticipated capital, geotechnical or environmental remediation costs, will also be borne by MLSE.

Operating Costs

All operating costs for the facility will be borne by MLSE, including the portion that will be deemed a Municipal Capital Facility.

Property Tax Revenue and Development Charges

This report recommends that the portion of the proposed facility with public use during the majority of the time when the facility is open be designated as a Municipal Capital Facility and exempted from the payment of property taxes and development charges. This public use area will account for approximately 32% of the total facility floor area. Regular commercial property taxes will still be payable for the remaining portions, currently estimated to be 68% of the facility, which will be exclusively for the use of the Toronto Raptors.

Lease Termination Payment

The base term for the lease will be twenty years but MLSE has the option to extend the lease for two further terms of ten years each, provided however, that the City has the right to decline to proceed with the second renewal term. If MLSE exercises its second renewal option but the City determines for any reason that it does not want the lease to continue, or the parties cannot agree on the rent to be paid, acting reasonably, the City may elect to end the lease after thirty years but would be required to pay the sum of \$1.5 million to MLSE in 2044. No payment would be required if either:

- MLSE does not exercise the second renewal option or
- MLSE does exercise its second renewal option and the City allows the lease to continue

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting held on June 10, 11, 12 and 13, 2014, City Council adopted Item MM52.17 titled "Community Notification with Respect to the Declaration of City Land as Surplus and the Disposal of the Land". Adoption of this Item imposed new notification requirements that must be satisfied as part of the process of declaring land surplus, including the need to place signage on the designated land for a minimum period of 60 days prior to the commencement of the process of declaring the land surplus.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.MM52.17>

ISSUE BACKGROUND

Description and Current Use of Lands to be Leased

As shown in Schedule A of the attached Letter of Intent, the 1.4 acre site proposed to be leased to MLSE is located within a broader 7 acre area west of the Medieval Times building. This broader 7-acre area currently includes 5 acres used for surface parking that

serves nearby tenant premises and a 2-acre fenced baseball diamond that is used annually for the CNE Pee Wee Baseball Tournament and also for overflow CNE parking.

At present, the existing surface parking lot provides approximately 660 parking spaces. These spaces are actively used and the prime parking area for the tenants (Medieval Times, Liberty Grand, Muzik Clubs) whose long term leases require the provision of parking by Exhibition Place. This is also an important lot during peak days when Exhibition Place hosts some of North America's largest consumer shows such as the National Home Show, National Boat Show and the Royal Agricultural Winter Fair. It is also a significant lot for the Canadian National Exhibition; the largest one at the west end of the grounds.

The 2 acres which are presently used for the Pee Wee Baseball Tournament and temporary parking during the CNE period, has been a baseball diamond for many years. However, it is not a regulation size field and has no support facilities such as change rooms or washrooms. Following the expansion of the baseball fields in Coronation Park, the diamond at Exhibition Place has not been used by City Parks or by the community outside the CNE period. At one point there was an exploration of converting the area to a BMX track and at that time, the CNEA explored with City Parks the possibility of moving the Pee Wee Baseball Tournament into Coronation Park. While there were some issues with such a move, City Parks will explore this option for 2015 and future years.

Planning and Development Status of Site

The City Official Plan designates this area of the Exhibition Place grounds as a Regeneration Area. This designation permits a wide range of residential, commercial, institutional and even light industrial uses. Regeneration Areas are intended to reintegrate parts of the City "that are no longer in productive urban use due to shifts in the local or global economies".

Since 2001, this area has also been designated by the Board of Governors of Exhibition Place as a development site within the Exhibition Place Strategic Plan. The 2014 – 2016 Strategic Plan, approved by the Board of Governors in February 2014, directed Exhibition Place staff to seek proposals from the private sector for development of this site. The Board's position has specifically been to seek commercial or institutional uses, and not residential uses, for the site in order to avoid conflicts with other land uses on the Exhibition Place grounds.

In addition, the Board's agreements with existing tenants on the grounds preclude certain types of commercial uses that already exist, or will soon exist, on the grounds such as banquet halls, conference and trade show facilities, or a hotel.

This development, both the training facility and the proposed parking lot, are subject to the full Site Plan Approval process by City Planning.

Site Limitations

Within the broader 7 acre area, there are some limitations that would have had to be addressed in any development proposal which include:

- A major Hydro One high voltage line / easement traverses the site
- An area to the north of the site is reserved for the future LRT
- In its present roadway configuration the site would have difficulty servicing a development that would attract high volume of cars.

In addition, the parcel is situated in a heritage area of the grounds dominated by 2 storey buildings designated under the Ontario Heritage Act.

COMMENTS

City and Exhibition Place staff were approached by MLSE with a proposal to develop a site within Exhibition Place for use as a high performance basketball development and training centre. Negotiations that included staff from Exhibition Place, City Parks, Forestry and Recreation, and City Finance took place, which led to the proposed Letter of Intent attached as Appendix "A". The following discussion highlights some of the principal elements of the proposal.

Description of Proposed Basketball Development and Training Centre

Training Centre Building

MLSE has proposed to construct and operate a 68,000 sq. ft. high performance basketball development and training centre on a 1.4 acre portion of the broader 7 acre site described above. This 1.4 acre site is located in the south-east corner of the broader area in order to avoid conflicts with the Hydro One easement discussed above.

The proposal calls for two basketball courts, of which one will be primarily used by the Toronto Raptors and another will be primarily for community use. The majority of the building area (approximately 68% of the above-grade space) will be made up of administrative, change-room, specialized fitness, kitchen, storage, and video replay space that will be entirely reserved for use by the Toronto Raptors.

MLSE has indicated that the estimated total construction cost for the facility will be approximately \$30 million.

Parking Replacement

Exhibition Place staff have estimated that the construction of the proposed training centre will reduce the capacity of the existing parking lot by approximately 200 spaces.

However, in order to address this loss, Exhibition Place staff have proposed that the existing baseball diamond to the east of the proposed centre be converted to surface parking. This baseball diamond is not a regulation-size park, has no amenities and is only used by the CNE.

The proposed conversion would replace the lost spaces and actually increase the overall parking inventory by 50 spaces. As a result, there would be no negative impact on the parking needs of the tenants and shows, nor the parking revenues earned by Exhibition Place or the CNEA. It is estimated that the cost of converting the baseball diamond to surface parking will be approximately \$1 million. This cost would be funded from the Exhibition Place capital budget and funded from revenues earned from the parking lot combined with the MLSE rental revenue.

While the proposed parking lot removes greenspace, the LOI incorporates an obligation for MLSE to provide new community greenspace in the vicinity of the development. The potential location and extent of this greenspace will be considered during the City Site Plan process. However, Exhibition Place staff have indicated the possibility of converting the parking area north of Medieval Times to greenspace as it is near Dufferin Street and the existing community, and there are already washroom facilities located in that area.

Proposed Lease Arrangements

Responsibility for Costs and Facility Management

Under the terms of the proposed Letter of Intent, MLSE will be responsible for managing the construction and operation of the proposed facility. They will also be responsible for all capital and operating costs associated with the facility. This will include responsibility for any unanticipated capital, geotechnical or environmental remediation costs.

Term

The base term for the land lease will be 20 years. MLSE has the option to extend the lease term for two further terms of ten years each, provided however that the City has the right to decline to proceed with the second renewal option. If MLSE exercises its second renewal option but the City determines for any reason that it does not want the lease to continue, the City may elect to terminate the lease at the end of the first renewal term, but would be required to pay the sum of \$1.5 million to MLSE in 2044. No payment would be required if either:

- MLSE does not exercise the second renewal option or
- MLSE does exercise its second renewal option and the City allows it to continue

Surplus Designation

This report seeks approval of an exemption to the new surplus land notification requirements imposed by City Council at its meeting in June, 2014, which require giving notice for a period of 60 days before a property is declared surplus, and including in such notice advice to local residents. The requirement also applies to leases over 21 years, such as the one being recommended in this report.

Giving such a notice would be misleading under the circumstances. Further, given the shortened Council meeting schedule this year, adhering to the requirement would delay the commencement of construction for several months making completion of the project in time for the 2016 all-star game impossible. Therefore, this report recommends that City Council exempt the subject lands from these notification requirements.

End of Term Requirements

At the end of the lease, the ownership of the building will revert to the City. Under the terms of the LOI, MLSE will be responsible for maintaining the building in good condition until the end of the lease.

Rent

MLSE will have an initial rent-free period during the facility construction period. This period will extend for the lesser of 2 years or until the time the facility is granted a partial occupancy permit.

After this initial period, MLSE will pay the Board of Exhibition Place an annual rent of \$205,000 per year with adjustments every five years that are equal to the increase in the Consumer Price Index.

The proposed rental amount is based on the results of an appraisal carried out by Altus Group Limited. This appraisal estimated that the site has a total value of approximately \$3.9 million and that an appropriate annual rental amount would be \$205,000 based on a capitalization rate of 5.25%. MLSE has agreed to pay the costs of the appraisal.

Altus developed its land value estimate based on a comparison of the subject site with other commercial properties in Toronto which have similar characteristics. City Real Estate staff have reviewed the appraisal and agree with its conclusions.

Conditions

The LOI is subject to several conditions which must be fulfilled on or before December 15, 2014, including: approval by City Council, the Board of Governors of Exhibition Place and the MLSE Board of Directors; satisfactory completion of the site plan approval process; MLSE making satisfactory arrangements with the CNEA for use of the lands without the two years' notice required under the current City and Board agreement with

the CNEA; MLSE receiving satisfactory assurances that it will not have to interrupt construction in 2015 during the Pan Am Games and the CNE; MLSE being satisfied with its due diligence investigations regarding environmental, geotechnical and hydrogeological conditions; the parties having agreed upon all material terms of the ground lease; MLSE being satisfied with the municipal capital facility designation; and the Leased Lands having been declared surplus.

Community Use

The LOI requires that MLSE ensure that that community use will account for the majority of the facility's typical opening hours. Community use has been defined in the LOI as use by non-professional recreational or competitive basketball and non-competitive badminton or volleyball users. This will include use through City of Toronto Parks and Recreation programs, the TDSB and TCDSB for select events, the MLSE Community Outreach Program, the Toronto Raptor Foundation; not-for-profit community sports/recreation associations, leagues, or clubs, high level teams and potentially for a youth basketball tournament during the CNE.

During the 6-7 week period from the end of the elementary public school year to the commencement of the CNE, the programming and use of one of the courts ("the Community Court") will be carried out exclusively by City Parks, Forestry and Recreation. The City will not be charged for the use of this court during this calendar period.

MLSE will be responsible for the scheduling of the remaining community use during the Toronto Raptor's playing season in order to prevent conflicts with the Raptor schedule. However, once the Raptor schedule is confirmed in September each year MLSE may turn over up to 10 % of time during for scheduling through the City Parks, Forestry & Recreation permitting system. These blocks will be offered to public at City of Toronto's Council approved permit rates for this type of facility. Parks, Forestry and Recreation will remit to MLSE the fees for the time actually permitted. There is no cost to the City for time that is not permitted by the community.

MLSE will prepare an annual report of community usage in order to demonstrate that the majority of the community usage requirement has been achieved. The City will have the ability to audit the usage records and request any necessary backup information.

Municipal Capital Facility Designation

The *City of Toronto Act*, 2006 provides for the opportunity to designate certain types of cultural, recreational and tourism facilities as Municipal Capital Facilities, and then exempt these facilities from property taxation and development charges. Such facilities must be owned by the City or a limited number of other prescribed public sector entities and City Council must declare by resolution that these facilities are for the purposes of the City and are for public use.

As a result of the high level of public access being proposed for this facility through the proposed community usage, staff are recommending in this report that the public access portion of the facility (both basketball courts together with ancillary public space) be designated as a Municipal Capital Facility and exempted from the payment of property taxes and development charges. The facility site is owned by the City and this report recommends that Council declare the public access portion of the Basketball Training Facility to be for the purposes of the City and for public use in light of the proposed community use of that portion of the facility.

Benefits of Proposed Lease

Community Use

The principal benefit to the City arising from the project will be the extensive availability of premium basketball court space for community use.

Currently, the City of Toronto has 78 indoor gymnasiums where basketball is played, in addition to 32 outdoor basketball courts. The time allocated to Parks, Forestry and Recreation at the new training centre will increase the available permits for basketball by 10% and increase the capacity of City instructional programs by 3%.

In addition to providing a general increase in basketball facility inventory offered through City Parks, Forestry and Recreation permitting and programs, this project will also result in a new opportunity for the community to take advantage of a particularly well-equipped and high-quality facility. The 29 existing City gyms in the South District are smaller class B and class C facilities which lack features such as scoreboards and designated change rooms. Therefore, the new state of the art MLSE facility, which incorporates the full range of Class A features, will close a gap in the south district and will significantly add capacity to Parks, Forestry and Recreation portfolio. Higher-level teams such as Canada Basketball and international-level teams will be particularly able to take advantage of this type of high-quality facility.

Other Benefits

The proposal will also result in the following benefits to the City and Exhibition Place:

- Generates \$205,000 in annual rental income for the Board of Governors of Exhibition Place
- Redevelops the site in a way that is:
 - compatible with the built forms and uses of the existing nearby buildings on the Exhibition Place grounds and
 - consistent with the objectives set out in the Exhibition Place 2014-2016 Strategic Plan

- Creates an interim use for the site while allowing for potential long-term changes in land use after 30 years when new infrastructure, such as the LRT, may allow for much more intensive use of the site
- Does not require any changes to the existing Hydro One easement.

CONTACT

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SIGNATURE

Joseph P. Pennachetti
City Manager

ATTACHMENTS:

Appendix A - Proposed Letter of Intent from Maple Leaf Sports and Entertainment Ltd. to the Board of Governors of Exhibition Place and the City of Toronto