



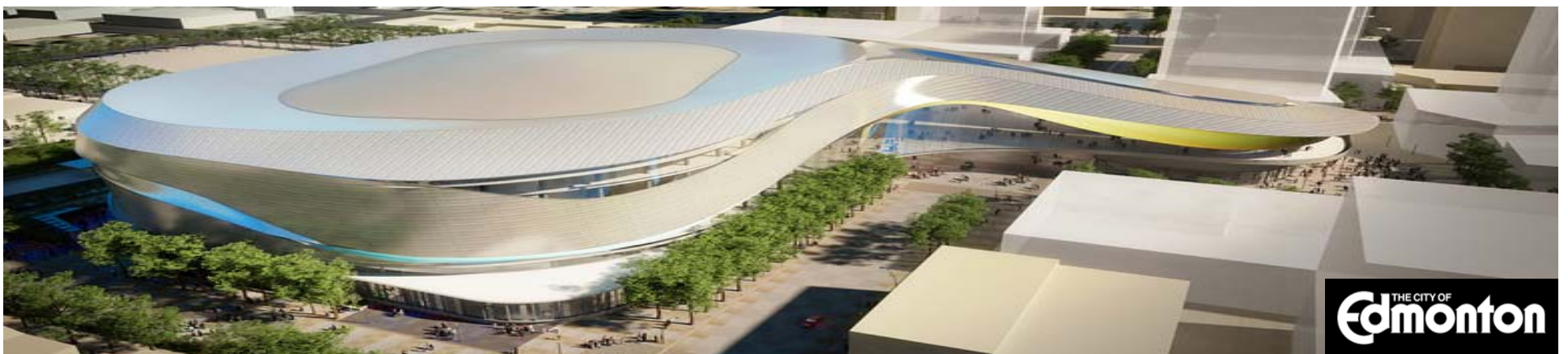
THE WAY AHEAD

Downtown Arena Update

January 23, 2013

TRANSFORMING | **EDMONTON**

BRINGING OUR CITY VISION TO LIFE



Agenda

- Previous Council Direction (October 17th & December 12th, 2012)
- Design Options
- Katz Group Statement
- Status of Negotiations
- Next Steps

Previous Council Direction

October 17, 2012

- Suspend negotiations with Katz Group on downtown arena
- Look at framework for potential avenues to sustain NHL hockey in Edmonton (October 2012)
- Council did not rescind support for October 2011 Framework

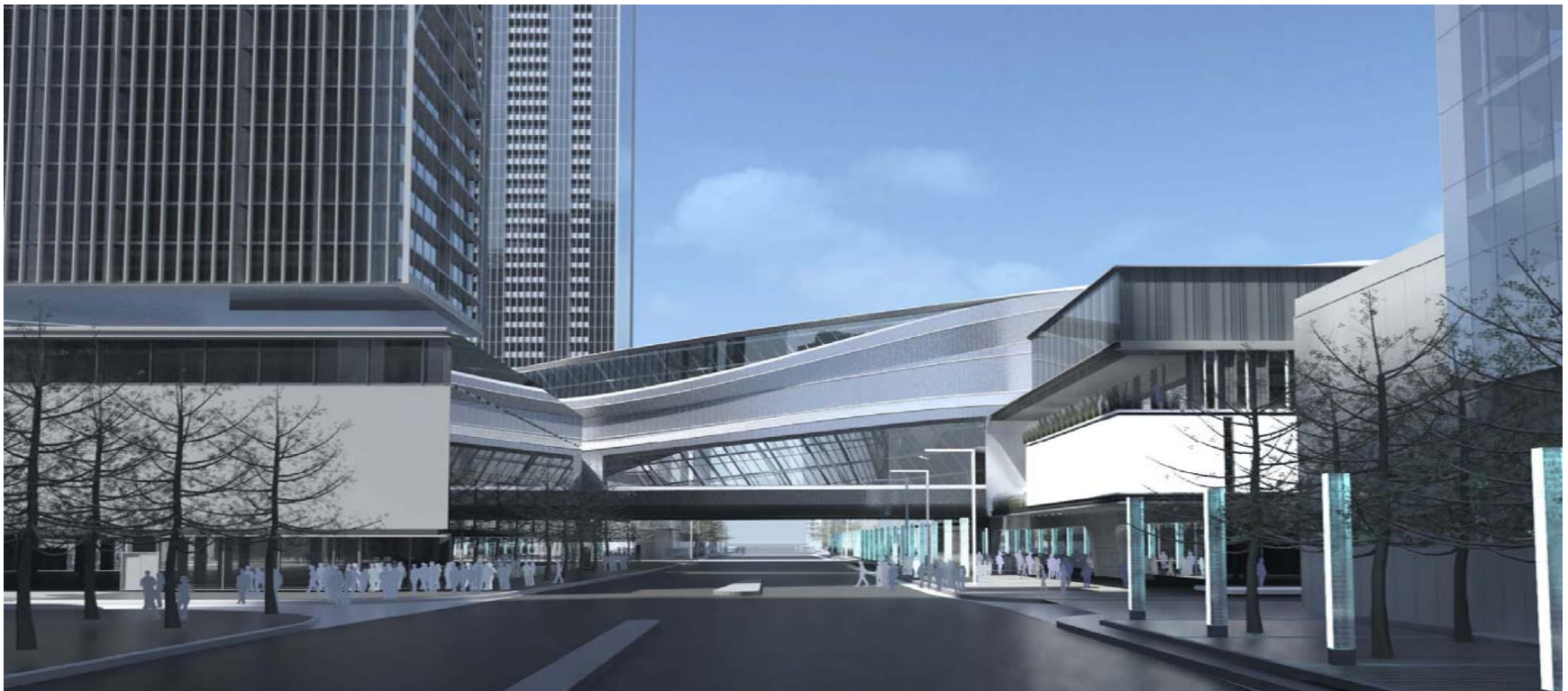
December 12, 2012

- Re-open negotiations with Katz Group
- Extend land inventory agreement
- Secure mediator & financial analyst
 - Evaluate other non-financial issues with Katz Group

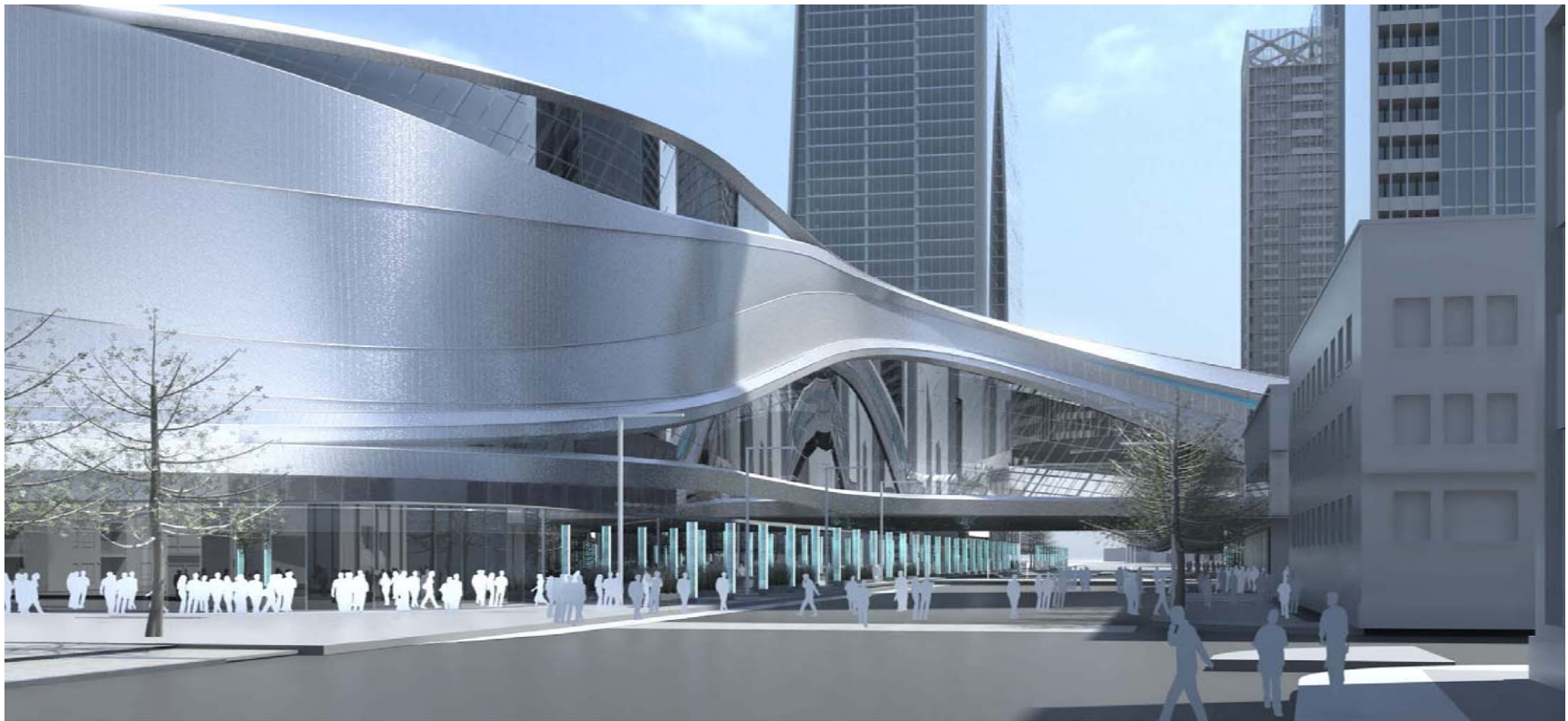
Design Options

- Explored three options:
 - Option A – value engineered original design including Wintergarden and underground parkade
 - Option B – revised design to include open air pedestrian linkage over 104th Avenue and above grade parkade
 - Option C – revised design to remove Wintergarden and include above grade parkade

Option A -View Looking West 104th Avenue



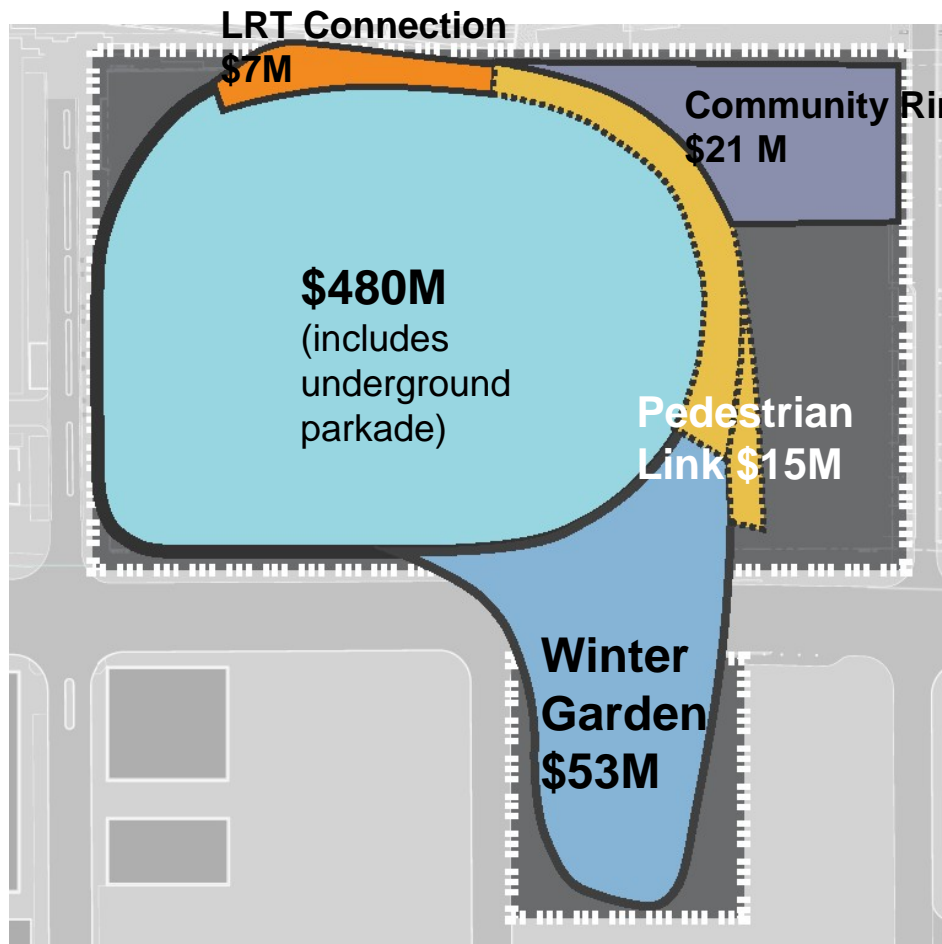
Option A - View Looking East 104th Avenue



Option A - Plaza at Grade



Option A



- 18,559 (manifested seats)
- Similar in design & program to original design including:
 - Wintergarden
 - 350-stall underground parkade
 - Stainless steel cladding executed more cost effectively
- \$480M arena
- \$601M total project (includes arena and public infrastructure)
- \$219M City contribution
- \$143M Katz Group contribution
- Provides guaranteed tenant

Option B -View Looking East 104th Avenue



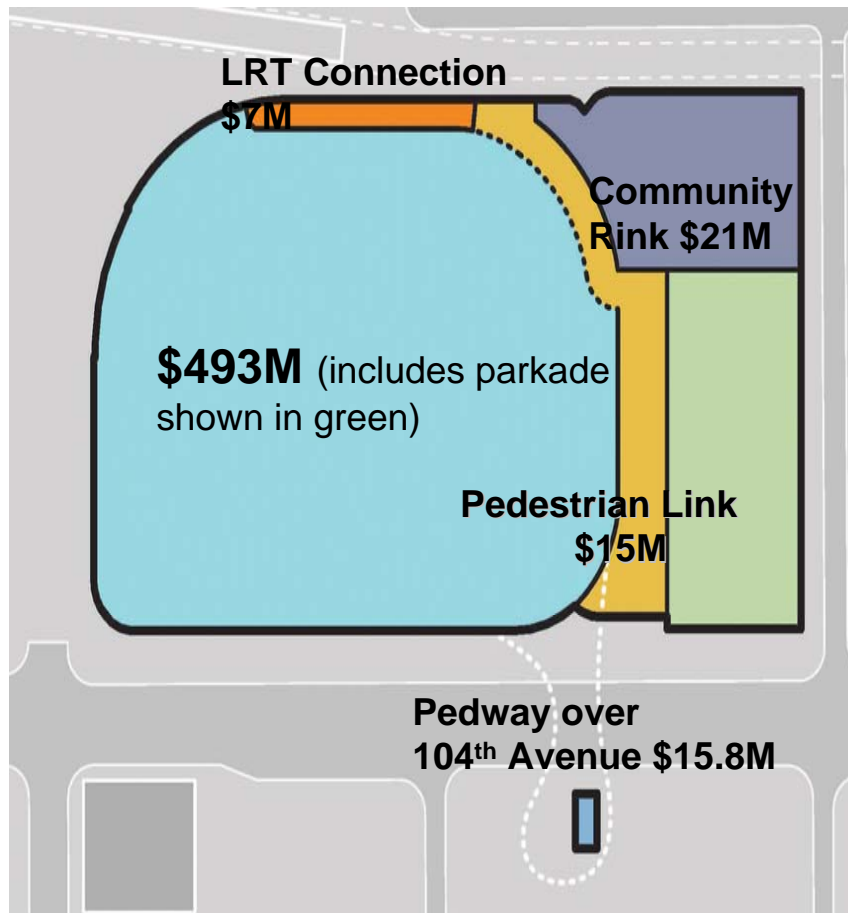
Option B - Plaza at Grade



Option B -View Looking West 104th Avenue

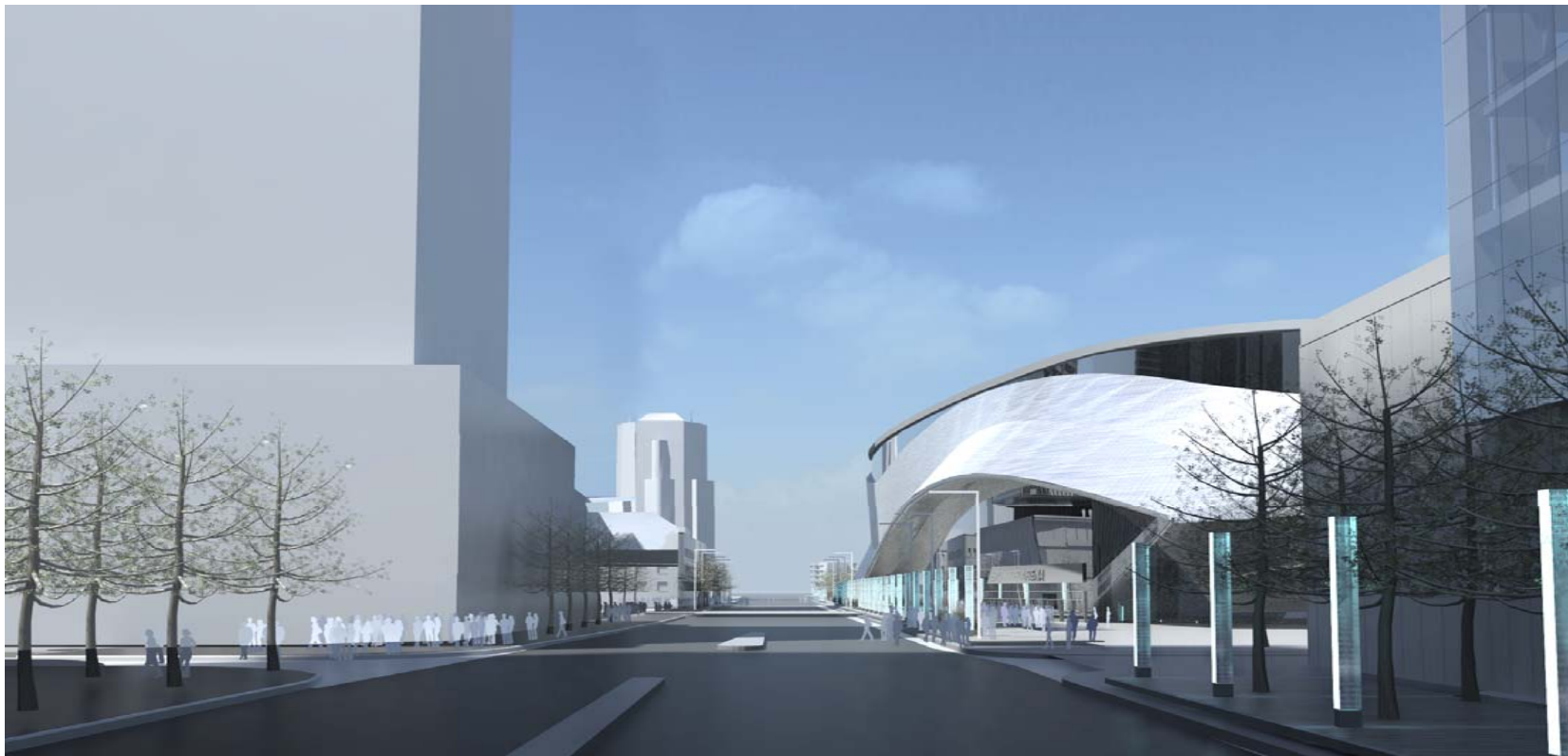


Option B

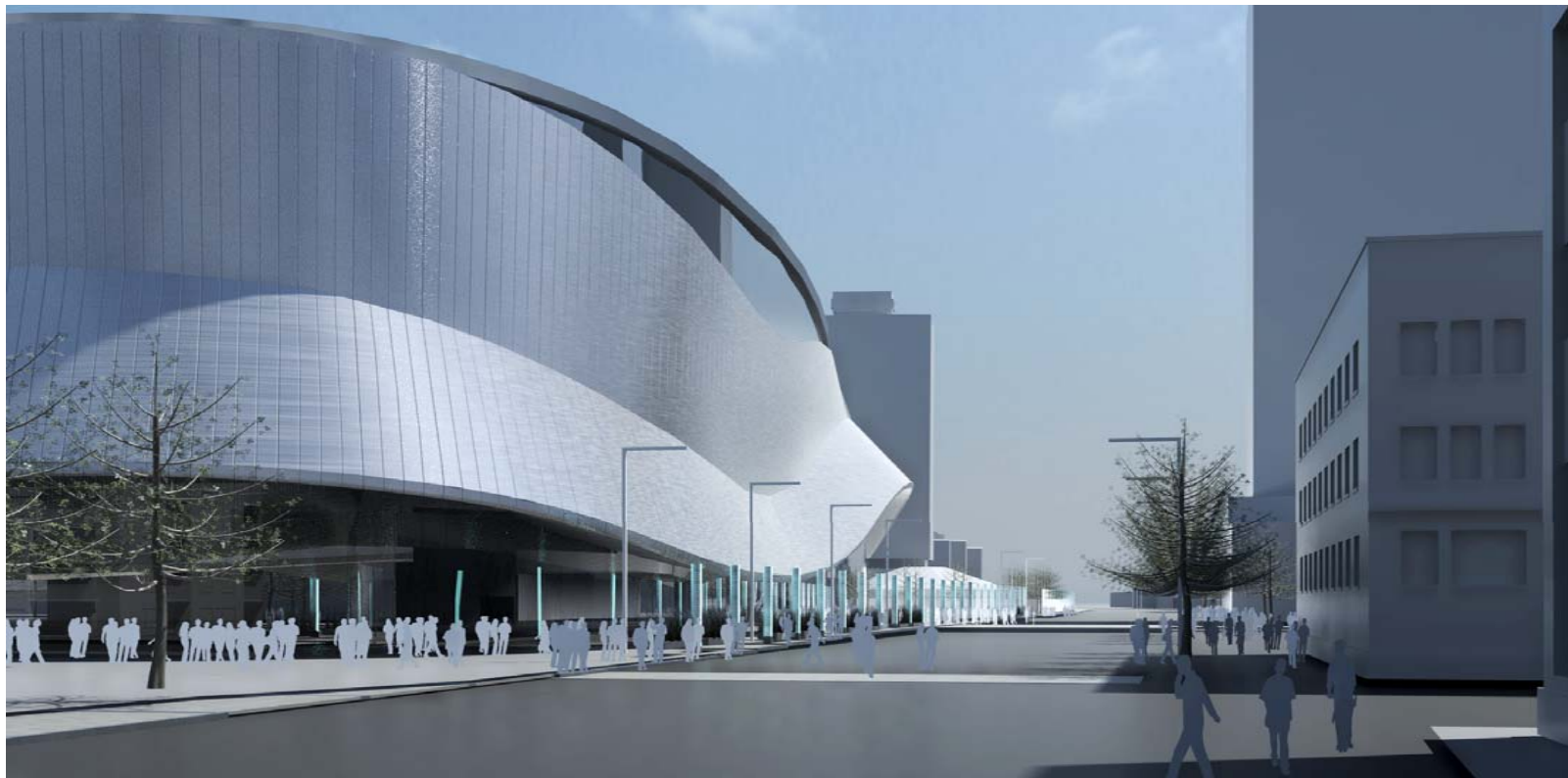


- 18,559 seats
- Similar in design & program to original design, differences are:
 - Winter Garden replaced with pedestrian link over 104th Ave.
 - 340-stall above-grade parkade
 - Seating bowl revised, removal of some premium spaces
 - Additional opportunities for integration of 104 Avenue introduced
 - New at grade entry plaza added
- \$493M arena
- \$576.8M total project (includes arena and public infrastructure)
- \$214.9M City contribution
- Tenant to be determined

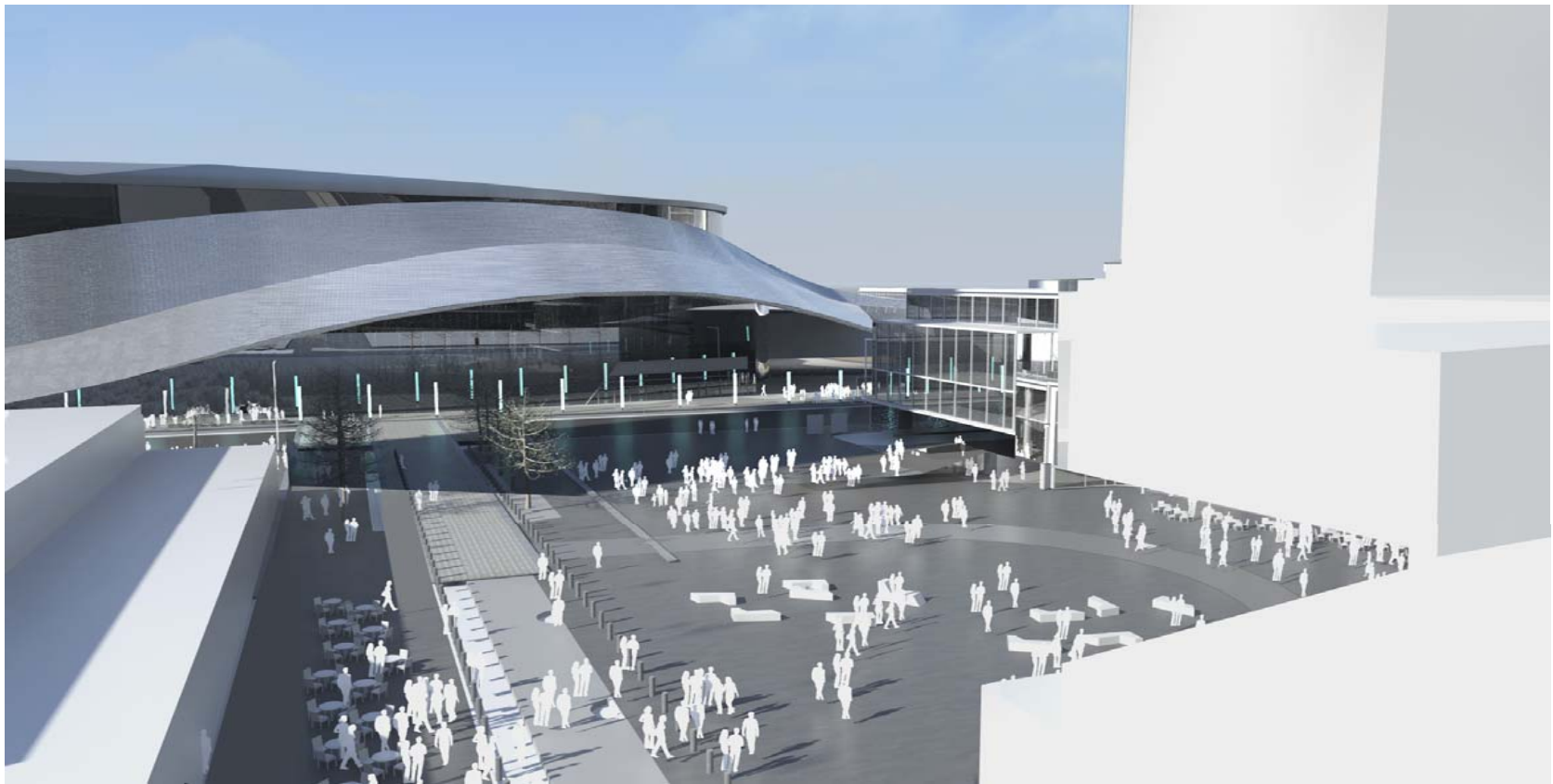
Option C - View Looking West 104th Avenue



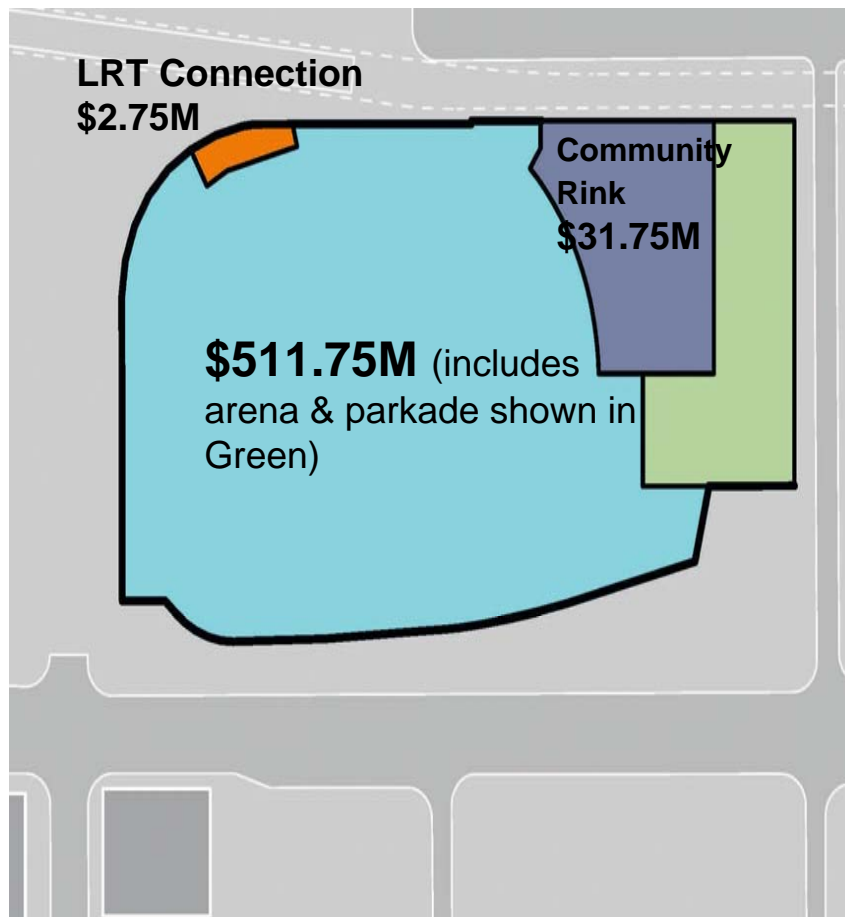
Option C -View Looking East 104th Avenue



Option C - Plaza at Grade



Option C



- 18,559 seats
- Similar in design & program to original design, differences are:
 - Winter Garden deleted
 - 300-stall above-grade parkade & 44 stalls below grade for team use
 - Seating bowl revised, removal of some premium spaces
 - Additional opportunities for integration of 104 Avenue introduced
 - New at grade entry plaza added
- \$511.75m arena
- \$571.25M total project (includes arena and public infrastructure)
- \$217.25M City contribution
- Tenant to be determined

Financial analysis of three options

Option	Total Project Cost	Municipal Contribution
Option A	\$601M	\$219M
Option B	\$576.8M	\$214.9M
Option C	\$571.25M	\$217.25M

Finance Options

- Proposed funding model from 2011 Framework & modified in accordance with a proposed agreement
- Option B & C no private capital investment but City would expect to earn rent similar to investment in Option A. Tenant would need to be determined.
- City does not recommend condominiumization of seats model as it borrows from future revenues

Design Option Summary

- Administration looked at 3 options and while Options B & C are less expensive both require additional design work, time and risk relative to tenancy
- Administration is recommending the updated Framework with Option A as the basis for design as it:
 - Meets goal of sustaining NHL hockey in Edmonton
 - Guarantees long term tenancy
 - Reasonable financial arrangement for municipality
 - Realizes City's vision of arena & entertainment district outlined in The Way We Grow & contributes to ongoing revitalization of downtown
 - Iconic structure in support of Capital City Downtown Plan

Katz Group Statement

Recommended Negotiated Framework

- Interviewed a number of potential mediators
- Concurrently resumed negotiations with the Katz Group
- As a result of a series of meetings, Administration is recommending the City enter into an agreement based on the following negotiated framework

Recommended Negotiated Framework

October 2011 Approved Framework	Recommended Negotiated Framework
Sustainability of NHL Hockey in Edmonton is a prime consideration.	No change.
The Arena Building Project (which includes 350 parking stalls) has a maximum price of \$450 million.	Upset (maximum) price is \$480 million with the \$30 million increase to be split 50/50 between the City and the Katz Group.
The Katz Group will pay the principal and interest costs associated with \$100 million of capital cost over 35 years.	The Commitment is increased by \$15 million to cover half the projected increase in the cost of the arena building – total commitment to be paid as rent over 35 years (including interest).

October 2011 Approved Framework	Recommended Negotiated Framework
<p>User fee levied through ticket surcharge to fund \$125 million plus interest to fund the capital project.</p>	<p>Ticket surcharge to be levied by the City with the rate to be determined by Edmonton Arena Corp (EAC). The rate to be at least sufficient to fund principal and interest payments for the repayment of the \$125 million of initial capital over a 35-year term and a \$1.5 million annual contribution to on-going major capital maintenance. Funds generated by the surcharge in excess of this amount will be retained by EAC. A ticket surcharge will be levied on admissions at Rexall Place and shall be at the same rate as the ticket surcharge to be charged on non-hockey events at the Downtown Arena, to a maximum of 7%. The proceeds of this surcharge will be remitted to the City.</p>
<p>City of Edmonton will contribute \$125 million to the arena building including \$45 million to be funded by a Community Revitalization Levy</p>	<p>The Commitment is increased by \$15 million to cover half the projected increase in the cost of the arena building for a total of \$140 million.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
<p>Land to be purchased at the same price and on the same terms and conditions as in the current purchase agreements plus third party costs associated with the land acquisition and zoning.</p>	<p>No change with the exception that Administration negotiated an extension in the deadline in the Land Inventory Agreement from December 31, 2012 to April 30, 2013 as per Council direction.</p>
<p>The City's costs to build an LRT connection to the arena will be capped at \$17 million.</p>	<p>The City's costs to build an LRT connection to the arena will be capped at \$7 million. The City is responsible for all operating and on-going capital costs for the LRT connection.</p>
<p>Pedway (Wintergarden bridge) over 104 Avenue is required adjacent infrastructure funded outside of the arena building project. Katz Group and City each pay half of cost; however, the City contribution is limited to no more than \$25 million. The Katz Group contribution will be amortized over the 35 year term of the lease with interest costs included.</p>	<p>Clarification that If the net cost exceeds \$50 million, Katz Group is to cover the overage. "Net Costs" means the gross cost of the Wintergarden less the reasonable value of the retail commercial space in the south end of the Wintergarden.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
<p>Community rink to be constructed adjacent to the arena contingent on funding from the federal and provincial government with total maximum cost of \$21 million. City to own and operate the rink with all revenues and costs accruing to the City.</p>	<p>The City will proceed with the construction of the community rink for a maximum of \$21 million. City to own and operate the rink with all revenues and costs accruing to the City. However, EAC will act as an agent for the City to solicit advertising and sponsorship revenue without commission or restriction in conjunction with advertising and sponsorship of the arena. This provides an opportunity for the City to share in the upside of sponsorship packages that include the community rink. Approval of sponsorship proposals for the community rink rests with the City.</p>
<p>Katz Group to have option for 3 ten-year lease extensions.</p>	<p>EAC to have first right to negotiate up to 3 lease extensions for ten years and will have the first right of refusal on any subsequent lease or land and building sale negotiated with a 3rd party.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
	<p>In the event of an EAC default under the lease, Rexall Sports Corp. (RSC), owner of the Edmonton Oilers, shall be obliged to cure the defaults under the lease and assume all obligations under the lease in place of EAC. Alternatively, RSC may enter into a commitment to fund payments associated with the EAC's \$140 million contribution under a new lease with the City that is consistent with the existing Rexall Place lease (including F&B rights for hockey, but not in respect of other events, and excluding any reversion of ticket tax to RSC). In any event, the City will have in place a ticket tax bylaw at a level sufficient to sustain the capital maintenance levels specified in the lease with EAC and to protect the City for the \$125 million ticket tax related debt.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
<p>The Katz Group is to operate the new arena and is to pay all operating expenses, capital maintenance and repair.</p>	<p>EAC will operate the new arena and will pay all operating and maintenance expenses. Major building capital rehabilitation and replacement will be the responsibility of the City to be funded with \$1.5 million annually from the ticket surcharge. All other maintenance and capital enhancements and productivity improvements will be the responsibility of EAC. The City and the Katz Group have agreed on a definition of Capital Maintenance costs and on an allocation of responsibility.</p> <p>EAC will pay all required Education Property Taxes. The municipal property taxes to be paid by EAC and affiliates is to be a maximum of \$250,000 annually. This amount will be reduced to the extent that the aggregate municipal taxes levied on the arm's length sub-tenants of the Arena carrying on business only within event hours exceeds \$250,000 annually.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
<p>The land assembly is to be completed by October 31.</p> <p>The design process is to commence as soon as possible. The City will fund the cost of design to a 60% level on which the tender documents will be based in order to get the best possible Guaranteed Maximum Price for the arena. The cost of the design would be part of the \$450 million cost of the arena. The conceptual design work completed to date is owned by the Katz Group. If either party elects not to complete the deal, the City will have ownership rights to the design work undertaken by the City.</p> <p>The City will continue to work to secure a \$100 million contribution to the project from the Province.</p>	<p>In order to move forward on the arena on a timely basis, the projected start date for construction would be August 2013 through a phased Guaranteed Maximum Price (GMP).</p> <p>The City will continue to work to secure a \$100 million contribution to the project from the Province</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
<p>The Katz Group waives the requirement for the non-compete clause.</p> <p>The City has agreed that a competitive market between Rexall Place and the new arena requires a level playing field and so, once the new arena is open will eliminate any subsidies to Rexall Place. A supplementary ticket surcharge will also be levied against all admissions at Rexall Place in the future at the same percentage (currently estimated at 7%) as the ticket surcharge to be levied at the new arena. For as long as the ticket surcharge at the new arena is allocated to the City to pay for the costs of borrowing the \$125 million in construction cost to be paid by this user fee, the City will retain the revenue generated by the ticket surcharge at Rexall Place. City Council will determine the use of those funds; however, the intent of the agreement is for the funds not to go back to Northlands.</p>	<p>Once the new arena is open, all subsidies to Rexall Place will be eliminated. A ticket surcharge will be levied on admissions at Rexall Place and shall be at the same rate as the ticket surcharge to be charged on non-hockey events at the Downtown Arena, to a maximum of 7%. The proceeds of this surcharge will be remitted to the City.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
The Edmonton Oilers Hockey Club will stay in Edmonton for 35 years	The location agreement is to be supported by a letter of cooperation from the NHL.
Design process to be undertaken collaboratively between the City and the Katz Group.	The City and EAC will complete the design and building of the facility. Any disputes will be handled by Mr. Farbrother and Mr. Karvellas or their designees.
City access to the new arena for any 28 days a year at its discretion.	No change; however, for clarification, the City will have access to the Arena and Wintergarden for up to 28 days a year at EAC's incremental cost with all food, beverage and other revenue accruing to EAC. The City's use will be for community purposes – not for CFR or other commercial events.

Council October 2011 Approved Framework	Recommended Negotiated Framework
<p>The Katz Group will enter into a Community benefits agreement with the City, taking into account the activities of the Oilers Community Foundation.</p>	<p>No change; however, additional clarification provided: Acknowledgement of community contribution of Oiler’s Community Foundation. In addition, both Parties commit to community benefits including (i) establishment of a community advisory committee to identify and address community issues, (ii) a senior member of the Oiler’s operations will be available to meet at least annually with the community advisory committee, (iii) development/ facilitation of training/employment for low income/high need Edmontonians.</p>
<p>The Katz Group commits \$100 million to associated adjacent investment, with a least \$30 million to be invested prior to construction of the new downtown arena and the balance to be subject to commercial viability.</p>	<p>No Change; however, if EAC elects not to proceed with the commercial development associated with the east side of the arena that necessitates a change in the design of the east wall of the Arena, the City will be responsible for the cost.</p>

Council October 2011 Approved Framework	Recommended Negotiated Framework
Any method of personal seat licenses, condominiumization model or seat rights would not be pursued by the Katz Group.	No change.
The City will enter into a marketing partnership with the Edmonton Oilers, investing \$2 million annually in a program to promote the image of the City and to build City recognition with the Oilers brand. The City will enjoy a most favoured nation status in its marketing package. The marketing package will be of a quality and impact that is consistent with arrangements with the private sector at a similar level.	No change.

Next Steps

- Council approval of Option A as the basis for design & construction in accordance with modified agreement with Katz Group
- Council approval of revised negotiated framework for the design and construction of Option A arena