

Greater Sudbury Event Centre Update

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Recommended by:	Chief Administrative Officer

Report Summary

This report provides an update on several key aspects of the development of the Greater Sudbury Event Centre Project at the Kingsway Entertainment District and recommends directions for Council in accordance with the decisions it wanted to consider at key project milestones.

Resolution

1. That the City of Greater Sudbury approves the Greater Sudbury Event Centre Budget as outlined in the report entitled "Greater Sudbury Event Centre Project Update", from the Chief Administrative Officer, presented at the City Council meeting on July 12, 2022, with a total budget of \$215 million, comprising the following elements:
 - a. Construction of the Event Centre building and associated exclusive siteworks, including dedicated parking and Festival Square with an estimated construction cost of \$186.1 million, including a project allowances budget of \$31.6 million.
 - b. Phase 2 Design Development and ongoing costs of \$3.0 million.
 - c. The City of Greater Sudbury's portion of shared site development costs, estimated at \$21.3 million
 - d. Costs to date of \$3.8 million
 - e. HST Costs of \$0.4 million
2. That the financing plan for the Greater Sudbury Event Centre for a project budget of \$215 million include consolidated municipal debt instruments totaling \$205 million, with a repayment plan for additional debt funded from the following sources:
 - a. Event Centre revenue sources – 20%
 - b. Municipal Tax Levy – 80%
3. That authority be delegated to the General Manager of Corporate Services to secure debt in the amount of \$115 million, for a 30 year term.
4. That, subject to execution of the KED Project Completion Agreement, the City of Greater Sudbury approves September 15, 2022 as the commencement date for site preparation.

Relationship to the Strategic Plan, Health Impact Assessment and Community Energy & Emissions Plan (CEEP)

This report addresses the following strategic objectives outlined in the CGS Strategic Plan 2019-2027:

- Economic Capacity and Investment Readiness
- Asset Management and Service Excellence

From the perspective of the CEEP, the project respects the objective to minimize the production of greenhouse gases in the operation of new assets.

Financial Implications

The financial implications of this report are addressed in the Financial Plan as outlined in the report and in Resolution #2 above. The total budget, if approved as presented, would be \$215 million.

Further, the recommended financing plan includes additional debt in the amount of \$115 million, as identified in Resolution #2, with an estimated annual debt repayment amount of \$7.48M. The plan anticipates funding would be provided as follows: revenue generated from Event Centre activities (20%) and municipal property taxes (80%). This means, over the 30-year repayment term, the property tax levy would fund approximately \$172 million of the project budget, and revenue from Event Centre activities would fund approximately \$43 million. If revenue from Event Centre activities is insufficient to meet this requirement, the property tax levy would need to fund the difference.

Background

On July 14, 2021, through resolution CC2021-227, Council provided direction to staff proceed with the development of the Greater Sudbury Event Centre without further delay.

CC2021-227

THAT staff proceed to advance the work required to develop the Event Centre without further delay in accordance with the existing, approved Cost Sharing Agreement, a project schedule that produces a facility which is ready for use in 2024, and regular progress reporting to City Council;

AND THAT the Executive Director of Communications, Strategic Initiatives and Citizen Service be delegated authority to negotiate, execute and subsequently amend or extend any agreements to produce the work required for delivering the Event Centre Project in 2024, subject to Council's approval of the following three decision points:

- a) Confirmation of the site preparation contract, including the commencement date established with the site development partners*
- b) Confirmation of the Venue Operator*
- c) Confirmation of final budget based on the result of the Design/Build Request for Proposals*

The City of Sudbury Event Centre will replace the 70-year-old Sudbury Community Arena (SCA), which is home to the Sudbury Wolves of the Ontario Hockey League (OHL) and annually hosts various concerts and events. As per the PriceWaterhouseCoopers (PwC) 2017 Feasibility and Business Case, the SCA has reached or gone beyond its useful life as a functioning sports and entertainment venue. As well, the SCA appears to attract fewer total events, including "special events" like concerts, family shows and other sporting events, that could be available here if the facility was capable of hosting them. Council endorsed the recommendations in the 2017 PwC report through Council Resolution CC2017-62 and directed staff that the technical specifications for a new 5,800-seat Event Centre be developed concurrently with the site selection process for a design-build procurement method through Council Resolution CC2017-64.

The Event Centre at the Kingsway Entertainment District continues to follow a path that will realize Council's direction and vision for the facility. The overall project continues to represent one of the largest non-industrial

investments that the Greater Sudbury community has ever seen and is poised to be a landmark development for the next several decades. Unlike typical public sector investments, where private developments often occur years later, private sector investment will occur concurrently with the city's investment in the Event Centre.

The negotiations of the major terms of the Project Completion Agreement are nearly complete. The resulting agreement will ensure that construction of the project represents concurrent private and public investment.

Staff continue to advance work on the Event Centre as directed by Council and this report provides recommendations on several decision points and also provides an update on current progress.

Procurement Update

A Request for Proposal (RFP) for the Design-Build of the Greater Sudbury Event Centre was issued to the three (3) short-listed Proponents on January 28, 2022.

On April 8, 2022, the procurement process changed from a traditional design-build (DB) to a progressive design-build (PDB) by means of an Addendum and is summarized in the Event Centre Update report to Council on June 16, 2022.

The RFP closed on June 16, 2022, and the City received two (2) compliant Proposals. A third short-listed proponent chose not to submit a Proposal. An evaluation team, comprised of City Staff and an external Compliance Team, conducted a structured evaluation process, as per the RFP, of both Proposals. Several subject matter experts (SME), retained by the Compliance Team, analyzed the Proposal submissions. As with all aspects of this procurement process, the City's Fairness Monitor participated in all meetings as an independent third-party process and evaluation monitor to ensure that the procurement process was fair, open and transparent. The Fairness Monitor has indicated that they are satisfied with the fairness of the process to date. Once the evaluation is finalized a letter confirming this opinion will be forthcoming. A more detailed report is expected following the conclusion of the procurement process.

Non-binding construction budget estimates were provided by both Proponents as part of their RFP submission. This information informed the updated project budget estimates and the financial plan recommendations included in this report. Upon Council approval of the project budget and conclusion of the evaluation, Phase 1 of the PDB will be complete and the City will begin negotiations of the Design Development Agreement with the preferred Proponent as part of Phase 2 of the PDB procurement process. The Design Development Agreement will not be signed until the Project Completion Agreement is finalized and executed.

Once there is an agreement between the City and the Preferred Proponent, the Preferred Proponent will work with the City to complete the detailed design and establish both a target price and firm schedule for the Event Centre. These deliverables will complete the second phase of the process, likely in late 2022. If the target price exceeds the approved budget, direction will be required from Council.

Project Budget and Details

The following Project Budget was developed with the following information:

- Non-binding Class D Cost Estimates from the Proposal Submissions.
- Updated Cost Estimates from the Consultants designing the Road, Intersection Improvements, and Storm Water Management Pond.
- Cost Estimates from awarded Early Works Contract.
- Estimates to complete for the professional services and salaries for the remainder of the work.

Part of the Compliance Team included a Quantity Surveyor (costing consultant) to assist in the detailed review of the cost estimates provided. While there were some variances in the approaches taken from the

proponents, their submissions were consistent with the requirements of the RFP. The Quantity Surveyor concluded that the values cited in the proposals represent reasonable cost estimates.

The following table summarizes the Event Centre project budget. When costs are part of an existing cost sharing agreement, such costs shown represents the City share.

Project Costs Summary	
<i>Costs to date (City Share shown):</i>	
Feasibility and business case, site evaluation	\$353,639
Integrated site design	\$258,680
Detailed site design, engineering, professional fees,	\$1,768,998
External Legal Fees	\$628,009
Basketball floor, related equipment	\$129,834
Salaries	\$624,909
<i>Subtotal</i>	\$3,764,069
<i>Phase 2 and Ongoing Costs:</i>	
Detailed site design, engineering, professional fees, external fees, salaries	\$1,000,000
Preferred proponent design development fees	\$2,000,000
<i>Subtotal</i>	\$3,000,000
<i>Phase 3 Costs:</i>	
<i>Building Construction Costs and Design Fees:</i>	
Building Construction (per Class D Estimate +/- 15%)	\$113,000,000
General Requirements and Fees	\$16,000,000
Hydro Connection to Event Centre	\$1,500,000
Phase 3 Detailed Design Fees	\$5,000,000
<i>Subtotal</i>	\$135,500,000
<i>Internal Site Construction Costs:</i>	
Site work (parking and landscaping)	\$11,300,000
Festival Square and Bus Loop	\$5,200,000
General Requirements and Fees	\$2,500,000
<i>Subtotal</i>	\$19,000,000
<i>Building and Site Allowances:</i>	
Design allowance	\$15,000,000
Escalation allowance	\$12,700,000
Construction allowance	\$3,900,000
<i>Subtotal</i>	\$31,600,000
<i>Cost Sharing Agreement Costs:</i>	
Early Works	\$8,500,000
Intersection Improvements	\$2,200,000
Road Construction	\$8,100,000
Storm Water Management Pond	\$2,500,000
<i>Subtotal</i>	\$21,300,000

<i>Total Net HST</i>	\$214,164,069
<i>HST Payable by Municipality</i>	\$400,000
<i>Project Total</i>	\$214,564,069

The following industry definitions are provided to assist in understanding the above Projects Costs Summary:

General Requirements and Fees – this includes the head office support, profit margin, bonding, insurance, site specific resources required to support and coordinate the on-site work of the general contractor and subcontractors.

Design Allowance – is for additional items or changes that occur as design progresses (currently at conceptual stage). The more complex or unique is the project, the higher the design allowance.

Escalation Allowance – is to cover material and labor cost escalation calculated from the date of the estimate through the completion of construction.

Construction Allowance – to cover the additional cost potentially incurred for change orders during construction, either unforeseen conditions or owner requested changes.

Through Phase 2 Design Development the City will work with the design-builder team to further develop the design and provide more certainty to the allowances carried. Unlike a typical design-build contract, the City will be working collaboratively with the design-build team to maintain the project budget and identify opportunities to provide cost savings.

Reasons for Increased Cost Over 2017 Estimate

It should be noted that the original project budget used a general “cost per seat” approach to determine the cost of building the event centre. This provided an adequate starting point for a competitive Design Build RFP process, which was expected to follow soon after the budget was approved. Delays in the form of objections from individuals and community groups prevented that process from proceeding in a timely manner. Delays in the project have stretched to beyond five years and pushed the detailed cost analysis to 2022.

The design and costing work completed by the two PDB RFP proponents is the first detailed costing analysis for the event centre since its original design estimate. These new estimates, prepared in the context of the pandemic, supply chain shortages and extraordinary inflationary pressures, are significantly higher than previous estimates but in line with industry trends.

Statistics Canada offers a Non-Residential Building Construction Price Index (NRBCPI) that is demonstrated in the following table. Since there isn't a local index specifically for Greater Sudbury, the City's policy is to use the index for Ottawa/Gatineau as a proxy. From 2017 to 2021, the NRBCPI increased by 34.6% in Ottawa/Gatineau according to Statistics Canada.

As identified in other reports to Council the predicted inflation rate for 2022 is 12%, 5% for 2023, and 4% for 2024. The Compliance Team Quantity Surveyor confirmed that their firm has undertaken several repricing exercises, which is estimating the construction cost without any changes to the design, and these have reached 12% this year. They are also projecting future annual inflation rates of 5% and 4% for Ontario in the next two years. While the project budget has increased, the cost will continue to escalate into the future.

Financing Plan

The following provides an overview of the required Financial Plan. The current project budget is \$100 million

and the municipality's operating budget currently includes sufficient funds to meet the repayment obligations for the \$90 million borrowed in 2020 to support the project. The additional financing described in this report would require funding of approximately \$7.48 million per year, with \$6.0 million provided by the property tax levy and \$1.48 million provided by Event Centre revenue sources.

Current project budget:	\$100M
Additional project budget required:	\$115M
Total Project Budget:	\$215M
Additional financing required:	\$115M
Repayment Term:	30 years
Interest Rate:	5%
Funding Source(s):	Tax Levy 80% Event Centre New Revenues 20%
Annual requirement for additional financing:	\$6.0M (Tax levy) \$1.48M (Event Centre revenue sources)

Event Centre revenue sources have been previously discussed, and in other communities represent typical revenue streams for facilities like this. These additional sources include parking charges, a capital surcharge on the ticket, and increased naming rights fees.

It is anticipated that approximately 20% of the annual payment can be offset with such revenue sources. there is opportunity to structure potential parking fees to align with the City's CEEP goals by either providing higher occupancy vehicles with preferred parking locations, or lower fees.

Recent naming right deals have been more than \$200,000 annually, which is double the value included in the 2017 Business Plan.

These revenues are estimated and will vary according to activity levels at the Event Centre. The municipality would fund any variance between required and actual revenue levels to ensure annual debt repayment obligations are met.

Council has requested information on the potential for increased property tax revenue through an MPAC pre-development analysis. Staff continue to work with MPAC Regional staff on this aspect of the project and expect to have results by the end of the month. These will be circulated to Council as soon as they are received.

Project Schedule

Staff continue to advance the project as per the direction of Council with the anticipated opening date of the Event Centre in 2025. As described in the Project Completion Agreement, the schedule aligns with all KED partners opening and operating their respective facilities at the same time.

The design and construction of the Event Centre is based on the Progressive Design Build schedule, which includes three (3) phases as described in the June 16, 2022, report to City Council. The following highlights the key milestones in the PDB procurement process:

- Phase 1 – RFP
 - Proposals (concept design, preliminary budget, and preliminary schedule) submitted by short listed proponents (completed in June 2022)
 - Budget approval to City Council (Q3 2022)

- Phase 2 – Design Development
 - Design Development Agreement (Q3 2022)
 - Detailed Design, Target Price and Firm Schedule (Q4 2022)
- Phase 3 – Design Build
 - Design-Build Agreement (Q4 2022)
 - Complete Design (Q1 2023)
 - Construction (Q2 2023 to Q3 2025)

The Event Centre construction schedule includes coordination of construction with other planned construction contracts (roads, intersection, and stormwater management facility), as well as consideration for the local climate.

The project is currently on schedule with the procurement submission.

Project Completion Agreement

The KED partners, which include Gateway, Genesis Hospitality, the Developer, and the City, continue to meet on a weekly basis. As per the Cost Sharing Agreements, these discussions include scheduling, expenditures, zoning, land use/severance, and detailed design information as well as updates on individual project progression. Since January the major discussion item has been the terms of the Project Completion Agreement (PCA). As outlined in the January 11, 2022 report to Council, the PCA is intended to obligate each party to construct and operate their respective facility in accordance with the agreement's terms. The negotiations are nearly complete, and the major terms will be provided to Council for approval. The signed PCA is required before any other steps are authorized.

As stated earlier, this PCA is a unique opportunity for the City. The vast majority of public investment projects, in any city, are constructed with the expectation of future private development. This PCA obligates the investment of private funds alongside the public investment. The total value of the shared infrastructure investment of the PCA is over \$57,100,000 with the City share being approximately \$21,300,000. These values do not include the significant investment that each party is required to invest in the construction and ongoing operation of their own facilities.

If approved, at the end of 2025 the KED will consist of a casino, a hotel, an event centre, and 21 hectares of serviced land, possibly already under development.

Council Decision Points

On July 14, 2021, through resolution CC2021-227, Council provided direction to staff proceed with the development of the Greater Sudbury Event Centre without further delay, subject to Council's approval of the following three decision points:

- a) Confirmation of the site preparation contract, including the commencement date established with the site development partners.
- b) Confirmation of the Venue Operator
- c) Confirmation of final budget based on the result of the Design/Build Request for Proposals

This report provides a recommendation for two of the decision points; the confirmation of the start date with the site development partners and the approval of the project budget.

A preferred Venue Operator has been confirmed and negotiations on contract terms are underway. These negotiations are ongoing and subject to Council approval.

If approved, this report confirms the addition of an additional decision point for Council to agree to the major terms of the PCA, as well as its execution, prior to authorizing any additional work.

As outlined in previous updates to Council, the shift to the Progressive Design Build (PDB) Procurement process maintains the final budget Council decision point and provides a multi-step collaborative process prior to finalizing the design and cost. If the project budget is approved, the (PDB) procurement process will move to Phase 2, Design Development. The Design development will continue with regular updates on costs and conclude with a design build proposal with a target price and schedule. If the target price, which could be lower than the recommended budget described here, is within the approved budget the design build agreement will be signed. If the target price is above the budget, staff will report back to Council for further direction.

Conclusion and Next Steps

Staff continue to follow the direction Council provided July 2021 to deliver the project without further delay. In collaboration with the corporation's development partners steps have been, and are being, taken to mitigate risk wherever possible and coordinate work so that planned outcomes are achieved. The following is a summary of the next steps, including council decision points as mentioned in this report:

- Council approval of Project Completion Agreement (PCA) Major Terms (Q3 2022)
- Signing of PCA (Q3 2022)
- Award of the PDB Phase 2 Design Development (Q3 2022, subject to PCA approval)
- Council approval of the Contract Terms and Conditions for the preferred Venue Operator
- Commencement of site preparation (September 15, 2022, subject to PCA approval)
- Road and Intersection Construction, plus Storm Water Management Pond (Q2 2023)
- Event Centre Construction (Q2 2023)
- Event Centre opening will be in 2025.

Regular Council updates will continue as they have since the project started in 2017.

Resources Cited

Council Report, "Event Centre Update" – June 16, 2022

- <https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=46696>

Council Report, "Event Centre Update" - January 11, 2022

- <https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=43075>

Council Report, "Event Centre Update" - September 28, 2021

- <https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=41990>

Council Report, "Greater Sudbury Event Centre Next Steps" – July 14, 2021

- <https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=40480>

City Council Resolution CC2021-227, "Greater Sudbury Event Centre Next Steps" – July 14, 2021

- <https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=41719>

PwC Report, "Sudbury Events Centre Update Report" – June 16, 2021

- <https://pub-greatersudbury.escribemeetings.com/FileStream.ashx?DocumentId=40189>

PwC Report, "Proposed Sports and Entertainment Centre, Feasibility and Business Case Assessment" – February 21, 2017

- <https://www.greatersudbury.ca/city-hall/current-projects/large-projects1/kingsway-entertainment-district-and-arena-event-centre/kingsway-pdfs/pwc-report/>