

Background

The Sudbury Community Arena has been serving the residents of Greater Sudbury for over 60 years. Designed primarily as a hockey venue, the Arena has hosted concerts, curling events such as the Brier and Scott Tournament of Hearts, Canada and Remembrance Day celebrations, as well as major hockey events.

Sudbury Arena's fixed seating capacity of 4,470 and overall standing of 5,186 no longer reflect the needs of Greater Sudbury and the surrounding region. Nor does the building adequately accommodate the needs of the concert, trade show and the entertainment industry, made more important by way of the fact that Sudbury Wolves only play 40 to 50 home games per year.

In April 2016, City Council passed resolution CC2016-149 directing staff to take the next steps in the implementation of four large capital projects including an Event Centre. This resolution is consistent with Council direction in its Strategic Plan to "Invest in large projects to stimulate growth and increase conferences, sports and events tourism, and celebrate cultural diversity".

In July 2016, as part of its initial due diligence, City Council engaged a consultant to develop a Phase I Feasibility and Business Case analysis that was presented to Council March 2017. The study concluded the Greater Sudbury market could support an Event Centre with approximately 5,800 seats to service demand with an approximate cost of \$80 million.

Subject to Council's approval of the Phase 1 Feasibility Study, and building on the conclusions and recommendations made in the study, the following next steps are recommended:

- Determine the location of the Event Centre based on the evaluation criteria in the Phase I report
- Finalize estimated costs, taking into account any site-specific requirements and servicing needs
- Prepare bid documents for a Design/Build RFP concurrent with the site selection process including the pre-qualification of prospective Design/Build teams
- Prepare bid documents for an RFP to select an Operator
- Negotiate the terms for a new lease agreement with the Sudbury Wolves
- Develop a financing strategy
- Report to Council in June

This report will outline the key findings of the Phase I report, provide further details regarding recommended next steps and describe the process for site evaluation.

Phase I Key Findings

As PWC's report describes, there is a market in the Greater Sudbury area of approximately 550,000 people that could be served by a new arena/event centre. The optimal size is estimated to be 5,800 seats, with features that include:

- 35-40 fixed concession points of sale including 10 portable concession locations
- Approximately 5,020 general admission seats
- 10 loges boxes with 40 seats
- 500 club seats
- 24 private suites with 10 seats per box
- Contemporary back of house amenities to support a variety of sports and entertainment events (see Appendix A, pages 37-41 for more information)

Size and Project Cost

The recommended size of the facility is approximately 5,800 seats with the estimated overall cost, not including land and site servicing estimated at \$80 million. At this size, the Event Centre will be large enough to host bigger events such as a Memorial Cup but small enough to have a higher likelihood of attracting season ticket holders/sellout attendance levels.

For this price, the Event Centre would have all amenities of a modern day facility designed to create an intimate and exciting spectator experience. Features will include "Front-of-House" components such as a main lobby offering uncongested access to the main concourse, "House" components such as comfortable seating and private suites and "Back-of-House" components including modern day dressing rooms and vehicle entry for trucks to access the event floor.

Event Centre Capital Financing

The majority of Event Centre's in Canada are owned and financed by their respective municipalities, although a few of had some level of Provincial and Federal support for construction. Capital costs may be offset somewhat through initiatives such as the sale of naming rights and fundraising. As well, there may be some private sector participation (as happened in Sarnia, Brampton, Guelph and London) but the majority of capital and financial risk is typically borne by the municipality as Event Centre's in mid sized cities are generally not profitable.

Event Centre Operations

A pro forma of the Event Centre provided in the Phase I report projects an annual operating deficit of \$655,000 in its first year of operation growing to an annual deficit of \$825,000 in year 5. By comparison, the operating deficit at the Sudbury Arena in 2016 was approximately \$400,000. Key factors that explain the differences between these two figures are:

- Asset renewal charge included in the project operating model to account for repair/renewal needs that is not currently funded
- An anticipated management fee to maximize revenue (eg. gaining access to the entertainment and event industry) , marketing expertise and managing efficiencies and cost containment
- Increase in personnel costs compared to those at the existing Sudbury Arena given the increased scope of the operation

The pro forma projects a conservative number of new calendar bookings including concerts, family shows and other sporting and entertainment events. In addition, it projects revenues from naming rights, a ticket surcharge to preserve “the long-term maintenance and improvement of the arena”, a ticket “convenience fee” and other ice rental revenues.

It also assumes a new lease agreement with the lead tenant, the Sudbury Wolves. This agreement will influence the City’s share of event, concession and advertising revenues. The pro forma assumes a lease arrangement more in keeping with new OHL venues.

Prior to the issuance of an RFP to select a venue operator, it has been recommended by the consultant that the City negotiate a “term sheet” of key lease terms with the Sudbury Wolves. The purpose of negotiating a term sheet will be to provide comfort to the City of the Sudbury Wolves’ commitment to playing in the new building, regardless of location; it will also provide prospective venue operators with a listing of key terms and conditions (including, for example, the length of lease, the amount of rent the team would pay, how various revenue streams would be shared between the team and building, including revenue from sources such as advertising, food and beverage, etc.) so that proposals can be compared on an apples-to-apples basis. This approach was undertaken by the City of Moncton prior to it issuing its RFP for its new arena.

Event Centre Benefits - Economic Impact

The study concluded that an Event Centre has the potential to generate significant short and long term economic benefits to the City of Greater Sudbury. During the construction of the facility, there will be a direct correlation between the amount of money spent constructing the project and the accompanying benefits which will include jobs created and spending that will be circulated within the community.

Operationally, the level of benefit that is expected to arise will be based on the level of spending within the facility which will be correlated to the increased number of users that the Event Centre is expected to attract.

The construction of an Event Centre will also have some level of urban development benefits as evidenced by other mid sized cities who have built Event Centres. Examples include the Essar Centre in Sault Ste Marie, the K Rock Centre in Kingston and the Budweiser Gardens in London who have all enhanced the viability of surrounding businesses. Other communities have built Event Centres on greenfield sites that were part of a redevelopment strategy to maximize surrounding commercial development.

In either case, the development of an Event Centre will have substantive economic benefits to the City projected to include:

- \$131 million in direct and indirect spending during the facility's construction along with \$48 million in employment income growth
- \$6.9 million annually in direct and indirect spending during the facility's operation

Event Centre Benefits - User Experience

A report was presented to Council March 2015 that concluded that it would cost approximately \$50 million to renovate and enhance the existing Community Arena with the amenities of a modern day event centre and up to current OHL standards. The report confirmed that the cost/benefit value proposition for making this investment was difficult to justify. In addition, it was established that the Arena must be able to continue to operate during the hockey season limiting construction from May to August. This made extensive demolition of the main bowl virtually impossible and resulted in a timeline to complete work greater than 5 years.

A new modern building would address many of the short comings identified in the existing arena including seating, acoustics, site lines and outdated washrooms and concessions.

As well, the operation of the Event Centre is estimated to attract a variety of shows, exhibitions, concerts, sporting events including hockey games and other activities to the City that will gather people together and build/reinforce a sense of community, vibrancy and growth.

Phase II Site Selection Rationale

A number of important decisions need to be made prior to proceeding with a procurement for an Event Centre. It is essential for Council to select the future site of the Event Centre as it forms the basis for the proposals to be received. The ultimate site will greatly impact the timing, cost, footprint and design of the Event Centre. The determination on site will then dictate the next steps that must be taken prior to proceeding with the Event Centre procurement. Sites that require extensive servicing may well require those issues to be addressed prior to the Event Centre procurement. Similarly, a site which is not owned or wholly owned by the City would need to be secured prior to proceeding with the procurement of such a significant asset.

From a procurement standpoint, the City is legally required in a binding Request for Proposals to create a process that is fair, competitive and transparent for the bidders. An essential part of this is the determination of the site. The terms of reference for the procurement must allow for proposals to be fairly considered and evaluated. Proceeding with a procurement without a

determination on the site would result in proposals being received that cannot be evaluated or properly compared to one another as they would present significant differences in cost, timing and scope.

As well, research of other mid-sized cities that have built Event Centres in Canada over the past two decades has demonstrated that a site was selected before a competitive bid process was undertaken.

Phase II Site Evaluation Considerations

Choosing a location for a new arena/event centre has generated significant community discussions. This is by no means uncommon, and it is the experience of the Consulting Team that most communities considering a decision to build a new arena experience a similar level of interest regarding its location.

In Greater Sudbury, the focus has been on whether a new building should remain in a downtown setting or whether it should be placed outside the downtown core. For the purposes of this report, staff focused on collaborating with PwC to identify the “ideal” characteristics of a site that could serve as a suitable location. These are recommended to serve as criteria for selecting a preferred location:

- Identification of potential sites based on their physical dimensions (is the site large enough)
- Vision – is the development of an Event Center at this location consistent with the long term vision of the City?
- Complimentary Benefits – does development of this site enhance the neighbouring area?
- Ease of Development – are there expected issues or costs with the development of this particular site?
- Access – What improvements are required to support vehicular, pedestrian and transit (current and future)?
- Parking – Is there existing parking in the area that can be reasonably used to accommodate demands. Can it be added?
- Economic Impact – Does the development of this site have an enhanced economic impact for the area?
- City Building – does this site enhance the process of “city building” by contributing to economic growth, community pride, quality of life and citizen satisfaction

A fulsome description of these criteria and their relative weights is described in Appendix A, page 49. If the recommendation is approved as presented, staff will apply these weighted criteria to rank potential sites in anticipation of a report to Council no later than June that would facilitate a decision about a preferred location.

Phase II Site Evaluation Process

An evaluation team led by Ron Henderson, Special Advisor to the CAO and Ron Bidulka, lead consultant for PWC will be guided by the site criteria presented in the Phase I report and presented above .

The site evaluation team will review all potential public and private sector properties that meet minimum criteria within the former boundaries of the City of Sudbury.

Potential sites that meet a minimum threshold will be short listed and presented to City Council in June for consideration.

Each short listed site will detail probable costs including acquisition costs and site servicing costs. As part of that process, it is recommended by PCW that the City attempt to secure options to purchase potential short listed sites prior to Council selecting its preferred site in June. The purpose of securing an option to purchase prior to the June Council meeting is to remove any possibility of Council selecting a site only to have that land owner potentially hold out for an exorbitant price and / or delay timing of when the City could close on the transaction and commence construction. Securing the option would allow the City to obtain agreement that it would be able to purchase the property at an agreed to price, which would then inform the site evaluation process.

Such option(s) to purchase would be open during the time when the City completes its site selection process. Once a location is chosen as the preferred location by City Council, the option to purchase would then be exercised by the City at the price agreed to in the option agreement. If a location is not chosen as the preferred location the option to purchase would lapse

Procurement

It is possible to put an RFP bid package together concurrent with the site selection process. Anticipating a successful outcome to site selection, the City may be in a position in June to issue an RFP for an Event Centre on the selected site (subject to any site specific issues affecting timing).

Procurement options for this type of project would include:

Design/Bid/Build

The Design/Bid/Build process begins with the owner determining a preliminary budget for the project. From there a Request for Proposal is issued (RFP) for an Architect/Engineer firm for design services to fully describe the requirements for construction of the complete project. Once finalized, the project is put out to a competitive bid to a general contractor.

Advantages

- Single point of responsibility of the construction side
- Bid price is obtained prior to breaking ground

Disadvantages

- Takes longer to design the entire project before bids are solicited
- Final cost not guaranteed, traditionally there are extras and other modifications

Design/Build

This procurement has the design and build functions combined with a single private sector entity. Submissions are garnered from Design/Build consortiums that develop the detailed design, working drawings, final price and specifications to construct the building. Working with the owner, the Design/Build team tailors the concept to provide a guaranteed maximum price (GMP) for the project.

The design-build delivery method has been used increasingly in the public sector but is not a risk free approach.

Advantages

- Efficient; the design and construction of the project is sourced to a single entity that provides a guaranteed maximum price
- Timely; there can be overlapping of the design and construction processes which will expedite the project schedule
- Minimized Risk; since the design-build relies on a single point of responsibility it is used to minimize risks to the project owner.

Disadvantages

- Unless the scope (performance specifications) are well defined, the City is at risk for quality
- City initiated changes after the final design will cause change orders and increase costs
- Conflicting/competing factors are the desire to construct at the lower initial cost that may compromise aesthetic design.

Private Public Partnership (P3)

There are many varieties of projects. The Owner must recognize and live with the fact that the private partner may require total control over the facility during this long relationship. Business practices with the private partner will require more complex negotiation, often requiring a

team of experts, and details to be determined which may be a longer process than traditional procurement methods.

It is difficult to say exactly how this relationship would function for the City, given there are several types of P3 models with varying levels of public ownership and control. The nature of a P3 partnership for an event centre would not be known until the project has gone to market.

Advantages

- Provides the Owner the opportunity to bring in creative financing and private expertise in the design and operation of the facility.
- Provides the opportunity to include other added value components of an overall redevelopment (i.e. hotel, retail)

Disadvantages

- Owner must be prepared to give up or some control over the operation. The problem occurs when revenue generated from operations does not meet expectations – refinancing, operator bankruptcy, increasing user fees to unacceptable levels
- A P3 arrangement is very time consuming and complex requiring outside technical, legal and financial advice with respect to the P3 partnership as well as document preparation for items such as request for proposals and legal agreements
- Co-mingles design, construction, financing and operations / maintenance and may result in the City selecting a partner with inferior team members (i.e., the best architect, builder, financier and operator may not all be on the same team)

The procurement method recommended by PWC is to follow a Design/Build procurement for the Events Centre. This is consistent with the procurement method used in other mid-sized cities for similar projects. As mentioned above, the Design/Build method has the prime advantage of offering an expedited project schedule at guaranteed maximum price. This method would ensure to the greatest extent possible a construction timeline commencing as early as spring 2018. (subject to land issues)

The Design/Bid/Build model is a much slower procurement strategy that would likely push construction of the Event Centre through 2018 and likely into 2019. This method does not provide a guaranteed maximum price and is not recommended as a procurement choice.

There are few examples of successful P3 arrangements for event centres in mid sized cities, primarily because of the fact that these facilities are not profitable and therefore unlikely to draw private sector interest. The private sector has more of an interest in operating these type of venues rather than an ownership stake.

The Design-Build procurement process would be undertaken in two phases. The first phase would involve the City commencing a “Requests for Expressions of Interest” (EOI) process in late March. This process would seek to identify and short-list prospective design-build teams to receive the final Design-Build RFP from the City.

While the EOI process was being implemented, staff and the consultant would prepare the Design-Build RFP. Both the EOI short-list and Design-Build RFP would then be presented to Council for their consideration in June. If Council elects to go forward at that time, and subject to no site specific issues that affect timing, the Phase II of the Design-Build process would commence with the issuance of the RFP (augmented to include site-related information).

In the consultant's experience, issuing a Design-Build RFP without firstly shortlisting firms will significantly impact the quality of responses received to the RFP. Generally, responding to a Design-Build RFP will take months of research and preparation, time which will cost prospective design-build teams money. By not short listing firms, prospective design-build firms will not be as willing to invest the time and money needed to prepare a quality response. Additionally, it is noted that a number of municipalities offer honorariums to Design-Build RFP respondents (payable only to those not awarded the contract) to demonstrate both their commitment to the project as well as to provide partial compensation to prospective design-build teams to ensure that they invest in putting forth their best design-build solution (by way of example, the Regional Municipality of Wood Buffalo offered \$200,000 to its three short-listed proponents, while Moncton offered \$225,000 to its two short-listed proponents).

Concurrent with this process (site selection and Design-Build EOI process), the Consultant also recommends implementing a separate process to identify and retain a venue operator. In the consultant's experience, a city should want to identify and select that best architect and best builder to construct their new venue (design/build); a city should also want to identify and select the best operator to manage this venue on their behalf. By "co-mingling" the design-build with the operate and maintain, a city runs the risk of being forced to select a potentially inferior proposal team which does not have the best architect, builder and operator.

The RFP for an Operator can also seek a financial contribution towards the project so the City not only reduces its capital costs but creates an Owner/ Operator partnership where both parties share in the project risk. Both the Design-Build and Venue Operator process can be run concurrently, and will allow selection of a venue management company at an early enough juncture to enable them to provide input into the final design of the venue.

Staff is requesting that Council support a design build process for the Event Centre, and implementing this procurement through a two-phase process (EOI followed by RFP). In anticipation of a final site selection in June, staff/consultant can begin the process of preparing the necessary design build documentation.

Financing Options

For the purpose of this report, the estimated cost of a new arena/event centre that has the features described here is \$80 million. This excludes land acquisition, parking and any related servicing/environmental costs. Taking a conservative view, it is possible the total cost of a new arena/event centre could be \$100 million. A refined cost estimate will be available once a site is selected and planned to be available for the 2018 capital budget.

Financing this project could take a number of forms, including one or more of the following:

1. Debt: the City of Greater Sudbury has sufficient debt capacity to fund this project. It could issue debt with up to a 30-year amortization. This is the financing method most commonly used by municipalities to finance facilities like this. Based on current interest rates, it would require an annual funding commitment of approximately \$5.5 million to repay the loan. This would represent an approximate tax levy increase of 2.2% which could be smoothed out over a number of years (i.e. .44% over 5 years). Funds for repayment would likely come from a combination of facility revenues and property taxes.
2. Public/Private Partnership ("P3"): this includes a variety of options, but generally P3 transactions involve some level of collaboration with a private sector partner in exchange for commitments (e.g. time, fixed cost, equity investment) that reduce the City's risk.
3. Ticket Surcharge/Facility Renewal Fee: while not a complete financing solution, the introduction of a charge per ticket issued would offset capital outlays for either construction or asset renewal
4. Property Taxes: while relying 100% on annual property tax revenues to finance the facility is impractical, a portion of property taxes could be dedicated to finance the facility construction costs. This could reduce debt financing requirements.

PWC's report describes other revenue sources such as naming rights, advertising space rentals and other revenue streams that can reduce operating subsidy requirements. Please refer to Appendix A, pages 53-56 for details.

It is likely that debt financing will be required, regardless of what other forms of financing, if any, Council is interested in utilizing for this project. It is unlikely, however, that senior levels of government will contribute funds toward the construction of a new arena/event centre. Discussions with both provincial and federal government representatives are ongoing, but experience in other communities indicates it is unlikely that the City can expect to receive capital funds from either the provincial or federal government for this project.

Once probable total project costs are ascertained through the site selection process, staff will produce a detailed financial analysis and strategy that examines potential sources of financing.

Financial Implications of Phase II

It is recommended that PWC's current engagement be extended to provide guidance to the City with the recommended next steps:

- the Phase II site selection process
- the development of the Expression of Interest (to prequalify Design/Build teams)
- the development of the RFP bid package for the design/build process
- the development of an RFP to select an operator
- the negotiation of the terms for a new lease agreement with the Sudbury Wolves.

Not only will this provide continuity with the first phase report but lead consultant Mr. Bidulka is also one of Canada's most experienced consultants in evaluating all aspects of mid-size event centre sites including business case and economic impact assessment.

In addition to the first phase of work which was \$145,000, the total anticipated cost of supporting Council's decision for the next phases of work as described above is \$200,000.

This is slightly over the \$275,000 estimate provided to Council in June 2016 and represents about .35% of the estimated total project cost. Funding is anticipated to be provided by the Tax Rate Stabilization Reserve.

Resources Cited:

Large Projects Update to City Council, December 13, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1034&itemid=12449&lang=en>

Large Projects Update to City Council, July 12, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=943&itemid=10989&lang=en>

Large Projects Update to City Council, April 12, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=943&itemid=10989&lang=en>

Large Projects Public Input Meeting, November 27, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=1053&itemid=10599&lang=en>

Arena/Entertainment Centre Project Timeline for City Council, September 16, 2016

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=951&itemid=11958&lang=en>

Downtown Masterplan Ten Year Implementation Plan Update, Council, November 24, 2015

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=824&itemid=10666&lang=en>

Arena Renewal Strategy and Sudbury Community Arena – Renewal Options. Council, March 31, 2015

<http://agendasonline.greatersudbury.ca/index.cfm?pg=agenda&action=navigator&id=811&itemid=9364&lang=en>