

## BUDGET UPDATE

### 1. Background

During the months of December and January, staff with the support of project management, design-builder and operator, completed a detailed review and analysis of the approved and required budget for the project. This analysis identified gaps between the budget that council had approved and the actual financial requirements to complete the project as per the original scope. The total budget variance is \$4,345,000. This variance is mainly due to financial gaps in base building, environmental costs, administrative & pre-opening costs as well as furniture, fixtures and equipment. It is important to note that the project budget is not overspent but rather this is a proactive review implemented as part of the risk management measures developed in the last four months.

Table 1 – Budget Variances, provides the budget as approved by Council in May 2006, the required budget to complete the project as per scope and the variances for a total of \$4,345,000. It should be noted that this figure does include the fit out of restaurant and sports cafe areas.

It should also be noted that the budget variances also do not include the cost of precast to accommodate the additional 1000 seats within the facility. The cost of precast and infill is estimated at \$350,000. The cost of putting in the precast and the actual 1000 seats would be about \$900,000. Any work related to the additional 1000 seats, including the precast and infill, would be considered as a change in scope as the RFP called for a 5000 seat facility with the possibility to expand to 6000 seats.

The required budget increase is \$4,345,000 which is equivalent to approximately 10% of the total budget. The budget was based on 2005 and 2006 costs, including cost of equipment and furniture. It should be noted that yearly inflation as it relates to construction is approximately 6% to 7%.

It should also be mentioned that this facility has been modeled after the John Labatt Centre (JLC) in London. Although the JLC has a 9000 seats, therefore more seats than the Sports and Entertainment Centre, many of the design and features were based on the JLC design. It should be noted that the project cost for the JLC in 2002 was \$45,000,000. This cost did not include servicing and engineering work to be completed in the JLC's surroundings. With a compounded inflation of 6% per year, the project cost for the JLC would be estimated at \$60,220,150 in 2007.

**2. Budget Variance Explanations (Table 1)**

The Sports and Entertainment Centre budget variances are explained by a few factors:

- unbudgeted work;
- review and administration of the project which was not in accordance with the guidelines set out by KPMG in June 2006 for projects;
- underestimate of work; and
- low contingency fund.

**Table 1 – Budget Variances**

<b>Description</b>	<b>Approved budget</b>	<b>Required</b>	<b>Variance</b>
1. Base Building	\$30,065,000	\$30,838,500	\$773,500
2. LEED Silver	\$1,200,000	\$1,200,000	\$0
3. Catwalk and Flygrid	\$800,000	\$800,000	\$0
4. City Fees	\$1,615,000	\$1,241,600	(\$373,400)
5. Utilities, Archeology & Environmental	\$1,998,000	\$2,503,000	\$505,000
6. Furniture, Fixtures and Equipment for Food and Beverage and Facility/ Fit out of F&B/ Contingency	\$2,973,000	\$5,589,670	\$2,616,670
7. Administration, Construction Management & Pre-opening (10% contingency)	\$1,770,000	\$2,543,230	\$773,230
8. Contingency Base Building	\$1,500,000	\$1,500,000	\$0
9. Honorarium	\$150,000	\$150,000	\$0
10. Operator Contribution	(\$300,000)	(\$300,000)	\$0
11. Offsite/Accessible Parking		\$50,000	\$50,000
<b>TOTAL</b>	<b>\$41,771,000</b>	<b>\$46,166,000</b>	<b>\$4,345,000</b>

1. **Base Building** – On October 24<sup>th</sup>, 2006, the City signed a contract with EllisDon for a fixed price of \$31,149,000 which includes \$1,200,000 for LEED Silver. This contract amount did not include the \$800,000 for the catwalk and flygrid which was approved within the Sports and Entertainment budget by council in May 2006. A change order was issued to EllisDon for the work as it relates to the catwalk and flygrid as it was part of the approved scope and budget. Failure to provide a change notice early in the process would have created a risk for many conflicts in the building design for electrical and mechanical systems. This change order was approved by the Project Management Committee.

The contract price is fixed based on EllisDon’s submission which was the basis for the award of the design build contract. This means that EllisDon has guaranteed its price based on the original submission. This fixed contract price does not include any change order or change in scope initiated by the City or by EllisDon. All change orders have to be approved by the City.

This variance is composed of items that were either removed from the scope through EllisDon's submission or that were neither included in the scope through the RFP nor captured within the overall project budget. These items include such things as ecology units for concessions, HVAC system for restaurant area, cabling required for all phone/computer connections, interior design and upgrade required to the refrigeration system to meet facility requirements. The base building scope is about \$773,500 over the contract price agreed upon with EllisDon.

2. **LEED Silver** – Remains unchanged and it is part of the fixed contract price with EllisDon.
3. **Catwalk & Flygrid** – Remains unchanged from the approved budget in May 2006. The work was issued through a change order.
4. **City Fees** – The table above presents final City fees that have already been paid. The budgeted fees were higher than required because they were based on the Anglin Bay site which provided for a slightly larger facility. There was a surplus of \$373,400 in City fees.
5. **Utilities, Archeology & Environment** – This variance includes environmental and site work that was required for site development. In 1999, the City invested \$2,200,000 on remedial work on the contaminated site. Furthermore, the method to be used to construct the foundation was not known by staff at the time of budget preparation. The environmental costs depended on the amount of soil and water being removed during foundation work. During the drilling of caissons, there was a greater amount of dewatering required than expected by staff and by EllisDon. The waste management plan also required monitoring on site during the drilling of the caissons. Pinchin Environmental and Scott Industrial were retained to do this work.

The total variance for environmental cost and site work is estimated at \$505,000. The last invoices for environmental work have not yet been received but the work has been completed.

6. **FF&E and Fit Out of F&B** – EllisDon's submission clearly stated that all food and beverage fit out work and costs were the responsibility of the owner and/or tenant. EllisDon was awarded the design build contract based on the content of that same submission. The overall project budget did not include any funds to cover the fit out costs of all food and beverage areas including concessions, club lounge and kitchen. The fit out costs for concessions, club lounge and kitchen alone is slightly over \$1,100,000. The cost of fitting out the restaurant and sports café areas is about \$780,000.

Other FF&E were also not included in the budget and are required in order to operate the facility as intended and to meet the business plan. These FF&E include suite furniture, tables and chairs, follow spots, furniture and equipment for

special rooms such as the Hawker and Green room. The variance of \$2,616,670 does include the cost of a basic fit out the sports café and restaurant areas.

7. **Administration, Construction Management and Pre-Opening** – The variance includes some 2005 project related costs that were not accounted for in the budget. It also includes the cost of completing necessary studies such as traffic and parking, noise review and LEED review. It also includes the cost of the study required by the provincial government as well as compliance review and project management support. The total variance is \$773,230.
8. **Contingency Base Building** – Remains the same as many of the out of scope items are being captured through the variances. The total contingency fund approved by council in May 2006, was about 5% of the project. Typically, construction project contingencies are 10% to 15%. A contingency of 10% on a \$40,271,000 project (amount of budget without current contingency of \$1,500,000) would have provided a total of \$4,027,100 for a contingency fund. A 15% contingency fund of the project's budget would have provided a \$6,040,650 contingency fund. Both the 10% and 15% contingency funds would be sufficient to cover budget variances and still provide for some contingency.

The proposed budget variances include a stable contingency fund of \$1.5M. It should be noted that based on the balance remaining on this project (\$30,516,000), \$3M would be equivalent to a 10% contingency fund. Although the low contingency is still a risk within this project, the budget review has captured many of the costs that would have otherwise been covered in part by the contingency fund. The financing available is limiting the ability to increase the contingency fund.

It should be noted that should the any unspent contingency funds will be available for reinvestment in reserve fund or other capital projects.

9. **Honorarium** – This honorarium has already been paid to the three unsuccessful bidders.
10. **Operator Contribution** – The Operator committed to a \$300,000 contribution in its management contract with the City. This contribution will be paid at the beginning of the management contract which is schedule to start in January 2008.
11. **Off Site/Accessible Parking** - The Municipal Accessibility Committee recommended that 14 accessible parking spaces be located at Frontenac lot. The proposed \$50,000 covers the cost of paving, painting and signs for the 14 spaces only. It does not provide for additional work within the Frontenac lot.

### **3. Restaurant/Sports Café Fit Out and FF&E**

The cost of fitting out the sports café and restaurant areas was not included in the \$41.77M budget. The cost of fitting out and providing basic furniture, fixtures and equipment in those areas is estimated at a minimum of \$780,000; \$519,000 for the restaurant area and \$261,000 for the sports cafe. This amount will provide a basic fit out of both areas.

These costs have been incorporated in the \$4,345,000 budget variance as presented in this report.

The Operator has suggested the possibility of retaining a third party to finish and operate those areas of the facility. It is therefore proposed that the City directs Arcturus/SMG to issue an RFP and/or test the market to retain a company that will service those areas. It is also proposed that Arcturus/SMG explores partnership opportunities other than food and beverage to finish and make proper use of the space. Arcturus/SMG is to report back to the City with options and recommendations. All options to finish and operate this space will be brought back for consideration by council.

Staff will work with Arcturus/SMG to bring forward a recommendation that will ensure return on investment for the City as presented in the financing options.

### **4. Proposed Financing**

A provincial grant of \$4M has been confirmed. The federal government has provided a commitment in principle; the grant has not yet been confirmed.

The following financing options are presented for consideration. The financing options presented are intended to maximize the funding opportunities from senior level government commitments and other revenue related strategies, prior to the city providing any additional funding to the project. It should be noted that these proposed financing options do not include an increase in taxes.

Table 2 – Option 1 – Financing With Federal Grant Funding

The following financing options are proposed should the Federal funding be invested in the project.

<b>Financing Option 1</b>	<b>Cash \$M</b>	<b>Debt \$M</b>	<b>Total \$M</b>
1. Adjustment to the Operational Benchmark		\$500,000	\$500,000
2. Lease of Restaurant and Sports Café		\$500,000	\$500,000
3. Federal Government Funding	\$4,000,000		\$4,000,000
<b>Total</b>	<b>\$4,000,000</b>	<b>\$1,000,000</b>	<b>\$5,000,000</b>

Note: This funding option provides additional cash flow of \$655K for project.

Summary

1. Adjustment to the Operational Benchmark – The budget variance includes a number of furniture and equipment that will be purchased. The original budget proposed that these FF&E items be leased on a yearly basis. The payback period for these FF&E is about two years. The benchmark revenues of \$1.1M established with the operator, took into consideration the fact that FF&E had to be leased and therefore had an impact on the yearly operational revenues. It is suggested that the benchmark be reviewed and adjusted to reflect the operator’s lower lease cost on a yearly basis. The benchmark cash flows are therefore being adjusted in the reserve fund continuity models to reflect this additional source of revenue estimated at approximately \$50K in year 1. This amount will service debt of approximately \$500,000.
  
2. Lease of Restaurant and Sports Café – It is proposed that the City work with Arcturus/SMG to identify potential partnerships and leasing agreements that would cover the fit out cost. Companies that lease this space would be responsible for the fit out cost of the areas. The cash flow models have been updated to reflect this additional source of revenue for facility lease, estimated at approximately \$65K in year 1. This amount will service debt of approximately \$500,000.
  
3. Federal Government Funding - It is recommended that the City aggressively pursue the Federal Government grant which provides matching funds to the \$4M provincial grant. A letter of commitment was provided by the Federal government to the City in May 2006.

Table 3 – Option 2 – Financing without Federal Grant Funding

The following financing options are proposed if Federal Grant Funding is not invested within this project.

<b>Financing Option 2</b>	<b>Cash \$M</b>	<b>Debt \$M</b>	<b>Total \$M</b>
1. Adjustment to the Operational Benchmark		\$500,000	\$500,000
2. Lease of Restaurant and Sports Café		\$500,000	\$500,000
3. Environmental Reserve Fund	\$505,000		\$505,000
4. Parking Incremental Revenues		\$500,000	\$500,000
5. Municipal Capital Reserve Fund	\$2,340,000		\$2,340,000
<b>Total</b>	<b>\$2,845,000</b>	<b>\$1,500,000</b>	<b>\$4,345,000</b>

Summary

1. Adjustment to the Operational Benchmark – The budget variance includes a number of furniture and equipment that will be purchased. The original budget proposed that these FF&E items be leased on a yearly basis. The payback period for these FF&E is about two years. The benchmark revenues of \$1.1M established with the operator, took into consideration the fact that FF&E had to be leased and therefore had an impact on the yearly operational revenues. It is suggested that the benchmark be reviewed and adjusted to reflect the operator’s lower lease cost on a yearly basis. The benchmark cash flows are therefore being adjusted in the reserve fund continuity models to reflect this additional source of revenue estimated at approximately \$50K in year 1. This amount will service debt of approximately \$500,000.
2. Lease of Restaurant and Sports Café – It is proposed that the City work with Arcturus/SMG to identify potential partnerships and leasing agreements that would cover the fit out cost. Companies that lease this space would be responsible for the fit out cost of the areas. The cash flow models have been updated to reflect this additional source of revenue for facility lease, estimated at approximately \$65K in year 1. This amount will service debt of approximately \$500,000.
3. Environmental Reserve Fund – This reserve fund is used to finance a number of environmental projects including the redevelopment of Brownfield sites. Sufficient funds exist in this reserve fund to allocate \$505K to assist in financing the project.
4. Parking Incremental Revenues – The original financing plan included \$2M revenue for parking incremental revenues. This amount did not account for any increase in parking rates over the next 30 years. The amount included in the table above provides for an inflationary increase of 10% every 5 years. Parking rates will start at \$7 for prime parking during the first year of operation. This will service debt in the amount of approximately \$500,000.

5. Municipal Reserve Capital Fund – This fund is used to finance municipal capital projects. There is sufficient capacity in this reserve fund to allocate the amount of \$2.34M to finance the project.