



Business Plan - Draft

Investment in a Kingston Large Venue Entertainment Centre (LVEC)

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Acknowledgements

Since becoming Project Director in October of 2004, there has been an incredible amount of work done on this project. The work done to date, including this Business Plan has truly been a team approach.

The impetus came from the community in November 2003 when they elected Mayor Rosen, in a landslide victory, with a mandate to finally make an LVEC a reality. The Mayor's LVEC Task Force put the project on the right track. Their hard work was driven by a passion for Kingston and a keen desire to make a meaningful contribution to the community. Council's endorsement of the LVEC, in the fall of 2004 as a high priority project, helped sustain this momentum.

Over the past six months the LVEC Steering Committee members and city staff have made significant contributions in moving this project forward.

The ongoing commitment of the LVEC Steering Committee, Council, staff, agencies and the community at large, will ensure this venture is a success.

Don Gedge
LVEC Project Director

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1 Introduction

1.1 Purpose of the Business Plan

Every project starts with an idea. The development of a business plan is one step that needs to be taken to test the validity of the idea and to transform the idea into a reality.

A business plan tests a project's financial feasibility and is also used as a strategic document that substantiates the objectives of a project.

The purpose of the LVEC Business Plan is to:

- Outline how the LVEC meets City Council's expected objectives and expectations
- Assess the financial feasibility of the LVEC on the Inner Harbour
- Develop a framework for the operation of the facility
- Outline the critical decision points of the LVEC project to achieve an opening date of no later than the fourth quarter of 2007.

1.2 LVEC Steering Committee & City Council's Role

Approval of the business plan is one of the go/no-go decision points for the LVEC Steering Committee and Council in the LVEC project.

Draft recommendations of the business plan are summarized in Section 10.2.

These draft recommendations will form the basis for final staff recommendations that will be presented to the LVEC Steering Committee at their meeting in April 2005. At that time, the Steering Committee will deliberate the staff recommendations and present their recommendations to Council for consideration in May 2005.

The feasibility and implementation of this project depends on the outcome of these sets of deliberation.



1.3 Description of the LVEC

The proposed LVEC will be a signature sports and entertainment facility that will boast a strong civic function while delivering both economic and non-economic benefits to the entire City of Kingston. The LVEC will be located on the Inner Harbour and, as such, will have a distinctive design and appearance with first class finishes both outside and inside the building.

The existing marina and park settings will be enhanced to create an ambiance in keeping with the importance of the site and adjacent neighbourhoods. Drawing on the history and natural attributes of this site and the Inner Harbour, the overall objective is to create a setting where the LVEC, marina and parklands combine to make this area "an exciting place to be" year round.

From a functional perspective, the LVEC will include all amenities required to adequately host concerts, family shows, theatre, trade shows and community events, and to meet the facility operator's needs.

The LVEC project will become the new home of the Kingston Frontenacs and the Kingston and District Sports Hall of Fame. It will include the construction and outfitting of food and beverage concessions, meeting rooms, private suites, and a four-sided video replay system. A 300 seat restaurant, complete with window seating, is also included in the plan.

The LVEC will encompass 180,000 square feet. It will have 5,000 seats in the arena bowl with the ability to expand to 6,800 seats (through the use of retractable seating in one end of the building) for concerts and shows. The ice pad will be a single pad of National Hockey League (NHL) size, 200 feet by 85 feet.

The building will be designed in such a way to accommodate future expansion of the arena bowl seating from 5,000 seats (6,800 for concerts) to 6,000 seats (7,800 for concerts) to meet population growth in the City of Kingston and surrounding area.

1.4 Scope of the LVEC Business Plan

The scope of the business plan includes all necessary elements required to build and operate the LVEC described as above (Section 1.3).

The following elements are addressed within the scope of the business plan:

- The need for a sports and entertainment centre for Kingston and surrounding area.
- The significance of a downtown location.
- The capital costs and operating cash flows of the LVEC.
- Financing alternatives.



The following elements are outside the scope of the business plan:

- **LVEC site alternatives:** The Mayor's Large Venue Entertainment Centre Task Force report of March 21, 2004 selected the Inner Harbour site for the construction of the LVEC. Council has approved this site, subject to functional and financial feasibility.
- **The Wellington Street Extension:** The Wellington Street extension is not required to accommodate the operation of the LVEC at the Inner Harbour site. The construction of the Wellington Street Extension has been in the City's Official Plan for many years and it is scheduled to begin in 2009/2010 with virtually all of the costs being funded by Development Charges. This business plan excludes the Wellington Street extension.
- **Recreational Ice Needs:** The LVEC business plan does not assess or address the needs of recreation arena ice and floor users. The LVEC Business Plan includes some recreational ice use in its programming, however, concerts, family shows, theatre, trade shows, and Kingston Frontenacs games are assumed to be the priority uses for the facility. City Council has endorsed the development of a Multiplex Community Centre as another one of its top priorities. A Project Steering Committee has been set up to oversee the development and implementation of a Multiplex facility which will include multiple ice pads to meet the needs of recreation arena ice and floor users.
- **Kingston Memorial Centre:** The Mayor's Task Force report identified the sale of the Memorial Centre grounds as a potential source of financing for the LVEC. The Business Plan identifies the Memorial Centre as a potential, but not recommended, source of financing for the LVEC (see Section 8.2).

The future use of the Memorial Centre is being reviewed by the Multiplex Community Centre Project Steering Committee who will analyze alternatives and make recommendations to Council.



1.5 Accuracy of the LVEC Business Plan

The business plan details are based on fact, experience, and various assumptions. As a result, it is variable and dependent on certain factors and assumptions being realized. Therefore, the business plan cannot be expected to be 100% accurate in its entirety.

Fortunately, the experience of other recently built facilities provides reliable facts and experiences upon which assumptions can be made for the construction and operation of an LVEC in Kingston.

Six sports and entertainment venues, ranging in size from 4,000 to 9,000 seats in the arena bowl have been constructed and opened in Ontario over the past several years.

The opening of London's John Labatt Centre in September 2003 and the November 2004 proponent responses for the construction and operation of a new sports and entertainment complex in Oshawa provide very recent experience in operation and construction costs of similar sports and entertainment facilities.

The estimated capital costs of building the Kingston LVEC are based upon detailed costs that were obtained from the London and Oshawa projects. This cost information is supplemented by specific Inner Harbour site studies including a site servicing plan, Phase 1 and Phase II environmental assessment for the publicly owned lands, a geotechnical study and a concept plan. Capital cost estimates have been reviewed by an independent quantity surveyor.

LVEC event programming was determined by surveying similar facilities across Ontario and by input from three established management companies that provided programming revenues and expense estimates for the proposed Kingston LVEC. This information was supplemented by direct knowledge of actual earnings and expenses in comparable facilities.

Information contained within the business plan references data collected from the above sources.



1.6 Background

November 2003 - Municipal Election

The community's recognition of the need for a new sports and entertainment centre to replace the Kingston Memorial Centre became very evident during the 2003 municipal election. This issue was central to Mayor Rosen's campaign. The electorate gave the Mayor a large majority and endorsed a mandate to make the new LVEC a reality.

December 2003 - Mayor's Task Force Established

After the election the Mayor created the Mayor's Task Force chaired by Deputy Mayor Foster and composed of four prominent volunteers from the community. Each member brought specific expertise to the Task Force. Their professional backgrounds included extensive knowledge of local government, commercial real estate, marketing, professional hockey and management of large, complex publicly owned institutions. The Task Force was given 100 days to arrive at a series of recommendations aimed at setting the course for the construction of the new LVEC. The goal: to have a sod turning ceremony no later than the fourth quarter of 2006.

March 2004 - Mayor's Task Force Report Completed

After a great deal of work the Mayor's Task Force completed their report within the 100-day timeframe. The report was delivered to the Mayor on March 21, 2004. The key recommendation was for the construction of a first class sports and entertainment centre with 6,000 to 6,500 seats to be located in the Inner Harbour on about 11.7 acres made up of the Anglin Parking lot, a small land-locked parcel owned by the Federal Government, and other lands owned by Metal Craft Marine and Kingston Marina. The report emphasized that this new Kingston landmark is to be "...architecturally exciting and reflect its superb waterfront location in a unique, historic downtown" and "It should be designed and developed in such a way that it becomes a catalyst for future economic development and a source of community pride." Supporting these recommendations were visits to other similar facilities where proponents were eager to share their experience, the results of public surveys, direct public input and their location analysis.

The Task Force's report also explored a number of financing alternatives and options.

To move toward implementation, the Task Force recommended that "...a Steering Committee should be created to guide detailed planning for, and implementation of, the LVEC proposal" and "That an Implementation Manager should be identified and appointed to the LVEC".



April 2004 – Determination of need for an LVEC Review Committee

Council received the Mayor's Task Force report and referred it to a Council committee for review.

June 2004 – LVEC Review Committee Recommendations

The Review Committee recommendation to use the Mayor's Task Force Report as the basis for proceeding with the LVEC project was approved by Council.

July 2004 - Establishment of a Steering Committee

Based on a report from Bert Meunier, the City's Chief Administrative Officer (CAO), Council passed a resolution on July 13, 2004 to approve the composition of the LVEC Steering Committee to oversee the development of the LVEC.

In addition, the resolution directed the CAO and Steering Committee to:

- conduct a search for an LVEC Project Manager;
- form a Stakeholders Group in a timely fashion;
- carry out various functional studies outlined by the CAO in his Report No. 04-284.

A 2004 budget of \$235,000 was approved by Council to finance this work, with expenditures to be capitalized as part of the total project costs. The funding was advanced from the Working Fund Reserve with the notion that it is to be repaid, once permanent project financing is established.

October 2004 - Hiring of a Project Director

The Project Director was hired and began work on October 1, 2004.

September/October 2004 - Council's Strategic Priorities

Council and City staff took part in two strategic planning workshops. The objective of these sessions was to identify a limited number of initiatives that would be treated as Council priorities for the 2005-2007 period.

As a result of these sessions Council selected and endorsed the following top three large initiatives as priorities:

- The Ravensview Upgrade
- The Large Venue Entertainment Centre (LVEC)
- The Multiplex Community Centre



2 The Need for an LVEC

2.1 The Trend of Sports and Entertainment Facilities in Ontario

In the late 1940s and early 1950s mid-sized cities across Canada built downtown community based sports and entertainment centres. As the community focal point, many of these centres included a Memorial to fallen war heroes. Generally, these buildings ranged in size from 2,500 to 4,000 seats and led to the development of the Major Junior A Hockey Leagues. Over the years, Major Junior A Hockey has become an important component of a community's sense of pride and weekend entertainment. On a larger scale, Junior A Hockey has become the primary development arm for the NHL and Canada's national teams. These buildings enabled communities to host national and international family oriented concerts and shows in their home community. Being able to attend these events locally provided the opportunity for people to see shows that they otherwise might not have been able to enjoy. Further, these buildings helped bring trade shows to the community and they hosted other important community events such as agricultural fairs, horticultural shows, and home shows. In short, these buildings helped enhance quality of life and made a significant, direct and indirect, economic contribution to the community.

Due to the normal life cycle of a building, particularly one with a predominantly damp environment, these important community assets are being replaced by new, state of the art facilities featuring amenities previously found only in larger facilities such as The Air Canada Centre and The Corel Centre. In fact, the scaled down size of the newer community venues often provide better seating and site lines and superior sound quality than the larger facilities.

A new LVEC will give Kingston a competitive advantage over other municipalities. The construction of a first-class LVEC on the waterfront will have a positive impact on the citizens of Kingston and on the City's image as a whole, as perceived by individuals and businesses outside of Kingston. It will act as a catalyst for change.

Today's residents need an LVEC, in much the same manner as the community needed the Memorial Centre fifty years ago, to bring out community pride and, over the long term, create memories for today's youth.

The following excerpt from The Mayor's LVEC Task Force report captures this sentiment. "Given the significant attention this project received during and after the 2003 municipal election, it is imperative that it is successfully implemented in order that it becomes a source of community pride."

Since 1996 in Ontario alone, new mid-sized sports and entertainment centres have been built in Barrie, Sarnia, Brampton, Mississauga, Guelph and London.



Oshawa and Sault Ste. Marie are scheduled to begin construction in 2005 and new facilities in Windsor and Toronto, for the St. Michael's Majors of the Ontario Hockey League, are in the planning stage.

Significantly refurbished facilities include the Ricoh Coliseum on the Canadian National Exhibition grounds in Toronto and The Peterborough Memorial Centre.

2.2 Kingston's Need for a Modern Sports and Entertainment Venue

The following factors are driving the need for a new sports and entertainment centre in Kingston.

Kingston does not have an appropriate venue for large concerts and events.

Today's concert goers demand good value for their money. They expect proper site lines, proper amenities, and good acoustics. Concert and event promoters and the performers they represent expect to perform in modern facilities with proper back-of-house design, storage, state-of-the-art sound equipment, appropriate ceiling heights, and power hook-ups.

Concert and event promoters view Kingston as a valuable market, especially given the large student population and tourist markets. These promoters are confident that the Kingston market can support several large concerts and events each year.

Kingston does not have an adequate facility to host significant trade shows and exhibitions.

Kingston does not have a large trade show/exhibition facility. These activities need proper cabling for setting up booths and displays, other electrical amenities such as internet access, meeting rooms, and food and beverage facilities.

Kingston's strategic location between Ottawa, Montreal, Toronto, and Syracuse coupled with an appropriate venue has the potential for attracting large trade show events.

Specifically, Kingston is lacking a facility that can provide:

- Adequate space to hold both exhibitors/meals and presentation functions for more than 600 people.
- Adequate facilities with loading docks/elevators to transport large displays.



Kingston is competing with other communities for prosperity and quality of life.

Kingston is competing, on a daily basis with other communities, to maintain and attract a skilled workforce, new business and to maintain a high quality of life for its residents.

Several of Kingston's municipal competitors in Ontario pride themselves on successful sports and entertainment facilities. These communities enjoy the economic benefits that an LVEC provides and they proudly showcase and promote their facilities to the world.

Kingston is at risk of losing its Ontario Hockey League (OHL) franchise.

Without a modern sports and entertainment centre Kingston is at risk of losing its OHL Franchise, a major source of entertainment and community pride.

First, the League does not look favourably at franchises playing out of buildings with less than 4,000 seats. Second, without a modern facility the quality of the hockey team suffers because the best coaches, management and prospective players do not view the Kingston Frontenacs as a team of choice.

Finally, the team suffers from low attendance numbers because hockey fans expect a modern facility with appropriate amenities. Low attendance numbers result in annual financial losses for the owners of the team.

2.3 Kingston's Current Facility - the Kingston Memorial Centre

The Mayor's Task Force Report noted that "the current Memorial Centre no longer meets the needs of the community in terms of its seating capacity, its structural design, its condition, and its ambiance."

The Mayor's Task Force report also noted that "because of serious shortcomings and constraints related to the age and condition of the Memorial Centre building, there was an inability to stage concerts in the proper manner." The report goes on to further state that "the building has significant shortcomings with regard to the existing ceiling height, available power and structural load-bearing capabilities of the roof structure which prevent modern staging, sound and video set-ups."

The Memorial Centre is not a modern sports and entertainment facility and therefore it does not have the features and amenities that are required in today's market. The location and condition of the Memorial Centre do not lend themselves to trade shows or exhibitions. As described in the previous section, these activities need proper cabling for setting up booths and displays, other electrical amenities such as internet access and meeting rooms and food and beverage services. Out of town participants at these shows also need better access to hotels and restaurants.



At the time of its construction, the Memorial Centre was a state-of-the-art facility and over the years the Memorial Centre has had a profound impact on the community. This is evidenced by the passionate response from citizen groups to the potential closing of the Memorial Centre.

However, unfortunately the Memorial Centre does not meet the standards and specifications required of modern facilities and it does not meet Kingston's current sports and entertainment facility needs.

2.4 Kingston's Future Sports and Entertainment Facility

The LVEC proposed in this business plan will meet all standards and specifications required of a modern sports and entertainment facility. The LVEC will meet Kingston's sports and entertainment facility needs today and for at least the next 50 years.

Specifically, these needs will be met by:

- Providing a venue designed for trade shows and events that is close to hotels & restaurants.
- Providing a venue designed to meet the needs of the attendees, concert promoters and their performers.
- Providing a venue that meets the needs of the Ontario Hockey League and the Kingston Frontenacs franchise in terms of size and amenities.
- Providing a community project that showcases Kingston as a progressive community.



3 The Importance of a Downtown Location

Locating the LVEC in the downtown is critical because it offers the greatest return on investment for the community and it enhances the financial viability of the LVEC.

3.1 Return on Investment for the Community

The following section outlines how locating the LVEC in downtown Kingston offers the greatest economic return.

Return on Investment Experienced in Other Communities

Over the past 50 years communities have seen a lot of change. Population growth and urban development have led to the building of suburbs which, in turn, has led to construction of shopping malls and freeways. As a result, the population base has tended to move away from the downtown. In many cities, this has undermined the original vitality and economic viability of the downtown core. In the case of Kingston, amalgamation has also contributed to a further skewing of the population. Recently, cities and urban experts have been working hard at reversing this trend and are beginning to show tangible results.

The development of new sports and entertainment facilities, built in downtown areas, can help revitalize the city core.

The 2005 "Economic Impact of the Proposed Oshawa Sports and Entertainment Facility" prepared by Hemson Consultants indicates that, "In the past 10 to 15 years, the construction of sports and entertainment facilities, especially in downtown areas, has been a trend. Their popularity has arisen in part due to evidence that these new developments can be successful catalysts for attracting interest and new investment."

In an article published on December 4, 2004 the Winnipeg Free Press reported that the opening of the MTS Centre in Winnipeg last fall "provided a cathartic lift to the whole city, and interest in strategic developments downtown have provided more optimism around the city's core than has been the case for some time". Downtown businesses say there has been a steep jump in sales and customers since the MTS Centre opened its doors. Restaurants are reporting sales were up as much as 30 per cent on opening night and have stayed close to that to the end of November.

Stefano Grande, executive director of the Winnipeg Downtown Business Improvement Zone is reported as stating that the new centre is bringing many people downtown who have not been there before and he expects they will come back on a regular basis.



"There are a lot of restaurants downtown and people will be checking them all out on event nights and, hopefully, coming back at other times," Grande said. Grande said he expects more restaurants and retail shops will move into the downtown to take advantage of the area's success.

The City of London, which recently opened the John Labatt Centre (JLC), a new downtown LVEC, is also creating a new "energy" and a "bustling" atmosphere in the core. In the December 11, 2004 edition of the National Post, Anne Marie DeCicco, Mayor of London, is quoted as saying "The energy in this city is unsurpassable." listing off the big name acts that have come to play at the John Labatt Centre, including Shania Twain, James Brown, Cher and Axl Rose's band.

In the same article, Bob Usher, General Manager of the Covent Garden Market, located across the street from the JLC stated "There's now a faith and a belief in downtown London." Usher confirmed that the bars and restaurants in the newly created Market District have been reaping the rewards ever since the opening.

Increasing Tourism in Kingston

The health of the downtown core inspires civic pride and is a source of prosperity - for the entire city. Sustaining the vibrancy of the downtown requires a continued effort at providing "added attractors".

A sports and entertainment centre is regarded as an "added attractor" in helping increase tourism. This is particularly true in cases where a significant component of the tourism industry involves visitors who are friends or family of local residents. A recent Downtown Kingston! BIA Market Analysis survey indicates that when local residents have family and friends visiting, they bring them downtown.

Table 1 reflects the importance of tourism to the Kingston economy.

Table 1 – Tourism in Canadian Cities – A Statistical Outlook for Kingston						
Source: Statistics Canada						
	2001	% of total	2002	% of total	2003	% of total
Total Person visits	1,955,000		3,109,000		2,242,000	
Total Canadian visits	1,495,000	76.47%	2,587,000	83.20%	1,791,000	79.80%
Total US visits	351,000	17.95%	411,000	13.20%	377,000	16.80%
Total Overseas visits	109,000	5.58%	111,000	3.50%	74,000	3.20%
Day trips (40 km+)	850,000	43.40%	1,624,000	52.20%	1,022,000	45.56%
Overnight visits	1,105,000	56.50%	1,484,000	47.80%	1,221,000	54.44%
Total spending \$'s	209,000,000		308,135,000		231,385,000	
By Cdn visitors	141,163,000	67.50%	221,578,000	71.20%	161,101,000	69.62%
By US visitors	47,339,000	22.60%	63,906,000	20.70%	54,032,000	23.35%
By Overseas visitors	20,763,000	10.00%	22,651,000	7.35%	16,252,000	7.03%



A Catalyst for Downtown Development and Development of the Inner Harbour

The construction of the LVEC on the Inner Harbour will be a catalyst for the further development of the Inner Harbour and the development of the four and one-half city blocks known as the North Block. The North Block includes the lands situated between Wellington Street, Ontario Street, Place D'Armes and Queen Street, as well as the northerly half of the block between King Street, Queen Street, Ontario Street and Princess Street. Commercial activity will be enhanced as a result of this development.

In other cities where similar sports and entertainment centres have been built, the evidence shows that there has been significant new investment in residential, retail and office development. This investment has helped rejuvenate/energize the cities' cores, broaden their municipal tax base, and create attractive and people-friendly spaces downtown.

In the case of London, where there was heated debate about a downtown versus a Hwy. 401 location, Vic Cote, a senior City official stated that The John Labatt Centre (JLC) is bringing people to the downtown that have not been downtown for years. Cote estimates that on event nights, restaurant and pub sales are up by 50% with even sales at the local market up by at least 20%. Also, there has been more than a 40% increase in housing stock in the area surrounding the JLC, office and retail vacancies in the area are now at their lowest level in more than a decade and building permits have reached an all-time high.

3.2 Enhancement of the Financial Viability of the LVEC

The overall long-term success of the LVEC will be determined by:

- The frequency and quality of programming within the facility; and
- The number of attendees at events.

The following section outlines how locating the LVEC in Downtown Kingston supports these critical success factors.

Downtown is Active

Kingston has a significant advantage in its efforts to create and maintain an exciting downtown. In a paper by Pierre Filion, et al, from the University Of Waterloo School Of Planning, Kingston was selected as one of only three Canadian cities with "successful" downtowns. The other two cities were Halifax and Victoria. Kingston has a spectacular waterfront, historical buildings and great restaurants. Queen's University, St. Lawrence College and The Royal Military College all help to increase the activity level in the downtown. Finally, Kingston has the Downtown



Kingston! Business Improvement Area Board of Management (BIA) which helps to ensure the downtown remains vibrant.

The existing downtown amenities coupled with the annual BIA sponsored events such as the Limestone City Blues Festival and the Buskers Rendezvous make Kingston the place to be during the summer. These events are just two examples of attractions that enticed more than 2 million visitors to Kingston in 2003. The success of the recent Feb Fest celebration indicates that if Kingston offered more winter events and shows, Kingston could attract residents and visitors downtown during the non-traditional tourist season as well.

In a recent survey conducted by Downtown Kingston BIA!, respondents were asked to select a phrase that most accurately describes downtown Kingston.

Table 2 reflects the responses to this survey.

Table 2 – Accuracy of Phrase to Describe Downtown Kingston				
Source: Downtown Kingston! BIA Market Analysis				
Phrase	Accurate %	Not Accurate %	Don't Know/Can't Say %	Total %
The City's heritage and cultural district	90.8%	7.5%	1.7%	100%
The area's premier dining and entertainment district	86.4%	8.8%	4.7%	100%
The heart of the City	84.1%	14.9%	1.0%	100%
A boutique shopping area	82.4%	12.9%	4.7%	100%
A pedestrian-friendly people place	74.6%	21.4%	4.1%	100%
The City's main gathering place for people	73.9%	22.0%	4.1%	100%
The place where all the big events happen	73.4%	20.7%	6.1%	100%
A full service shopping district	50.8%	47.8%	1.4%	100%

Clearly Kingstonians see the City's downtown core as an exciting place to visit or live.

Proximity of Hotels, Restaurants and Other Entertainment

Locating the LVEC downtown will provide two-way benefits. The LVEC will add to the vibrancy of the downtown and the already vibrant downtown will be important to the success of the LVEC. Clustering the LVEC with the existing 800,000 sq. ft. of restaurants, nightclubs, hotels and theatre activity in downtown Kingston will lead to substantial synergies.



The proximity of a venue to amenities and activities for participants is one factor that is considered by selection committees when they are selecting a venue for provincial, national and international events such as sports events and trade shows. A downtown location, within walking distance to a supply of hotels, restaurants, and other entertainment is considered superior to any other location.

The Benefits of Dispersed Parking

Due to suburban growth in cities over the past 50 years, in each city where a new sports and entertainment centre has been built, there has been a major debate regarding location. The two positions are usually to build on a major highway with easy access to the suburbs and include a large onsite parking lot or to build in the downtown core with largely dispersed parking.

The "Economic Impact of the Proposed Oshawa Sports and Entertainment Facility" prepared in February 2005 by Hemson Consulting Ltd. states that "...one of the greatest negative impacts of sports facilities, is the sea of parking that is often associated with them. Critics of stadiums built within urban areas have found that the economic impacts of the stadium have been negligible when they were separated from the downtown area by vast parking areas." This fact holds true whether a large parking lot is in an urban or a suburban setting.

The Hemson Report also talks about the importance of parking decisions to potential economic spin-offs. "To some, the lack of parking at a facility is perceived as a negative. However, experience elsewhere suggests the opposite, since the provision of parking around a facility tends to isolate it from its neighbourhood and decreases the likelihood that attendees will remain in the area after the event. Parking offsite forces patrons to walk through a downtown area and this creates potential customers for local businesses."

Dispersed parking reduces the cost of the LVEC. From a capital cost perspective, constructing the LVEC in the suburbs and/or along the 401 would have the added cost of constructing a large parking lot. Further, a site outside the urban area which is not currently serviced with municipal infrastructure such as water, sewer, streets and sidewalks would add a significant amount to the overall construction costs.

While the Memorial Centre is not in close enough proximity to the downtown to generate substantial economic spin-off advantages, it has for 54 years been an excellent example of how well dispersed parking can work. Notwithstanding the fact that there are no large parking lots nearby and as a result, most cars are parked on residential streets, over the years there have been relatively few documented traffic and parking complaints.

Available parking supply inclusive of on-site parking, downtown and spill-over area parking within a 10 minute walking distance of the LVEC site and the potential



park-and-ride service is approximately 5,330 parking stalls.

With the exception of a few BIA sponsored events in the summer, virtually all of the LVEC events will be during the fall and winter months. During these months, the downtown traffic is approximately one third of the traffic in the summer months. In addition, most events in this type of venue occur in the evening when most downtown offices are closed, and parking is more readily available in City and privately owned lots.

3.3 The Inner Harbour Site

For all the reasons previously cited, the Mayor's LVEC Task Force looked for a downtown core location.

In a survey conducted by the Task Force, 57% of citizens responding supported a downtown location. Twenty per cent supported a site adjacent to Highway 401 with the remaining 23% favouring other locations. The four downtown sites assessed by the Mayor's Task Force included The Memorial Centre Site, The Block D Site, The North Block Site and The Inner Harbour.

The Mayor's LVEC Task Force analyzed the various site alternatives and the Inner Harbour stood out when compared to other alternatives.

The Inner Harbour site was endorsed by Council as the preferred site subject to feasibility.

Reasons for rejecting the Memorial Centre site included its lack of proximity to the downtown core i.e. more than a ten minute walk, the difficulty in selling naming rights for this location, the cost of building an onsite parking lot and the possibility of using this site to assist in financing the LVEC.

The Block D Site had already been assessed as a possible site. There was strong public opposition to this site and parking was considered to be a problem. Currently this site is slated for development as a waterfront condominium project, hotel and office building.

Development of the North Block Site would have required the closure of a one to two block section of King/Barrack Street. There would have been a need to acquire the LCBO store or Food Basics and to redirect traffic from the ferry, assuming that Barrack Street was closed. In addition, higher value alternative uses for this site were identified in the North Block Central Business District Study.



In summary, the reasons for recommending the Inner Harbour site include:

- The proximity of the site to the downtown core.
- The ability to create a signature building in a marina and park setting overlooking the vistas of Fort Henry and Royal Military College.
- The ability to help the City extend the continuous public waterfront pathway and extend the City's useable shoreline to provide further public access to the waterfront. These are objectives in the Official Plan, the Cycling and Pathways Study and the KEAF Inner Harbour Report.
- The ability to act as a catalyst for further development in the inner harbour.
- The ability to act as an anchor for more quality development of downtown residential and business development between Princess Street and the Inner Harbour.

3.4 Concept Plan

The Concept Plan shows the basic footprint of the building and the adjacent parkland at the Inner Harbour site (see Appendix A). Of particular note the concept plan:

- Minimizes the impact on the Inner Harbour view from the condominium building across the road from the LVEC.
- Creates the most dramatic vista from the causeway and across the Inner Harbour.
- Eliminates the need to fill in any of the Inner Harbour, therefore maximizing the opportunity to further develop the marina concept plan. It further eliminates the need for government approvals and concessions relative to filling in a portion of the Bay.
- The creation of an exciting park adjacent to the LVEC.



4 Economic Benefits of Constructing the LVEC

This section will provide some financial estimates of the facility’s impact on the local economy. In addition to the intangible benefits and the positive cash flows from the facility, these estimates reinforce the importance of the LVEC as a community investment.

Determining with accuracy the direct and indirect impact of an LVEC on the downtown and surrounding region and increased federal and provincial income and property taxes is a complex and expensive study. This type of comprehensive study is outside the scope of the business plan.

However, to provide an indication of the potential economic impact two separate calculations were used to estimate the impact of a downtown LVEC on the regional economy:

- Economic Multiplier Calculation
- Tourism Receipts Calculation

4.1 Economic Multiplier

Annual ticket sales are in the \$7.0M range with a further \$2.0M being spent on food and beverage sales, novelties, pro shop, etc. within the facility (for a total revenue base of \$9.0M). These estimates do not include increased sales during the summer due to the marina and other activities on the site.

Depending on the study that is referenced, economic multipliers for sports and entertainment facilities can range from 1 to 5. The economic multiplier varies depending on the characteristics of the community and the activity being measured.

Table 3 presents an economic multiplier of 1, 3, and 5.

Table 3 – Economic Multiplier		
Total Revenue Base \$M	Economic Multiplier	Annual Impact on Economy \$M
9.0	1.0	9.0
9.0	3.0	27.0
9.0	5.0	45.0

Under the economic multiplier model, the annual impact on the economy is estimated to be between \$9.0M and \$45.0M.

Included in the economic multiplier is the impact from increased tourism expenditures.



4.2 Tourism Receipts

The annual attendance to events at the LVEC will be approximately 300,000 of which, at least, 10% are likely to be tourists (30,000) who attend the events as a reason for coming to Kingston.

If on a per capita basis the 30,000 visitors spend approximately \$271 (as estimated for the 2003 Limestone City Blues Festival) for their total visit to Kingston, the increased revenues from tourism will be \$8.1M.

Using the "Economic Impact of Tourism in Ontario by Census Division, 2002" data for Frontenac County, the increase in tourism receipts would be multiplied by a factor of 1.9 to give the regional economic impact. The regional economic impact of tourism would be \$15.4M.

This would suggest, that using an economic multiplier approach, the annual total impact on the regional economy will be in the range of \$20M.

In addition to economic spin-offs as a result of operating the LVEC, there are also economic impacts to consider at the time of construction.

4.3 Construction Impact

The Toronto Construction Association estimates that 20 person years of employment is created for each million dollars of construction cost for industrial, commercial and institutional projects. In addition, The Canadian Construction Association estimates that for every \$1M spent on vertical construction (buildings), 15 new post-construction jobs are created.

Table 4 summarizes the estimated impact from the construction of the LVEC:

Table 4 – Construction Impact on Kingston Economy	
• Construction Work:	600 person years
• New Permanent Full Time Jobs – created post-construction	450 jobs



5 Determining the Size of the Facility

5.1 Seating Requirements

The challenge of determining seating capacity is to balance the need to minimize capital costs and ongoing operating costs, while creating an exciting atmosphere in a building which is almost full for most events and virtually full for special events.

The City of Kingston has not undertaken a detailed market analysis to support the number and type of events or the attendance at such events. However, information from similar facilities, Kingston's geographic location and the comparative data of other communities provides a rational basis for the determination of seating capacity of the LVEC. Demographic and socio-economic characteristics of the local market are also used as part of the analysis to determine the number of seats in the facility.

5.2 Using Statistical Data to Determine Seating Requirements

Table 5 summarizes the population and seating capacity for communities that have or are proposing to construct an LVEC facility.

Table 5 – Comparison of Community Population to Seating Capacity of Sports and Entertainment Centres

City	Population ₁	Agglomeration _{1,2}	Seating in LVEC ³
Barrie	103,710	148,480	4,000
Guelph	106,170	117,344	5,000
Kingston⁴	114,195	146,839	5,000⁷
London	336,539	432,451	9,000
Oshawa ⁴	143,050	473,695	5,000 ⁵
Sarnia	70,876	88,831	4,000
Sault Ste. Marie ⁴	74,566	78,908	5,000
Windsor ⁴	208,402	307,877	6,000
Brampton ⁶	N/A	N/A	5,000
Mississauga ⁶	N/A	N/A	5,000
St. Mikes ^{4,6}	N/A	N/A	4,000

Notes:

1. Statistics Canada, 2001 Census.
2. Kingston Agglomeration: City of Kingston, Loyalist Township, Township of Frontenac Islands, Township of South Frontenac
3. Rounded to the nearest 1,000 seats.
4. Planned Construction.
5. Oshawa has asked RFP respondents to quote on the basis of 5,400 seats and the ability to add a further 1,000 seats at a later date.
6. Facilities in the GTA where population data is not relevant to a Kingston comparison.
7. Composition as described in Section 5.3



Based on the population agglomeration and seating capacity of the municipalities identified in *Table 5*, it is reasonable to conclude that an LVEC with a seating capacity of 5,000 is an appropriate size facility for Kingston.

The “City of Kingston Arena Capacity & Expansion Study” prepared by dmA Planning & Management Services in January 2004, provides population growth projections. According to this report, Kingston’s population growth rate declined from 4% during the 1991-1996 period to 1.4% during the period 1996-2001. , This is compared to the Canadian growth rate of 6.1% during 1996-2001.

Table 6 summarizes the projected population growth in the Kingston Agglomeration:

Table 6 – Projected Population Growth: Kingston Agglomeration		
Source: City of Kingston Arena Capacity & Expansion Study		
Year	Projected Population	% Change (5 year period)
2001	146,839	---
2006	153,943	4.8
2011	161,082	4.6
2016	170,117	5.6
2021	181,535	6.2
2026	192,454	6.0

Based on the projection in growth for the Kingston Agglomeration over the next 20 years it is also reasonable to suggest that a facility with the 5,000 seat arena bowl capacity, which can be expanded to 6,000 seats, is sufficient to meet future demands

The ability to attract attendees and the relative income of those in the community is another determining factor in assessing seating capacity.

Table 7 provides a comparison of average earnings and income in cities who have built or are planning to build an LVEC.



Table 7 – Comparison of Average Earnings and Income in Ontario

City	Average Earnings ¹ (worked full year - full time)	Average Earning ¹ (Persons with earnings)	Median Income ¹
Barrie	\$43,310	\$32,500	\$25,499
Guelph	45,350	33,370	26,879
Kingston ²	43,601	30,600	22,948
London	43,925	32,393	24,102
Oshawa ²	43,832	33,007	25,249
Sarnia	46,193	32,174	22,145
Sault Ste. Marie ²	41,708	29,213	20,408
Windsor ²	45,509	34,794	23,723

Notes:

1. Statistics Canada, 2001 Census.
2. Planned Construction.

The comparison of average earnings and incomes of the communities identified in *Table 7* indicates that an LVEC with a seating capacity of 5,000 can be supported by the community.

It should be noted that both Sarnia and Barrie have regular sell-outs in their facilities and believe they could accommodate 4,500 to 5,000 seats. Barrie is exploring the possibility of expanding to 5,000 seats.

5.3 Other Factors to Consider When Determining Seating Capacity

Kingston is an isolated market without competition from comparable venues.

Kingston's location is unique. Its convenient location is within an easy commute from four large cities – Ottawa, Montreal, Syracuse and Toronto. As such, Kingston is a convenient stop over for acts.

Promoters have indicated that a 5,000-plus seat facility would attract a large number of concerts and events. Touring concerts and shows target venues with total arena bowl and on floor seating ranging from 4,000 – 8,000 seats, 8,000 - 11,000 seats and greater than 11,000 seats. To host a Memorial Cup, the arena bowl should hold at least 5,000. This size is also suitable for major curling events, Canadian figure skating events and as secondary venue for the World Junior Hockey championships. To host a World Figure Skating event, the building would need to be in excess of 10,000 seats.



5.4 Reviewing Attendance at Other Facilities

Sizing a building is an iterative process of comparing the advantages of different sizes to the ability to fill the building, the capital costs and ongoing operating costs.

In making a decision on the size of the new building, the current schedule of events and attendance figures at the Kingston Memorial Centre has little relevance.

In 2003-2004, including 39 Kingston Frontenac games, the Memorial Centre only hosted 61 event days. Only four of the events involved concerts or shows. Comparable facilities will typically host 80 – 120 event days.

Attendance figures for the Frontenacs are around 2,000 per game. A new LVEC with current amenities such as private suites, club seats, first-class food and beverage facilities, a video replay system, an excellent sound system will become a true family entertainment centre and will boost attendance. As was the case when the Kingston Memorial Centre was opened, the LVEC will be the place to be.

As an example, the Sarnia Sports and Entertainment Centre, which opened in September of 1998, sold out for every Sarnia Sting game after it opened. This was an increase from about 2,000 per game in the old Sarnia Memorial Centre to about 4,200 per game.

Since its opening in October of 2003 attendance at the London Knights games has gone from about 3,000 per game to about 8,100 per game during the 2003-2004 season and sell-outs of 9,100 per game during the 2004-2005 season. London is seeing similar attendance figures for concerts and shows and is drawing from as far away as Windsor and Detroit

5.5 LVEC Seating Configuration

Given all of the above factors an appropriate number of arena bowl seats for the proposed new LVEC are 5,000 seats. With retractable seating for placing the stage in one end of the building, total seating for concerts will be in the range of 6,800 seats.

The LVEC Business Plan assumes the 5,000 seats are provided in the bowl, using the configuration identified in *Table 8*.



Table 8 – Seat Configuration for Arena Events	
Source: Configuration of Similar Facilities in Ontario	
Regular Seats	4,070
Club Seats	400
Standing Room	200
Private Suites ¹	280
Party Suites ²	50
Total Seats	5,000
Notes: ¹ 28 private suites with 10 seats each ² 2 Party Suites with 25 seats each	

To accommodate future population growth, building construction should allow for the ability to expand, in the future, to 6,000 seats in the arena bowl and 7,800 seats for concerts.



6 Public Private Partnerships/Public Sector Comparator

6.1 Introduction

There is a great deal of debate and a general lack of understanding of how P3's benefit municipalities. The uninformed will argue that a P3 is simply another way of putting money into the pockets of the private sector investors who, in the final analysis, won't incur risk or necessarily act in the best interest of the community. They also point to some recent P3's judged by some as having been unsuccessful. This Section will discuss the reasons for considering a P3, the advantages and disadvantages of P3's and the use of a Public Sector Comparator (PSC) to help identify the framework needed for a successful P3.

6.2 Public Private Partnerships (P3's)

In its most basic form a P3 is simply a contract between a public body (government) and a private body (privately owned or publicly traded company) to provide a public service. These relationships have a broad range and represent many variations. A P3 can be as straight-forward as a government department purchasing a good or service from the private sector to help it carry out its public mandate. A good example of this type of P3 arrangement is when a municipality contracts a private company to provide snow removal services. On the other end of the scale, a government agency may enter into a contract with the private sector to have it carry out the responsibilities of a government department. An example of this more complex P3 arrangement is the Federal Government entering into an agreement with the private sector to have the private sector manage security at Canadian airports.

Over the years P3's have received a great deal of criticism. However today there is a renewed interest in P3's as a possible solution to address the significant pent-up need for capital investment in infrastructure. The postponement of investment in infrastructure over the years, the shifting of the burden of investments in infrastructure from the federal government to the provincial and municipal governments and the change in government accounting policies have all contributed to a change in attitude. A major philosophic change in this approach is that ownership and direct control are no longer the primary concerns in creating infrastructure.

In his paper "Financing Canada's Hospitals: Public Alternatives to P3s", October, 2004, Hugh Mackenzie shows that Public Capital Investment Net of Depreciation declined as a share of Gross Domestic Product (GDP) from the 2% to 3% range in the late 1960s and early 1970s to the 0.5% range after 1990. He goes on to say that the difference between the 4.5% of GDP before depreciation in the late 1960s and the 2.5% of GDP before depreciation in the late 1990s represents \$24B in missing annual investment in public capital.



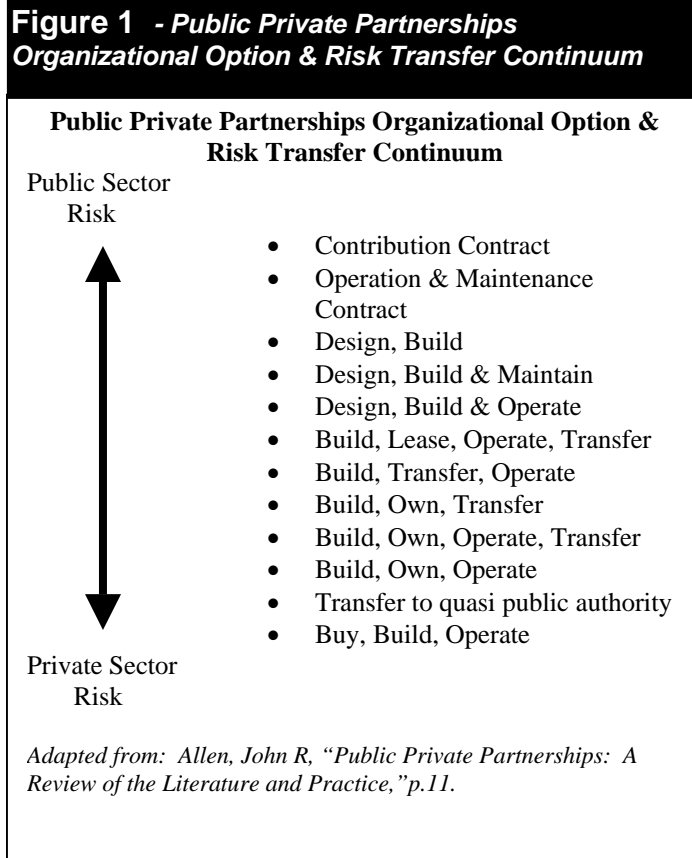
Later in his paper he shows that "In 1955, the Federal Government accounted for 34% of capital investment: by 2003 it had declined to 22%; the provincial share dropped from 39% to 26%; the municipal share increased from 27% to 52%." This represents a huge shift from the level of government with the most growth-responsive revenue base to the level of government with the least growth-responsive revenue base. There has not been a corresponding increase in the transfer payments between the various levels of government. Finally, beginning in the 1990s, government accounting methods began shifting from an accounting system based on cash accounting with little regulation on critical ratios and controls to accrual based accounting and well defined ratios and controls. As it became necessary to consolidate the accounts of related agencies and general government accounts, these changes brought to an end the various mechanisms commonly used to create "off balance sheet" financing.

In the meantime, North American pension funds and banks have accumulated large amounts of surplus monies for short and long-term investments. Until very recently, due largely to the Canadian attitude towards P3s, available long-term investment has been directed towards off-shore infrastructure investments, primarily in Europe. Canadian attitudes towards P3s are changing. In November of 2004, The Canadian Council for Public-Private Partnerships released the results of a poll: "The People Speak on P3, a national survey on attitudes to public-private partnerships." Survey results indicated that sixty percent of Canadians believe that the time has come to put private sector finance and expertise to work. The level of support was consistent between different sizes of communities, union and non-union workers and between major federal parties (NDP voters were slightly lower at 50%). When asked about the use of P3s for building and operating public recreation facilities, 73% of Canadians polled supported the P3 concept.

Industry Canada's Public Private Partnership Office identifies the following major functions of P3s: financing, design-building, operation and maintenance, leaseback, transfer and ownership. In relating these functions to risk, John Allen in his "Public Private Partnerships: A Review of Literature and Practice" developed the continuum illustrated in Figure 1 below.



Figure 1 illustrates the organizational option & risk transfer continuum for public private partnerships.



Most P3 discussion focuses on the ability to source private sector money for infrastructure investment and the cost of the private sector money. This focus ignores the very important concepts of improved “value for money” for taxpayers and the allocation of risk to the party who can best deal with it.

The Business Council of British Columbia’s Policy Perspectives of February 2002 outlines the potential savings which can accrue from a P3.

- the private sector is often more efficient and innovative in undertaking the design, construction, operation and maintenance of an asset or project over the life of the contract;
- partnering allows the public and private sectors to focus on and harness their respective responsibilities and strengths;
- the private sector partner could be involved in a number of related operations leading to economies of scale;



- savings are often derived from simply going through the Request for Proposal process, which forces a more accurate and rigorous assessment of what actually needs to be provided;
- the private participants' financial stake in the project guarantees their commitment to economic efficiency while government's role serves to protect the public interest.

The underlying concept in a P3 of allocating risk to the party who can best manage it is very important. Optimizing this allocation will serve to help optimize the value for money. In addition, the process of allocating risk is a major improvement over the more traditional public sector procurement process.

The framework being used today to best realize the benefits of a P3 is the Public Sector Comparator (PSC). The use of a PSC and the disciplined process it creates, combined with an understanding of the strengths and weaknesses of recent P3's involving sports and entertainment centres, are key to creating a P3 which will stand up to scrutiny over the long term.

6.3 Public Sector Comparator (PSC)

The following description of a PSC is extracted from the work done by Capital Works Inc. and Lyncor Inc. on the "Public Sector Comparator Analysis -Oshawa Sports and Entertainment Facility," completed in June of 2004.

As referenced above, the purpose of the public sector comparator is:

- To help government make an informed decision on the affordability of the project through full life cycle costing.
- To test the viability of a proposed P3 and to demonstrate the proposal's value for money.
- To act as a project management tool through the identification of risks, the allocation of risk to the partner who can best manage it and to help the partnership address risk mitigation issues.
- To encourage a more effective bidding process. If government can demonstrate an in-depth understanding of the project, the quality of the private sector proponents will improve as will the quality and accuracy of their bids.
- To ensure the process for making a decision to proceed with a P3 or not to proceed with a P3 is transparent.

In its purest form, a public sector comparator models the construction, day-to-day operations and life cycle costs of an LVEC, including adjusting these capital costs and operating cash flows to reflect identifiable risks, under the assumption that the public sector has complete responsibility for the construction and ongoing operations of the LVEC. In a private sector investment model, cash flows over the life of the building are discounted and expressed as a net present value (NPV).



Life cycle costing analysis helps identify the true costs of the venture. Less information is missed when the capital costs and operating costs are viewed as one cash flow stream over the life of the building. The discipline and work required by government to complete the PSC and the similar discipline and work required of a private sector proponent responding to a Request for Proposal (RFP) combine to provide more accurate financial results than might normally be expected in a RFP process. In addition, it helps the partners in agreeing on the most probable financial scenario, the value of the risks and the transfer of risks to the partner who can best handle them.

The above approach helps address the most frequent problems found in previously negotiated P3's. In a number of cases, government has had to bail out the private sector partner who either did not understand the cash flows and associated risks or over estimated their abilities. In some other cases it became obvious over time that there hadn't been an appropriate allocation of risks and government was left bearing all, or most of, the downside operating risks with the private sector being left in a position to realize the upside positive returns, if any. Finally, in number of cases, because of a lack of due diligence, the partners went into the partnership without having a mutual understanding of the financial expectations and the concept of allocating risks to the partner who could best handle them.



7 Financial Analysis

7.1 Introduction

This section of the LVEC Business Plan identifies:

- The capital costs to construct the LVEC.
- The preferred model for construction of the LVEC.
- The operating revenues and expenses (cash flows) and decision-making criteria needed to determine the facility's operation.
- A life-cycle analysis assessing the LVEC's cash flows relative to the capital construction costs.

To assess alternatives for the construction and the operation of the LVEC, the following 2-step approach was used.

Step 1: Develop the expected capital costs for building the LVEC under two construction scenarios: private sector and public sector.

Capital Construction Costs	<p>Step 1a identify the expected capital costs assuming the private sector is responsible for the construction of the building</p>
	<p>Step 1b identify and quantify the risks assuming the public sector is responsible for the construction of the building</p>
	<p>Step 1c compare the results of Step 1a and Step 1b to identify the preferred model for construction of the LVEC</p>

Step 2: Develop expected cash flows under two operating scenarios: private sector operator and public sector operator.

Cash Flow Analysis	<p>Step 2a identify the expected year one cash flows assuming the private sector is responsible for the operation of the building.</p> <p>Note: Year 1 cash flows are indicative of future years in the financial model, other than inflationary adjustments, increase to ticket surcharges, repairs and maintenance and contributions to capital reserves. Overall, this creates greater net positive cash flows to assist in financing the facility.</p>
	<p>Step 2b identify and quantify the risks assuming the public sector is responsible for the operation of the building</p>



	Step 2c
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	compare the results of Step 2a and Step 2b to identify the preferred model for operation of the LVEC
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Given the construction of six Ontario sports and entertainment centres over the past several years and a further five sports and entertainment centres expected to begin construction over the next two years, including the Kingston LVEC, there is a recent history of capital costs and operating cash flows. As identified in Section 1.5, this information and the development of a traditional Public Sector Comparator increases the accuracy of the financial analysis and therefore the level of confidence in the business plan.

7.2 General Assumptions in the Financial Model

- Construction Start Date: May 1, 2006.
- LVEC Opening: September 1, 2007.
- Revenue and expenditures are indexed to inflation at current levels (2%).
- Operating year: September 1 to September 1 of each year.
- GST is not applicable as it is fully refundable.
- The building's life-cycle is 50 years, whereas the financing term is 30 years.
- Capital costs are expressed in 2006 dollars.
- The LVEC will be designed and constructed for expansion to 6,000 seats at some point in the future. The financial model does not account for the cost of this expansion or the increased cash flows that would result.



7.3 Capital Construction Costs

Step 1

In July of 2004, a risk-adjusted Private Sector Comparator (PSC) was completed for the construction and operation of a sports and entertainment centre for the City of Oshawa. This PSC was used as the basis for a Request for Proposals (RFP) issued in the fourth quarter of 2004.

The Oshawa PSC and three RFP respondent proposals helped provide a benchmark for developing the capital cost estimates for the proposed Kingston LVEC. These costs were independently reviewed by a quantity surveyor and adjusted to reflect the features unique to Kingston.

Step 1a – Identification of Capital Construction Costs -Private Sector

In estimating the capital costs of building the LVEC, detailed costs were obtained from the London and Oshawa projects. This cost information was supplemented by specific Inner Harbour site studies including a site servicing plan, Phase 1 and Phase II environmental testing on publicly owned lands, Geotechnical testing and a concept plan. Finally, the details of the capital costs were reviewed by an independent Quantity Surveyor.

Table 9 illustrates the Capital Costs, excluding land costs, for the Private Sector to construct the LVEC.



Table 9 – Capital Cost (Private Sector): Construction of the LVEC – excluding land costs

	\$M	
Hard Costs:		
Structure	13.0	
Finishing, Seating, & Signage	3.4	
Mechanical & Electrical	6.1	
External/Site Works	2.4	
Site Management	1.5	
Contingencies	3.0	
Total Hard Costs:		29.4
Soft Costs:		
Professional Fees (including contingencies)	1.1	
City Fees		
Permits	0.4	
Impost Fees	0.7	
Development Charges	0.6	
Pre-Construction & Administration Costs	0.8	
Total Soft Costs:		3.6
Furniture, Fixtures and Equipment (FF&E)		
Food and Beverage (e.g. restaurant and concession)	1.6	
Operations (e.g. Zamboni, stages, arena floor, etc.)	1.5	
Total FF&E		3.1
Facility Capital Cost – before optional equipment		36.1
Optional equipment:		
Flygrid	0.6	
Catwalk	0.6	
Total Optional equipment		1.2
Total Capital Cost – excluding land costs:		37.3

The above capital costs exclude land and assume a private sector design build team, composed of one or more architecture firms and a general contractor to design and construct the total site concept, including the building, park and marina lands, under a design-build agreement with a Gross Maximum Price (GMP). Implicit in this approach is the shifting of the construction risks to the



private sector design-build team.

Optional Equipment:

Flygrid

Relative to other mid-sized sports and entertainment facilities, a unique feature in the construction and operation of The John Labatt Centre is the inclusion of a flygrid and catwalk. The flygrid and catwalk are attached to the beams supporting the roof. The flygrid is located at about the "blue line" at one end of the arena. It has pulley mechanisms which drop down to floor level and can be used to support the props and stage for theatre and/or concerts. Full length curtains are run around the back of the stage and around the end of the arena bowl. The effect is one of creating a theatre setting for an audience of about 2,000 to 2,500 people.

This setting is popular for smaller concerts and family shows. In addition, a Chicago promoter brings to London about six Broadway or Off-Broadway productions.

The additional cost of including a flygrid in the LVEC is estimated at \$600,000. This option is available for consideration and has been included under optional equipment listed above.

Catwalk

A catwalk makes it significantly easier to handle flood lights and rigging for concerts, family shows and if adopted, theatre productions.

The additional cost of including a catwalk in the LVEC is estimated at \$600,000. This option is available for consideration and has been included under optional equipment listed above.

Other design options:

LEED Certification and Design:

Council policy states that "all large municipal building and retrofit projects undertake an assessment of the Leadership in Energy and Environmental Design (LEED) as a design goal for Council's consideration before finalization of the project design."

LEED certification and design or other conservation standards will be investigated in accordance with Council policy as part of the design stage. Recent experience has demonstrated that for certain buildings, the costs to meet LEED certification will achieve a payback in energy savings and efficiencies sufficient to offset the incremental capital costs over a reasonable period.



In order to investigate this option, the RFP for design-build will include a LEED or other conservation standard option. Financial details and payback analysis will be presented, taking into consideration any grants which may be applicable, as separate information for decision at a later date. It is expected that any incremental costs associated with construction to a LEED standard or other conservation standard will be offset by identified savings in the payback period. On this basis this item need not be incorporated into the cost of the project at this time.

Step 1b - Capital Construction Cost – Public Sector

Under a Public Sector Comparator (PSC) approach the public sector accepts responsibility for managing the design and construction and, as such, accepts responsibility for all construction related risks, including the costs associated with these risks.

Table 10 illustrates the Capital Costs for the Public Sector to build the LVEC by quantifying the Total Risk Contingency and adding those costs to the capital costs identified in *Table 9*.



Table 10 – Capital Cost (Public Sector): Construction of the LVEC				
Risk Contingency	Relevant Cost	*Risk Factor	Quantified Risk \$M	Total Project Cost \$M
Total Capital Cost: Construction of LVEC (Private Sector – including optional equipment)				37.30
ADD:				
Higher construction costs due to work order changes and higher than expected tender prices	\$29.4	15% x 60%	2.65	
Delay in beginning construction leading to inflation impact over time and winter premium	\$3.5	100% x 25%	0.88	
Opening of facility in January rather than an August to October timeframe	\$0.4	100% x 40%	0.16	
Unforeseen site conditions	\$0.5	100% x 20%	0.10	
Strikes or lockouts lasting three months	\$0.3	100% x 15%	0.05	
Higher start-up costs	\$0.15	100% x 50%	0.08	
Total Risk Contingency				3.92
Total Capital Cost: Construction of LVEC (Public Sector)				41.22
*Risk Factor = % of cost x probability of occurrence				

Step 1c – Comparison of Private Sector Capital Costs to Public Sector Capital Costs

In comparison, if the public sector constructs the LVEC, it is likely that the cost could escalate to \$41.22M, a premium in excess of 10%, as compared to \$37.30M under a P3 design-build approach with the private sector accepting responsibility for delivering a “turn key” building under a design-build agreement with a fixed GMP.



7.4 Analysis of Operating Cash Flows

Step 2

To project the LVEC event profile, a survey was conducted of events in similar facilities across Ontario. In addition, three established management companies provided their estimates of the programming revenues and expenses for the proposed Kingston LVEC. The above input was supplemented through direct knowledge of actual earnings and expenses in comparable facilities.

The following assumptions and cash flows reflect the above industry experience and input, including actual operating results in other facilities.

Step 2a – Operating Cash Flow Analysis –Private Sector Management

Under a P3 Agreement for operating the LVEC, there are a number of characteristics differentiating this approach from a publicly run facility.

As a minimum under a P3, the private sector operator will earn a management fee, including a base management fee and the ability to earn a bonus. Other characteristics differentiating the P3 from the PSC may involve the private sector operator:

- Providing capital to the venture.
- Sharing in the profits of the venture.
- Sharing in any potential losses.
- From the venture's forecasted profits, having an obligation to make lease/debt service payments on an annual basis.
- Having responsibility for achieving minimum profitability thresholds.

The financial model, as detailed in Appendix B, incorporates the various revenue and expenditure assumptions which determine the operating cash flows of the LVEC under private sector management.

Key Operating Assumptions

Revenues

- Seating: The operating revenues assume a 5,000 seat facility with a composition as described in Section 5.5 - Table 8.
 - Private Suites: 28 private suites with 10 seats per suite. Twenty-six (26) of the suites are leased for three, five and seven year terms. Staggered lease terms provide stability for lease continuity and cash flow purposes. Annual



lease rate is \$16,000 plus the cost of tickets for OHL hockey games. The remaining 2 suites are available at an annual lease rate of \$1.00 plus the cost of OHL hockey game tickets to the purchaser of the Naming Rights and the City. The annual private suite lease rates are slightly higher than cities such as Barrie and Sarnia but lower than all other venues.

- Club Seats: 400 club seats on three, five and seven year leases at an annual lease rate of \$300 plus the cost of tickets for OHL hockey games. These lease rates are lower than the other new venues.
- Ticket Surcharge: This is common to all sports and entertainment centres. Conceptually a ticket surcharge is rationalized as being needed for repairs and maintenance expenditures and as an approach towards "user pay". Most cities currently charge in the range of \$1.00 - \$1.50 per ticket. Currently a ticket surcharge of \$0.75 - \$1.00 per ticket applies at the Memorial Centre for Kingston Frontenacs season games. A ticket surcharge of \$0.50 is charged for exhibition games and play-off games.

The LVEC is expected to open in 2007, with a ticket surcharge of \$2 per ticket. The ticket surcharge increases over time as follows:

Years of Operation	Ticket Surcharge
1 – 5	\$2.00
6 – 10	\$2.50
11 – 15	\$3.00
16 – 20	\$3.50
21 – 30	\$4.50

- Event Revenues - Kingston Frontenacs: The cash flows assume 3 exhibition games, 34 regular season games and 4 play-off games with average attendance figures of 2,000, 4,000 and 4,800 respectively. Under typical lease arrangements the facility receives 10% of the gate. The pricing of tickets in the financial model range from \$10 - \$20 for regular season games depending on the type of seat.
- Concerts: Five major concerts with an average attendance of 5,000 and six minor concerts with an average attendance of 2,500. The LVEC operator is not typically the promoter of these events. Ticket pricing in the model is based on current ticket pricing at the John Labatt Centre and reflects industry norms.
- Family and Other Shows: include shows such as Disney on Ice, the Circus, the Globetrotters, Sesame Street, Figure Skating, Lipizzaner Stallions, WWE, Monster Trucks, Limestone City Blues Festival event, Home and Garden Shows, Boat Shows, meetings and conventions, trade shows, a job fair etc. Attendance is based on other comparable venues and the facility share reflects



actual earnings achieved in other venues.

The projected **City share** of gross event revenue from the detailed financial model is summarized as follows:

Events	# of Events	Average Attendance	Event Revenue
OHL Hockey			
Exhibition Games	3	2,000	\$4,000
Regular Season	34	4,000	143,000
Playoff Games	4	4,800	25,000
Other Hockey			
Events	2	3,000	5,000
Tournaments	9	600	9,000
Concerts			
Major	5	5,000	90,000
Minor	6	2,500	67,000
Family Shows	12	2,500	74,000
Other Events	22	3,000	56,000
Total	97		\$473,000

- **Naming Rights:** Naming rights are sold for a 30 year term, at a minimum price of \$1.5M paid over ten years adjusted for inflation. By way of comparison, the naming rights in Mississauga and London were sold at a cost of \$250,000/year over ten years.
- **Food and Beverage:** Includes earnings from a 300 seat restaurant and strategically placed food concessions. Per capita consumption and earnings after expenses are based on industry norms, as applied to the various activities taking place in the building. In the case of OHL hockey games, 50% of the net food and beverage earnings are given to the team. For events other than OHL games, 100% net proceeds accrue to the facility.
- **Ice Rentals:**
Includes ice rentals to the Kingston Frontenacs for games and practices as well as community recreational access through ice rentals to adult and youth groups.

Community recreational access will occur as long as such activity does not result in excessive wear on the building and does not adversely affect the facility's main programming intent which is its ability to host entertainment and higher order athletic events. The 2003/04 hourly ice rates, including the user surcharges, were averaged and inflated to reflect 2007/08 ice rates. It is assumed recreation ice use is split 50/50 between youth and adults.



- Novelty Revenue: While this item is minor, cash flow estimates include amounts based upon experience from similar facilities.
- Sponsorship and Advertising: In comparable facilities advertising and sponsorship revenues will vary between \$400,000 and \$600,000. This financial model assumes \$500,000, of which it is estimated 50% would be shared with the primary tenant.
- Other Revenues: Included in other revenues are earnings from ticket rebates from Ticket Master, interest, pouring rights, the Pro Shop and party room rentals.
- No consideration is given to other potential revenue opportunities outside of the LVEC operations (e.g. earnings from the marina operations, park food and beverage operations and other yet to be identified revenue opportunities).
- Theatre: No provision has been made for theatre productions. London currently has six theatre productions each year. No revenue estimates have been made. Any events of this nature will add incrementally to the net cash flows.

Expenses

- Salaries, Wages and Benefits: Expenditures for the facility have been included at \$860,000 based on the staff complement outlined below.

Position	Annual Cost
General Manager	\$110,000
6 Operations/Maintenance Personnel	297,000
Marketing Manager	55,000
Administrative Assistant	38,500
Customer Service/Group Sales	33,000
Accounting Clerk	38,500
Special Events	33,000
Sub-total	\$605,000
Benefits @ 25%	151,250
Part-time Wages & Benefits	103,750
Total	\$860,000

- Utilities: Based on a survey of similar size facilities the annual utilities costs (heat, hydro, water, and sewer) are estimated at \$350,000 per year escalating at the rate of inflation. This number may decrease, subject to LEED analysis or other conservation design measures.



- **Operational Repairs and Maintenance:** An operational repairs and maintenance allowance has been included in the estimates starting at \$75,000/year and increasing over time to as high as \$175,000/year adjusted for inflation.
- **Major Capital Repairs and Maintenance:** In addition to the operational repairs and maintenance described above, the financial model includes an annual contribution to a facility capital reserve for the purposes of addressing major capital repair expenditures. The contribution begins at \$100,000/year eventually growing to \$200,000/year after 10 years. This reserve fund will earn interest on an annual basis to help offset inflation.
- **Management fees** paid to a professional management firm through a management contract are estimated to be \$350,000 per year.
- **Other Materials, Supplies and Services:**
 Business and operational costs for a facility of this size and employee complement previously defined are estimated at approximately \$400,000, as outlined below.

Expense Activity	Cost
Cleaning Services	\$50,000
Cash Transport	5,000
Advertising and Marketing	50,000
Bank Fees	5,000
Data Processing, Licences and Office Equipment	25,000
Dues and Subscriptions	5,000
Insurance	30,000
Landscaping	10,000
Premium Seating Expenses	15,000
Licences and Permits	5,000
Professional Fees	15,000
Printing and Stationery	3,000
Postage and Freight	5,000
Equipment Rental	4,000
Service Agreements	50,000
Snow Removal	10,000
Supplies	25,000
Telephone	15,000
Training	4,000
Trash Removal and Pest Control	35,000
Travel and Entertainment	8,000
Uniforms	10,000
Contingency	20,000
Total	\$404,000



Property Taxes are not included in the analysis as the City will own the facility.

Summary of Operating Cash Flows

Table 11 identifies the Year 1 net operating cash flow for LVEC using a private operator or P3 scenario.

Table 11 – Year 1 Net Operating Cash Flows – Private Operator	
	Year 1
FACILITY REVENUES	
Ticket Surcharge	\$600,200
Event Revenues	473,502
Private Suites	416,000
Naming Rights	150,000
Club Seats	120,000
Food & Beverage	391,039
Ice Rentals	397,918
Novelty Revenues	29,802
Sponsorship & Advertising	250,000
Other Revenues	140,000
TOTAL REVENUES	\$2,968,462
FACILITY EXPENSES	
Salaries, Wages and Benefits	860,000
Utilities	350,000
Repairs and Maintenance	75,000
Other Materials, Supplies and Services	404,000
Management Fee	350,000
TOTAL EXPENSES	\$2,039,000
Net Cash Flows from Operations	929,462
Less Contribution to Capital Reserves	100,000
Net Cash Flow – Private Operator	\$829,462

Note: Year 1 cash flows are indicative of future years in the financial model, other than inflationary adjustments, increase to ticket surcharges, repairs and maintenance and contributions to capital reserves. Overall, this creates greater net positive cash flows to assist in financing the facility.



Step 2b - Operating Cash Flow Analysis –Public Sector Management

Under a PSC approach where the City operates the venture, the City would not incur the costs associated with the payment of management fees and foregoes profits through a profit sharing agreement. However, public sector operators do not typically have experience in large sports and entertainment centre operations which includes programming and negotiating events, sponsorship and advertising sales and food and beverage operations. For these reasons a PSC model attempts to quantify these limitations.

Table 12 quantifies the Total Risk Contingency (reduced revenue) associated with Public Sector Operation of the building.

Table 12 – Public Sector: Operation of the LVEC		
Risk Contingency	Amount of Revenue Loss x Probability of Occurrence	Cost
75% of Suites Licensed		
• Loss of Licence Fee	\$104,000 x 25%	\$ 26,000
• Loss of Ticket Revenue	\$4,794 x 25%	1,198
• Loss of Ticket Surcharge	\$4,835 x 25%	1,209
• Loss of Food & Beverage	\$12,093 x 25%	3,023
		\$31,430
50% of Club Seats Licensed		
• Loss of Licence Fee	\$60,000 x 20%	\$12,000
• Loss of Ticket Revenue	\$11,920 x 20%	2,384
• Loss of Ticket Surcharge	\$16,100 x 20%	3,220
• Loss of Food & Beverage	\$12,850 x 20%	2,570
		\$20,174
Naming Rights not Sold	\$150,000 x 60%	\$90,000
Event Revenues Reduced by 25%	\$118,376 x 50%	\$59,188
Food & Beverage Reduced by 30%	\$117,312 x 50%	\$58,656
Sponsorship & Advertising Reduced by 20%	\$75,000 x 50%	\$25,000
PSC Operations: Risk Contingency		\$284,448

The PSC Operations Risk Contingency indicates a potential revenue loss of \$284,448 using a public sector management model. It should be noted that this



potential loss is offset in step 2c, by the elimination of a \$350,000 management fee that only applies to a private sector management model.

Table 13 identifies the year 1 net operating cash flow for LVEC, including the Risk Contingency, based on a public sector operator or PSC scenario.

Table 13 – Year 1 Net Operating Cash Flows – Public Operator	
	Year 1
FACILITY REVENUES	
Ticket Surcharge	\$600,200
Event Revenues	473,502
Private Suites	416,000
Naming Rights	150,000
Club Seats	120,000
Food & Beverage	391,039
Ice Rentals	397,918
Novelty Revenues	29,802
Sponsorship & Advertising	250,000
Other Revenues	140,000
TOTAL REVENUES	\$2,968,462
FACILITY EXPENSES	
Salaries, Wages and Benefits	860,000
Utilities	350,000
Repairs and Maintenance	75,000
Other Materials, Supplies and Services	404,000
Management Fee	350,000
TOTAL EXPENSES	\$2,039,000
Net Cash Flows from Operations	929,462
Less Contribution to Capital Reserves	100,000
Net Cash Flow – Private Operator	\$829,462
Add:	
No Management Fee Paid	350,000
Less:	
PSC Risk Contingency	(284,448)
Net Cash Flow – Public Operator	\$895,014



Step 2c - Comparison of Operating Cash Flows -Private Sector Management to Public Sector Management

Table 14 summarizes the year 1 net cash flows under the two operating scenarios, after a contribution to a capital reserve fund and prior to debt repayments.

Table 14 – Net Cash Flow from Operations after a contribution to a capital reserve fund and prior to debt repayments		
	Private Sector Operator	Public Sector Operator
Net Cash Flow from Operations	Year 1 \$829K	Year 1 \$895K
Note: Year 1 cash flows are indicative of future years in the financial model, other than inflationary adjustments, increase to ticket surcharges, repairs and maintenance and contributions to capital reserves. Overall, this creates greater net positive cash flows to assist in financing the facility.		

At first glance, the above comparison indicates that there is little difference in the financial results from a privately run facility when compared to a publicly run facility, however it would be inaccurate to draw this conclusion based on this information alone. To make an appropriate comparison, the terms of a potential agreement with the private sector operator, including an operator’s possible willingness to invest in the capital costs of the LVEC must be assessed. Further, the City would need to determine the degree of confidence it has in its ability to operate the facility.

Therefore, a recommendation can not be made to proceed with a private operator versus having the city operate the facility, until such time that proposals from private operators can be evaluated using a Request for Proposal (RFP) process.

7.5 Determining the Management Model for the LVEC

The amenities and level of service demanded by today’s facility users and customers are much higher than in the past. As a result, sports and entertainment centres are more demanding to manage than the older facilities they are replacing.

Managing a sports and entertainment centre today requires skills and expertise that were previously unheard to manage Community Arenas. For example, the skills needed to manage the LVEC include:

- The ability to price and sell naming rights, suites and club seats, including the ongoing provision of a high level of service to this clientele.
- The design, construction and management of a restaurant/bar and concessions strategically placed around the facility.
- The pricing and sale of sponsorship and advertising, in partnership with the hockey tenant.
- The ability to establish relationships with event promoters, evaluate the profitability of their acts and negotiate rental contracts.



- A proactive acumen for working with individuals considering tradeshow, conventions and community events.
- Management skills for day-to-day management of operations.
- An understanding of performance management, benchmarking and reporting requirements.
- Contract management expertise.

Management of a mid-sized sports and entertainment venue requires the skills as the management of a large venue such as The Air Canada Centre or The Corel Centre. In fact, a mid-sized venue can sometimes be more complicated. In the case of the proposed LVEC, the management of possible summer activities associated with the marina and park add to the management complexity. Perhaps more important is that unlike The Air Canada Centre, the LVEC's purpose goes beyond profitability to include both social and community goals.

As a result, there is a trend towards out-sourcing management of the new sports and entertainment centres to companies that have demonstrated management experience. These companies bring the benefit of established relationships with promoters and sponsors and proven experience in facility operations, budgeting and timely financial reporting.

It is important that a decision to manage in-house or to out-source be made prior to the final design of the LVEC. A proven operator can incorporate elements into the design to better align operations with the objectives of the City.

Selection of an operator requires a structured approach to ensure an equitable agreement is achieved. This approach should include a value for money (VFM) analysis which compares a private operator with a public sector operator and the evaluation of the merits of a short-term versus long-term management contract. Important factors requiring analysis include the management company's appetite for investing in the venture, the sharing of profits/losses, establishing acceptable performance criteria/targets, acceptance of risk and the approach to selecting and appointing the General Manager.

As recommended for the design and construction stage, only companies with proven experience should be considered for an LVEC management contract.

All of the above factors need to be considered before a final decision is made to proceed with either a private or public sector operator.



7.6 Marketing the LVEC

A business plan for a new product or service typically includes consumer surveys to determine the wants and needs of the potential customer of the idea or product. This approach has not been followed in other cities nor has it been used in this business plan, for a variety of reasons.

The first challenge in conducting such a survey is one of "visualization", wherein LVEC facilities are new to communities thereby generally skewing survey results.

Due to the lack of amenities and absence of events in old arena facilities such as the Memorial Centre, survey respondents will have a difficult time visualizing the LVEC facility. If the respondents visualize the LVEC as a newer version of the Memorial Centre, they could indicate a reluctance to attend events. On the other hand, if the respondents visualize the LVEC as smaller version of an Air Canada Centre and anticipate the frequency and type of events that are hosted at that centre, their responses could indicate a greater attendance rate. Either way, the results of the survey could be skewed.

The experience in other communities demonstrates an increase in the number of attendees as well as a change in the demographic profile of people attending Major Junior A hockey games. If surveyed before the facility was built, many of these people may say that they would not attend games. As an example, the attendance in the John Labatt Centre for all events has been well above the most optimistic estimates, including those of London City officials. The LVEC will become the community gathering place and "the place to be" just as the Memorial Centre was in the 1950s. In this context many people will be there for the occasion and not only the event.

The experience of other municipalities, the overwhelming support of the citizenry to build an LVEC, the work done by the Mayor's Task Force and the demographic and socio-economic factors and benefits documented in this business plan provide ample evidence that there is a market. For these reasons a consumer survey has not been conducted at this time.

Prior to beginning construction, the management of the facility will need to develop a marketing plan for selling the naming rights, lease of the private suites and club seats. These sales will be initiated as soon as construction of the LVEC is a certainty.

Sponsorship and advertising sales will be a joint venture between the facility and the Kingston Frontenacs. Knowledge of the Kingston community and the experience of other sports and entertainment centres will be used for packaging and pricing these sales. Again, when the construction of the LVEC is known with certainty, these marketing efforts will be initiated.



Management of the LVEC will not be acting as event promoters or be involved in the promotion of the Kingston Frontenacs. This requires access to significant resources and adds to the potential for significant losses on some events. This degree of risk-taking might not be acceptable to the City, as manager. As a result, the role of the LVEC Management will be to negotiate a service contract with professional event organizers who will be responsible for marketing events and taking the associated financial and business risks.

The LVEC Management may have a greater involvement in Community events such as working with organizers to help them organize and promote their events.

Finally, it is important that the General Manager and Marketing Manager know the various promoters and operators of similar facilities. These relationships are important in assessing the opportunities for various acts/shows and in understanding the approach for maximizing the facility rental.

Using professional event organizers rather than taking an active role promoting functions results in a reduced marketing budget. A budget for marketing related expenses for a sports and entertainment facility using this approach is typically in the range of \$40,000 to \$50,000 annually and is included in the financial model.

7.7 Life Cycle Analysis

A life cycle analysis compares the operating cash flows from a venture, for the course of its projected life, to its capital cost. This approach is used to determine the return on investment from an anticipated project involving the construction and operation of a business in a specialized building.

For example, if a private sector company had a goal of earning a 15% return on its investments, it would forecast the project cash flows over the life of the project and then discount the cash flows by 15% per year to summarize the total cash flows in today's dollars (Net Present Value). If the discounted total return was greater than the cost of the project, the decision to proceed, from a financial perspective would be endorsed.

The public sector objectives are more complex as the return on investment cannot be reduced to a formula. The criteria for a public investment involves direct cash flows from a venture, the direct and indirect impacts on the regional economy (as estimated in Section 4); and social and quality of life impacts on the community (as discussed in Section 3).

As a result, it is impossible to take a conventional approach to quantify the rate of return for a municipal investment of this nature. The positive cash flows available for financing a significant component of the facility provide a more meaningful basis for a decision.



8 Financing Options

8.1 Introduction

All levels of Government are having difficulty finding monies for infrastructure investment. Financing municipal infrastructure projects normally does not reach a positive conclusion until just before construction is about to begin.

The financing process is relatively straight forward for the construction and operation of a conventional Municipal building. Once financial commitments from the community and other levels of Government are obtained and after the construction and operating cash flows are understood; the Municipality uses its surplus borrowing capacity and the strength of its guarantee to borrow the needed monies, either directly from the private sector or through a debenture issue. This is generally the least expensive approach to financing.

A municipality's reasons for looking into a P3 are threefold. First, it is an opportunity to shift much of the construction and operations risks to the private sector party who should be better equipped to deal with these risks than the public sector. Second, assuming the municipality is not a guarantor, investment by the private sector, either by way of equity or debt, reduces the monies the municipality has at risk. The third reason relates to the extent that the private sector brings monies to the venture, which increases the municipality's borrowing capacity. Implicit in all of these reasons is the opportunity to better insulate the taxpayers from tax increases as a result of unforeseen surprises. It is essential that the public sector uses these benchmarks as a frame of reference for assessing the value for money (VFM) inherent in the structuring of a P3 in its negotiations. In a number of recent P3's, these tests were not diligently applied. It is also important that the community/taxpayers and municipal staff understand and feel comfortable with the reasons for entering into a number of recent P3's.

8.2 Financing Alternatives Considered and Not Recommended

- **Kingston Memorial Centre: Sale of Property and Tax Incremental Financing (TIF)**

As outlined in *The Mayor's Large Venue Entertainment Centre Task Force* report of March 21, 2004, a rezoned Memorial Centre site could be valued at \$4M - \$6M. In addition, through the use of tax incremental financing (TIF), it was estimated that the incremental tax revenues from the residential development of the property would be sufficient for securing a debenture of \$7M - \$8M. The conclusion suggested available financing from these sources could amount to \$11 - \$14M.



It is **not** recommended that the sale of the Memorial Centre be considered as part of the financing of the LVEC. Any decision on the future use of the Memorial Centre should be postponed until the Multiplex Steering Committee has concluded its recommendations.

- **Kingston Memorial Centre: Use of net operating and capital subsidy (deficit)**

The average net operating and capital deficit of the Memorial Centre is approximately \$600,000 annually. Depending on the future use of the Memorial Centre net costs may be eliminated.

Table 15 provides a trend analysis of the operating and capital costs of the Memorial Centre for the past 5 years.

Table 15 – Trend Analysis – Operating and Capital Costs of the Memorial Centre							
	Memorial Centre As at December 31 (\$)						Average
	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budget	
Total Revenue	363,927	356,834	424,486	352,727	554,116	410,355	
Total Expenditures	(534,982)	(620,401)	(676,127)	(704,723)	(969,510)	(722,216)	
Operating Surplus (Deficit)	(171,056)	(263,567)	(251,641)	(351,996)	(415,395)	(311,861)	(294,253)
Capital Expenditures	(102,220)	(178,313)	(278,732)	(832,863)	(116,516)	(385,000)	(315,607)
Operating/Capital Surplus (Deficit)	(273,275)	(441,880)	(530,373)	(1,184,860)	(531,911)	(696,861)	(609,860)

Net savings from the repurposing of the Memorial Centre should **not** be considered as part of the LVEC financing and any decision on the use of net savings should be postponed until the Multiplex Steering Committee has presented its recommendations to Council.

- **Increase in Property Taxes**

City Council has adopted a strategy of holding tax increases to a specific level of household disposable income. Further, Council has committed, through the 2004 and 2005 budgets, to adopt a multi-year approach to annual operation fund



budgeting. The Mayor's commitment is to deliver the LVEC without an increase in taxes.

Although it could be rationalized that a specific tax increase would be appropriate considering the Task Force had identified the Memorial Centre as a source of funding, an increase in property tax is not being recommended. The recommendations included in this report and the cash flow analysis coupled with an appropriate operational accountability framework indicate that a tax increase will not be necessary to finance the LVEC.

8.3 Financing Alternatives Considered and Recommended

- **Cash Flows from LVEC Operations**

A positive cash flow is created without including potential earnings from the marina, the park during the summer and other activities outside of the day-to-day operation.

Table 16 illustrates the 30 year cash flow, after a contribution to a capital repair reserve.

Table 16 – Cash Flow after Contribution to a Capital Repair Reserve					
Net Operating Income	Average/Year in \$M				
	Year One	Years 1-10	Years 11-20	Years 21-30	Average/Year Over 30 Years
	\$0.8	\$0.9	\$1.1	\$1.6	\$1.2

The average annual cost of principal and interest payments to borrow \$1M at 6.5%, based on a 30 year amortization, is approximately \$75,000.

Over a 30 year period, using current long-term financing rates, the LVEC cash flow analysis shows that on average, a debt load of up to \$16M can be serviced. As part of securing the necessary debt financing, payment structuring can be established utilizing expected cash flows over the time-frame.

It should be noted that the life expectancy of the facility will be a minimum of 50 years. Positive cash flows beyond the recommended maximum term of financing (30 years) will become available. It is projected that this amount will be in excess of \$1.6M per year at that time.

The primary tenant for the LVEC is the Kingston Frontenacs OHL Team. It is estimated that this tenant will host 41 events per year which would generate in excess of \$600,000 or 20% of the estimated \$3M of the total annual facility revenue. This includes ticket surcharges, city share of event revenues, share of food and beverage revenues and ice-rental fees. In addition, there is a substantial



amount of annual revenue totalling approximately \$700,000 which, it could be argued, may not be achievable in the event the facility did not have a primary hockey tenant. This additional \$700,000 is made of sale of private suites, club seats, and naming rights. Conversely it can be argued that this latter amount would not be realized if the facility did not attract the other 56 annual events. Regardless, it is imperative that a long-term agreement be negotiated with the OHL club.

Conclusion:

That the financing plan include \$16M in debt financing, to be debt serviced by cash flows from the operation of the LVEC, over a maximum 30 year period.

That a long-term agreement be entered into with the Kingston Frontenacs to secure acceptable terms and conditions to satisfy the financial requirements for their share of facility usage.

- **Downtown Kingston**

The Downtown Kingston! Business Improvement Area (BIA) and its membership, together with the Kingston Accommodation Partners have suggested, through the Mayor's Task Force, that they are willing to support \$3M towards the project. The basis of their combined support and the sources of this contribution remain in the planning stages.

Conclusion:

That the financing proposal suggested by Downtown Kingston, which would be sufficient to contribute to as much as \$3 million of capital costs, be included as part of the financing of the LVEC.

- **Private Donations**

In most communities that have constructed sports and entertainment facilities, a committee is established to raise private donations. This is a means to demonstrate community support for the project by raising money for the capital construction of the facility.

There are generally two approaches to raising private and corporate donations. The first and most common are up-front cash donations. The second is a longer-term approach where the supporter, through a multi-year pledge program.

Currently, private and corporate donations are being solicited for two other major city projects, the Grand Theatre Restoration and the Market Square



Revitalization. Given the circumstances, compounded by other community fundraising efforts, the most effective approach to raising private donations is likely through pledges.

Conclusion:

That a fundraising program be established for the LVEC project with a goal of generating \$2.0 million in financing over a 3-year period and that a process is established to receive donations for this project.

- **Development Charges**

In September 2004, by-law 2004-256 was established for the purposes of charging Development Charges (DC's) for growth related services. Included in the DC background study supporting the by-law, is a recreation component and service level rationale supporting additional recreational square footage. In consultation with CN Watson and Associates, it has been confirmed that approximately \$7.1 million will be collected over a period of 15 years for recreational purposes, including the LVEC project. Keeping in mind that the City is exploring other recreation related projects, which are partially attributable to growth, the City should ensure that not all DC Funds collected over that period are utilized exclusively on any one project. It is important to ensure that a share of DC Funds are made available for other projects, including but not limited to the Multiplex project. Accordingly, the City should allocate less than 50% of DC's collected for the recreation component for the LVEC financing, keeping the remaining funds that will be collected over time, available for other purposes.

Conclusion:

That Development Charges in the amount of \$3.0M be allocated as a funding source for the LVEC.

- **Parking Incremental Revenues**

The construction of the LVEC in the downtown location and dispersed parking reduces the capital costs of the project. The City has made a significant investment in parking lots and spaces over the past years and these facilities will provide available parking during LVEC events. This provides an opportunity for the City to generate new parking revenue, as the majority of events will be during off-peak parking time when occupancy rates are low. In calculating the incremental parking revenues, the following assumptions have been made:

- There will be approximately 90 events per year.
- Approximately 300,000 persons will attend these events.
- There is on average 1.8 persons per car.



- 50% of the cars will park in city parking lots at an estimated net price of \$2.00 (after operating expenses are factored in).

Using these assumptions, approximately \$150K incremental net revenue will be generated annually. This amount would be available to service \$2.0 million in debt financing.

Conclusion:

That the financing plan include \$2 million in debt financing to be serviced by incremental revenues generated from the use of city owned parking facilities for event parking, over a maximum 30 year period.

- **Federal and Provincial Government Grants**

Most event facilities built in Canada have had Government support from both the provincial and federal governments.

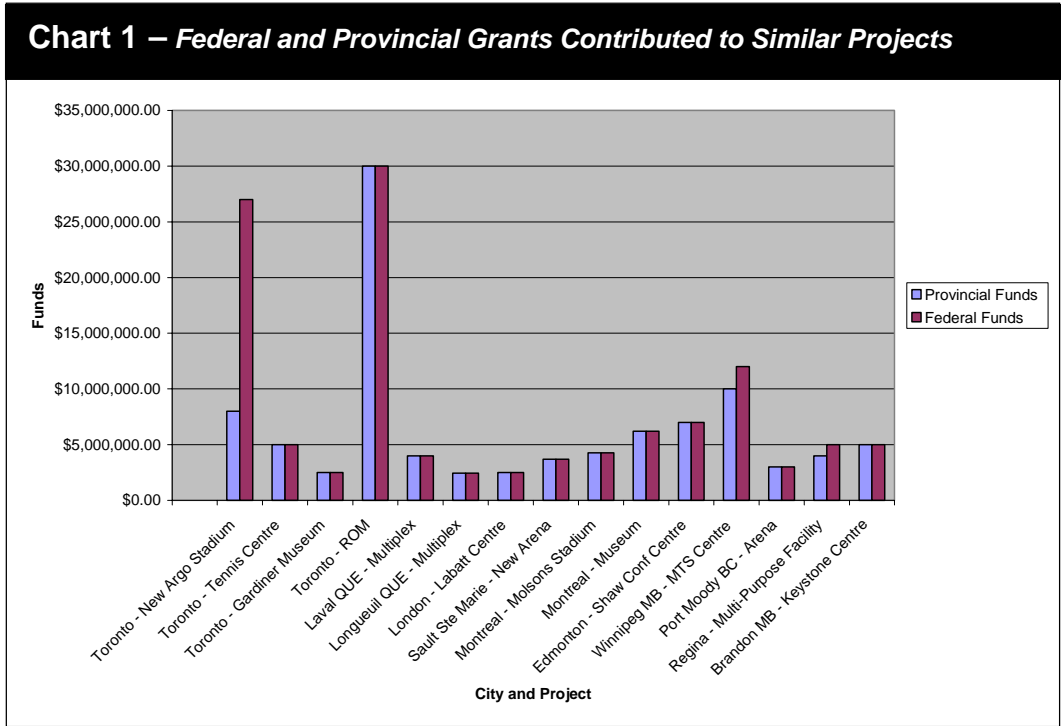
In 2000, the Government of Canada created the Canada Infrastructure Program (CIP). Under this program, the federal and provincial governments, through programs like the Canada Ontario Infrastructure Program (COIP), SuperBuild, Ontario Small Town and Rural (OSTAR) Development Initiative, Sports Culture and Tourism Partnerships (SCTP) and Millennium Funds in Ontario, up to two-thirds of total eligible costs for many sports, culture and tourism facilities were funded.

COIP, SuperBuild - OSTAR, SCTP and Millennium programs are no longer available. Currently, potential grants available to municipalities in Ontario for sports, culture, and recreation and tourism facilities include the Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF). COMRIF is a federal-provincial-municipal program designed to respond to the infrastructure needs of small urban centres like Kingston, with populations of less than 250,000. Although it has yet to be determined, future COMRIF application intakes may give a priority to cultural, recreational and tourist infrastructure, albeit these funds are limited and are to be allocated on a competitive basis.

All applicable senior government grants which could help finance the LVEC will be researched and pursued.

Chart 1 is a partial list of recent federal and provincial grant monies contributed to similar projects.





Conclusion:

That grant opportunities from other levels of government be pursued in an effort to fund a minimum \$8.0 million of the LVEC.

- **Municipal Capital Reserve Fund (MCRF)**

In 1999 the City committed to a strategy of allocating a targeted tax increase of 1% per annum to the Municipal Capital Reserve Fund (MCRF) to finance elements of its long-term capital program and forecasted expenditures. As part of the annual capital budget, Council approves the financing of capital expenditures and programs by prioritizing works, and in some cases, by way of an envelope approach. Examples of expenditures supported by this reserve fund, by policy, include roads and related infrastructure, buildings and facilities, parks, technology, planning studies. Based on the priorities established by Council and in consideration of expenditure and financing forecasts, the MCRF has sufficient balances to assist with the financing of the LVEC.

It should be noted that in accordance with established policy, proceeds from the disposition of municipal land and property assets flow to the MCRF. Therefore, in the event of a future decision to dispose of all or any part of the Memorial Centre property, consideration would be given to allocating such proceeds to the MCRF.



In addition, the average net operating and capital deficit of the Memorial Centre is \$600,000 annually. Following the decision on the future use of the Memorial Centre, consideration might be given to the use of any resultant net annual savings. At that time, consideration might be given to flowing any net savings from the repurposing of the Memorial Centre and/or related lands to the MCRF.

Conclusion:

That an amount of \$3.3 million, funded by the Municipal Capital Reserve Fund, be approved as a source of financing for the LVEC and the optional flygrid and catwalk related expenditures.

That the cost of acquiring land and site related expenditures for the purposes of constructing the LVEC be financed from the Municipal Capital Reserve Fund.

That in accordance with policy, any proceeds from the sale of the Memorial Centre and/or its lands, or any part thereof be allocated to the Municipal Capital Reserve Fund.

That annual net operating and capital savings in taxpayer subsidization, resulting from the sale, repurposing or decommissioning of the Memorial Centre be allocated to the Municipal Capital Reserve Fund.

- **Green Grants**

There are a number of Government programs promoting environmental responsibility in the design and operation of new buildings. Council has adopted a policy to committing to the evaluation to design and build in accordance with Leadership in Environment and Energy Design (LEED) specifications. In assessing these grants for other facilities, Council has endorsed applications for such grants in the context of mitigating the incremental capital costs. These programs will be researched and evaluated during the design stage. Grant applications will be prepared in accordance with past practice and established criteria.

Conclusion:

That Leadership in Environment and Energy Design (LEED) standards or other conservation standards be evaluated as part of the LVEC design and that grant funding through the Federation of Canadian Municipalities and other sources related to greening initiatives be explored.



Table 17 summarizes the financing plan elements considered and recommended above and further incorporates pay-as-you-go (PAYG) and debt financing for the LVEC project and the optional equipment (flygrid and catwalk).

Table 17 – Financing Alternatives Considered and Recommended			
Financing Alternative	PAYG (2005 – 2008) \$M	Debt \$M	Total \$M
Cash Flows from LVEC operations		16.0	16.0
Downtown Kingston	0.5	2.5	3.0
Private Donations	2.0		2.0
Development Charges	3.0		3.0
Parking Incremental Revenues		2.0	2.0
Federal and Provincial Govt. Grants	8.0		8.0
Municipal Capital Reserve Fund (MCRF)	3.3		3.3
Total Financing	16.8	20.5	37.3



9 Critical Path

In project management, a critical path determines the shortest time to complete a sequence of critical elements, with a maximum overall duration. The duration of the critical path determines the duration of the entire project and any delay impacts the planned completion date.

Table 18 indicates a path of critical events that must be met to ensure the LVEC is opened in November 2007.

Table 18 – LVEC Project Critical Path	
April 2005	OPA and Rezoning Applications filed.
April 2005	Information Session with City Council and LVEC Steering Committee on Parking & Traffic Study. Session is open to the public.
April 2005	LVEC Steering Committee meeting to discuss Business Plan and prepare recommendations to Council
April 2005	Non-Statutory Public Information meeting on Official Plan Amendment (OPA) and Rezoning Application
May 2005	LVEC Steering Committee recommendations regarding Business Plan presented to City Council
May 2005	Statutory Public Meeting on OPA and Rezoning Application under the Planning Act
June 2005	OPA and Rezoning Application on Planning Committee agenda.
June 2005	Tenants secured - Memorandum of Agreement finalized with the Kingston Frontenacs and the Kingston District Sports Hall of Fame
July 2005	Planning Committee recommendations to City Council Note: If Rezoning and OPA is referred to the Ontario Municipal Board (OMB), it could delay the final decision for up to least 6 months
August 2005	Issue Request for Proposals (RFP) to identify potential operators
September 2005	Private land purchasing agreements finalized
September 2005	Determine management model and select operator
October 2005	Issue Request for Proposals (RFP) for qualified Design-Build team
March 2006	Select Design-Build Proponent
March 2006	Complete project financing
May 2006	Construction begins
September/October 2007	LVEC Opens



10 Business Plan Conclusion and Recommendations

10.1 Conclusion

The construction and operation of the LVEC on the Inner Harbour site is a financially viable project.

10.2 Business Plan Recommendations

These draft recommendations will form the basis for final staff recommendations that will be presented to the LVEC Steering Committee at their meeting in April 2005. At that time, the Steering Committee will deliberate the staff recommendations and present their recommendations to Council for consideration in May 2005.

Recommendation 1 – Approval of Business Plan:

- That the Business Plan be received and approved in principle as the basis for the construction of a new sports and entertainment centre at a downtown site.

Recommendation 2 – Location of LVEC:

- The Inner Harbour site has been identified as the preferred site by the Mayor's Task Force, and Council has directed that the feasibility of this site be explored. As the site is financially feasible, it is acceptable as the site to build the proposed LVEC, pending the results of the Parking & Traffic study.
- City staff initiate negotiations with the private land owners at the Inner Harbour site.

Recommendation 3 – Construction of the LVEC:

- To initiate a Request for Qualifications (RFQ) to invite design-build teams with experience in the construction of sports and entertainment centres to submit their credentials for the purpose of creating a short-list of qualified teams to construct the LVEC.
- To initiate a Request for Proposal (RFP) to the short-listed design-build teams for the purpose of selecting a team to build the LVEC using a design-build (P3) approach with a Gross Maximum Price.

Recommendation 4 – Management of the LVEC:

- To initiate a Request for Qualifications (RFQ) to invite private sector operators with the experience in the operation of sports and entertainment



centres to submit their credentials for the purpose of creating a short-list of qualified firms to operate the LVEC.

- To initiate a Request for Proposal (RFP) to the short-listed operators to select a preferred private sector proponent for the purposes of evaluating their response relative to the Public Sector Comparator (the municipality's cost and ability to operate the LVEC.)

Recommendation 5 – Financing & Other:

- That the LVEC project financing including the flygrid expenditure of \$600,000 and the catwalk expenditure of \$600,000 be approved in principle, incorporating pay-as-you-go (PAYG) and debt financing as reflected as follows:

Financing Alternative	PAYG (2005 – 2008) \$M	Debt \$M	Total \$M
Cash Flows from LVEC operations		16.0	16.0
Downtown Kingston	0.5	2.5	3.0
Private Donations	2.0		2.0
Development Charges	3.0		3.0
Parking Incremental Revenues		2.0	2.0
Federal and Provincial Govt. Grants	8.0		8.0
Municipal Capital Reserve Fund (MCRF)	3.3		3.3
Total Financing	16.8	20.5	37.3

- That Leadership in Environment and Energy Design (LEED) standards or other conservation standards be evaluated as part of the LVEC design and that grant funding through the Federation of Canadian Municipalities and other sources related to greening initiatives be explored.
- That the cost of acquiring land and site related expenditures for the purposes of constructing the LVEC be financed from the Municipal Capital Reserve Fund.
- That a long-term agreement be entered into with the Kingston Frontenacs to secure acceptable terms and conditions to satisfy the financial requirements for their share of facility usage.
- That in accordance with policy, any proceeds resulting from the sale of the Memorial Centre and/or its lands, or any part thereof be allocated to the Municipal Capital Reserve Fund.
- That annual net operating and capital savings in taxpayer subsidization, resulting from the sale, repurposing or decommissioning of the Memorial Centre be allocated to the Municipal Capital Reserve Fund.



Recommendation 6 – Critical Path:

That the critical dates for Committee & Council approvals as outlined below be approved in principle to meet the construction start in May 2006:

April 2005	OPA and Rezoning Applications filed.
April 2005	Information Session with City Council and LVEC Steering Committee on Parking & Traffic Study. Session is open to the public.
April 2005	LVEC Steering Committee meeting to discuss Business Plan and prepare recommendations to Council
April 2005	Non-Statutory Public Information meeting on Official Plan Amendment (OPA) and Rezoning Application
May 2005	LVEC Steering Committee recommendations regarding Business Plan presented to City Council
May 2005	Statutory Public Meeting on OPA and Rezoning Application under the Planning Act
June 2005	OPA and Rezoning Application on Planning Committee agenda.
June 2005	Tenants secured - Memorandum of Agreement finalized with the Kingston Frontenacs and the Kingston District Sports Hall of Fame
July 2005	Planning Committee recommendations to City Council Note: If Rezoning and OPA is referred to the Ontario Municipal Board (OMB), it could delay the final decision for up to least 6 months
August 2005	Issue Request for Proposals (RFP) to identify potential operators
September 2005	Private land purchasing agreements finalized
September 2005	Determine management model and select operator
October 2005	Issue Request for Proposals (RFP) for qualified Design-Build team
March 2006	Select Design-Build Proponent
March 2006	Complete project financing
May 2006	Construction begins
September/October 2007	LVEC Opens



Appendix A – Concept Plan



Appendix B – Financial Model

