

**Planning & Development Report to
Combined Meeting of Council
2021 July 26**

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**ISC: UNRESTRICTED
C2021-1164
Page 1 of 9**

ITEM: *11.3.7 C2021-1164*
Confidential Distrib
CITY CLERK'S DEPARTMENT

Event Centre Update

RECOMMENDATION(S):

That Council:

1. Approve the proposed Development Management Framework Key Deal Terms in Attachment 2, and direct Administration to negotiate and execute all definitive agreements and amendments to definitive agreements, and take all actions required to implement the proposed deal terms, such definitive agreements, amendments and documents to be in content satisfactory to the City Manager, Chief Financial Officer and in form satisfactory to the City Solicitor and General Counsel.
2. Approve an additional Capital Budget appropriation for the Event Centre project of up to \$10 million for anticipated City Additional Costs, to be funded by the projected interest income from the Major Capital Project Reserve.
3. Direct Administration to develop a Rivers District Mobility and Event Management plan and budget, based on Attachment 3.
4. Direct Calgary Municipal Land Corporation to request all approvals required, including shareholder approval, to fulfill its Rivers District obligations in Report C2021-1164 and the Attachments and under the agreements and documents referenced in Recommendations 1 and 3.
5. Determine whether to re-consider the decision on the financial security deal term, as set out in Report C2019-0964.
6. Direct that the closed session discussion and the Financial and Legal Risk Register relating to changes in development management framework and key deal terms in Attachment 7 remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 24 (Advice from officials), and 27 (Privileged information) of the Freedom of Information and Protection of Privacy Act, the need for such confidentiality to be reviewed on or before 2021 September 30.

HIGHLIGHTS

- As a result of the Event Centre budget increasing from \$550 to a cost estimate of \$608.5 million, Administration has been working with the Calgary Sports and Entertainment Corporation and affiliates (CSEC) to resolve the budget, cost estimate and other project issues. A revised arrangement provides for CSEC and The City to share eligible costs 50:50 up to a \$575 million budget amount, with CSEC being responsible for 100% of all eligible costs above \$575 million, including potential eligible cost overruns above \$608.5 million. **Beyond the \$275 million in City funding approved in 2019, any further City funding – \$12.5 million in Additional Contributions and up to \$10 million in City**

Event Centre Update

Additional Costs – reflects provisions for City funding already included in the 2019 agreements.

- *What does this mean to Calgarians?* The Event Centre project will be a facility of which Calgarians can be proud and continues to provide value for Calgarians' investment.
- *Why does this matter?* The Event Centre is a key project to advance goals for the Rivers District, the downtown strategy, and Greater Downtown Plan, and in offering Calgarians and visitors new experiences and community spaces.
- A revised development management framework will provide for The City of Calgary's oversight role being maintained for important City and public interest goals (e.g., design, structure, and fundamental principles), a decision-making structure with a focus on schedule and budget, and sports development management expertise to be included in the project.
- A Rivers District mobility and event management plan and budget will be developed, with its purpose to support and supplement the experience of patrons, residents, employers, fans, and visitors to the District as they travel to and from events.
- Council is being asked to determine whether to re-consider an Event Centre key deal term, financial security.
- At Council's 2021 July 05 meeting, Council directed Administration to bring to Council's July 26 meeting a revised development management framework. Previous updates to Council were provided at Council's April 12, May 31, and June 21 meetings.
- *Strategic Alignment to Council's Citizen Priorities:* A city of safe and inspiring neighbourhoods and A prosperous city.
- Previous Council direction is included as Attachment 1.

DISCUSSION

The Event Centre project, reflecting a 2019 agreement and partnership between The City of Calgary and CSEC, is a large and complex undertaking. Considerable progress has been made over the past 20 months, with most of the project being underway during the pandemic. As can be typical with projects of this nature, budget and other issues arose. The City of Calgary and CSEC teams, supported by the Calgary Municipal Land Corporation (CMLC) as development manager, have worked diligently and responsibly to address and resolve the issues. To follow is a summary of important background information, the issues, and the resolution proposal.

Background

- In 2019 July, Council agreed to key deal terms between The City of Calgary and CSEC to build a new Event Centre that would be an anchor for a new cultural and entertainment district in East Victoria Park and attract further investment to the area.
- The budget was established at \$550 million, based on a class 5 cost estimate, and which included an inverted bowl design. The \$550 million was cost shared \$275 million each between The City and CSEC. The development manager would be the CMLC. A \$25 million Additional Contribution provision, to be shared 50:50 between The City and CSEC, was included in the agreement.
- In 2019 December, definitive agreements were signed, and work on the project commenced.

Event Centre Update

- Including a pause at the outset of the pandemic, the project, and in particular design work, progressed well during 2020. Yet the design work concluded an inverted bowl design was untested and would not work well. The design work provided for a conventional bowl design, and yielded improvements for elements such as accessibility, universal and public access, urban vibrancy, and sustainability.
- In 2021 January, The City of Calgary and CSEC were advised the Event Centre project cost estimate would be \$620 million. This excludes budget amounts for which individual parties are responsible, such as flood mitigation and off-site levies (City Additional Costs), and the first \$1 million for initial retail fit-up costs (CSEC Additional Costs).
- For the past six months, along with CMLC as development manager, The City of Calgary and CSEC have been working to resolve the budget issue. As part of this work, discussions included two other issues (development management and mobility and event management plan) that would further contribute to the success of the Event Centre project. A fourth issue, changes to funding security, has yet to be resolved, and is being brought as part of this report for Council's consideration.
- This report presents the status of discussions between City Administration and CSEC, including recommendations for Council to consider.

Summary

1. Budget and funding

- Along with CMLC, The City of Calgary and CSEC have worked to refine the cost estimate, seek other revenue sources, and minimize the expenditure of any further public funds. This work has resulted the following arrangement where CSEC and The City will share costs 50:50 up to a \$575 million budget amount, with CSEC being responsible for 100% of all costs above \$575 million, including potential additional contributions above \$608.5 million. **Beyond the \$275 million in City funding approved in 2019, any further City funding – \$12.5 million in “Additional Contributions” and up to \$10 million in “City Additional Costs” – reflects provisions for City funding already included in the 2019 agreements.**
- \$11.5 million in design, budget, and re-allocation savings were found, yielding a \$608.5 million budget (class 3 estimate).
- On 2021 June 21, as provided in the 2019 Project Framework Agreement, Council approved a \$12.5 million City of Calgary Additional Contribution toward the Event Centre, conditional on CSEC funding their \$12.5 million Additional Contribution, and definitively resolving all outstanding issues. This contribution is funded from the Fiscal Stability Reserve and will be transferred to the Major Capital Project Reserve to be committed to the Event Centre Project.
- The table below outlines The City's funding commitment to the Event Centre project updated to reflect the above issues and amended development management agreement.

Event Centre Update

In \$ millions, unless otherwise stated.

| Description | Calgary Sport and Entertainment Corporation | City of Calgary | Total |
|---|---|-----------------|--------------|
| Share of Eligible Costs | 275.0 | 275.0 | 550.0 |
| Share of Additional Contribution | 12.5 | 12.5 | 25.0 |
| TOTAL SHARE OF DESIGN & CONSTRUCTION UP TO \$575.0 MILLION | 287.5 | 287.5 | 575.0 |
| Share of estimated Eligible Costs in excess of \$575.0 million | 33.5 | - | 33.5 |
| TOTAL SHARE OF DESIGN & CONSTRUCTION | 321.0 | 287.5 | 608.5 |
| City Additional Costs ("up to" estimate) | | 10.0 | |
| TOTAL CITY CONTRIBUTION FOR DESIGN & CONSTRUCTION | | 297.5 | |

In addition to The City's funding commitment for the design and construction of the Event Centre project, The City is also responsible for \$12.4 million (90% share) of the estimated Saddledome demolition and remediation costs and up to \$3 million in related transaction costs for a total City cash contribution of \$312.9 million. A summary of these sources of cash funding is included in Attachment 4, Major Capital Projects Reserve Update.

- As noted in the table above, some cost estimates are now available for City Additional Costs, which include flood mitigation, off-site levies, and excess site remediation. While these costs have yet to be finalized, based on what is known at this time Administration is estimating an amount of up to \$10 million to cover The City's obligations. Recommendation 2 seeks this funding approval. There is potential for "City Additional Costs", once fully known and confirmed, to increase beyond \$10 million. Should this occur, Administration would return to Council with a further funding approval request.
- In 2019, Administration conducted detailed financial analyses on the project, including estimating the rate of return of the Event Centre for The City. The financial analysis has evolved through design with an update completed on a revised cost estimate for the Project and agreed upon terms and conditions in the agreements. The financial analysis includes a projected rate of return considering both the direct benefits and the indirect City and the Calgary Municipal Land Corporation benefits of incremental property tax generation in the Rivers District from 2019 until the of the 35-year management and license agreement term. This analysis is further described in Attachment 5, Financial Analysis.

Event Centre Update

2. Development management

- CMLC has a history of delivering best in class and award-winning projects for Calgary. As Event Centre development manager, CMLC brought this same attention and team to leading and guiding the Event Centre project over the past 20 months. Along with many other accomplishments, a design, creating a valuable addition to and aligning with the Culture & Entertainment District, will be ready for development permit submission next week.
- As CSEC has taken an increased financial responsibility share, coupled with being responsible for eligible cost over-runs, they will have more control of the project, through the appointment of a new development manager – CSE Development Management Corporation – and an amended project decision-making structure.
- Decisions on items such as project budget, schedule, and construction will be made by CSEC, and joint decisions will be made on items such as material design changes, building structure and other elements important to City vision and policy, and project fundamental principles.
- Key changes to the development management framework are included in Attachment 2, *Development Management Framework Key Deal Terms*.

3. Rivers District mobility and event management

- The City and CSEC recognize the importance of putting in place the capital mobility improvements needed for the road, pedestrian, and transit networks. A mobility and event management plan, led by The City and informed by CSEC and Rivers District stakeholders, would form the basis for this plan. Administration has included information about the plan in Attachment 3.
- In the event clarity on details can be established, a proposed budget would be brought to 2022 service plan and budget adjustments, in 2021 November.
- Two new connections are necessary to support the plan: the 17 Avenue SE extension from Macleod Trail SE to Stampede Trail SE, and a new underpass link connecting 11 Avenue SE to 9 Avenue SE. Recommendation 4 confirms commitment to delivery of the connections.
- City commitments arising from this item are included in Attachment 2, *Development Management Framework Key Deal Terms*.
- Recommendation 3 directs Administration to develop the Rivers District mobility and event management plan and budget.

4. Financial security

- As part of discussions between The City and CSEC, CSEC requested a key deal term, financial security, be removed from the existing agreement provisions. This provision requires each party to provide \$75 million in financial security to mitigate the risk of either party not fulfilling their payment obligations.
- Administration does not recommend to Council the removal of this key deal term. Administration has agreed to bring this issue directly to Council for re-consideration.
- As contextual information for Council in considering this matter:

Event Centre Update

- Financial security was required and agreed by both parties as confirmation that each had immediate access to a least a portion of the funding due to the magnitude of the project and to incent both parties to work together toward successful completion while offering some form of upfront risk mitigation to each other if problems arise.
- Security remains intact during a period where there are significant design, estimation, and construction risks, and provides a temporary financial backstop until certain funding thresholds are met; however, it does not eliminate risk entirely.
- CSEC has provided a corporate guarantee; however, The City is unable to place a value on the sufficiency and liquidity, and ability of the corporate guarantee to support construction payments and commitments.
- Recommendation 5 provides for Council to determine whether the financial security key deal term should be re-considered. For this re-consideration, a super-majority (10) vote of Council would be required.

Conclusion

Administration is satisfied with the proposed and recommended changes, and the collaborative discussions with CSEC, with support from CMLC, over the past six months. The changes reduce City cost risk, protect public money and its purpose to fund public benefit, and preserve The City's shared goal with CSEC to build an Event Centre facility of which all Calgarians can be proud. More broadly, the Event Centre is a key element in The City's plans for a vibrant Rivers District and Downtown Strategy.

CSEC and Administration are requesting Council determine whether to re-consider their decision on financial security (recommendation 5).

As part of its analysis, Administration reviewed the fundamental principles (Attachment 6), which have always guided the project. One change to fundamental principles is included in Attachment 2, *Development Management Framework Key Deal Terms*. This change preserves fundamental principles yet provides for budget considerations to be managed through the agreements. Fundamental principles will continue to be met.

Recommendation 1 seeks Council approval for the Development Management Framework key deal term changes, recommendations 2 refers to the City Additional Costs' funding and recommendation 3 refers to the Rivers District Mobility and Event Management Plan.

The City and CSEC acknowledge the significant leadership and work undertaken by CMLC as development manager, over the past 20 months. Through CMLC's significant efforts and capabilities, the Event Centre project is at a stage where the design is ready for development permit submission, and a team and plans are in place to ensure continued project success.

Next steps

On receiving Council approval through this report, Administration will work with CSEC to finalize and execute definitive agreements. Later this week the design plan, for development permit submission, will be finalized, and next week the Event Centre Development Permit application

Event Centre Update

will be submitted. Current plans provide for a late 2021 December construction start, and 2024 August occupancy. A development management transition plan is underway.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Public engagement occurred prior to, and during the project, including during the Rivers District Master Plan development, posting and public commenting on the terms of the Event Centre agreement, and public engagement conducted from January to March 2020 on the design and function of the Event Centre.

Stakeholder dialogue has taken place between The City, CMLC and CSEC during the project pause.

IMPLICATIONS

Social

Creating an equitable community and gathering space in the culture and entertainment district will result in a place for all Calgarians to meet, build relationships and celebrate. It supports the downtown, as the cultural hub for business, innovation, and creativity. It also supports more vibrancy within the Greater Downtown community of East Village and neighbouring communities.

Environmental

The City's applicable and relevant policies related to environment, sustainability, and climate remain in place for the project. The Event Centre will continue with work such as energy modelling and a climate risk and resilience assessment.

Economic

The construction of an Event Centre and accompanying community space advances the objectives in Calgary in the New Economy: An economic strategy for Calgary, particularly under the Place pillar. It supports the goal of enhancing collaborative efforts between business, government, and community partners to position Calgary as the location of choice for business and investment, foster trade and develop Calgary's workforce. It also supports and enhances The City's downtown revitalization strategy.

An Event Centre with the potential to be activated up to 365 days a year with a wide variety of programming integrated into Calgary's Culture & Entertainment District would be a development catalyst in the area. In 2019, the Calgary Municipal Land Corporation concluded that the vibrancy generated by a highly active building would assist in drawing new residents and businesses to the Rivers District. The Calgary Municipal Land Corporation forecasts estimate that the Event Centre will stimulate incremental private development

Event Centre Update

Service and Financial Implications

Current and Future Operating Budget:

At this time, certain revenues and expenses, such as The City's share of any costs associated with providing incremental City essential services in excess of those provided today, incremental insurance costs, and major structural repairs that are the responsibility of The City, cannot be estimated. Any future changes will be brought forward for approval.

The City will require resources to provide project oversight in areas of finance, design, and construction. Administration will develop a strategy that uses a cross corporate approach to ensure project fundamental principles and city policies are achieved. The resources will be funded through existing operating budgets.

To support the Rivers District Mobility and Event Management Plan, The City and CSEC will share 50:50 any incremental operating costs for the plan, if needed. Incremental costs are those costs above approximately \$200,000 in annual operating costs CSEC spends annually on event management.

Current and Future Capital Budget:

The City's capital contribution for Event Centre will be up to \$287.5 million (nominal dollars) plus The City's 90% share of the Saddledome demolition costs (currently estimated at \$12.4 million in 2023 nominal dollars), up to \$3 million in related transaction costs and \$10 million in Additional Costs associated with excess flood mitigation and offsite levies, for a total City cash contribution of \$312.9 million exclusive of that land transfer value, and related acquisition costs.

To support the Rivers District Mobility and Event Management Plan, the City and CSEC have agreed that The City would fund 100% of capital improvements identified by the plan. Based on a Class 5 estimate, this initial investment is anticipated to be up to \$10 million and will come to the November 2021 service plan and budget adjustments discussion for inclusion in the 2022 budget, as needed.

RISK

The financial and legal risks relating to the proposed changes to the development management framework and key deal terms are set out in the confidential risk register provided as Attachment 7, and to which recommendation 6 refers.

Until such time as the amended agreements and other related documents are finalized and executed by all parties, this register should remain confidential as it contains commercially sensitive, third-party information, and legally privileged information, the disclosure of which may be harmful to The City or other parties.

The recommendations in this report align with Council's previous directions that indicate this project is a priority investment for Calgary, in alignment with the City's strategies for downtown, the Rivers District, and the local economy.

**Planning & Development Report to
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2021 July 26**

**ISC: UNRESTRICTED
C2021-1164
Page 9 of 9**

Event Centre Update

ATTACHMENT(S)

1. Previous Council Direction
2. Development Management Framework Key Deal Terms
3. Rivers District Mobility and Event Management Plan
4. Major Capital Projects Reserve Update
5. Financial Analysis Update
6. Fundamental Principles
7. Risk Register - Confidential

Department Circulation

| General Manager/Director | Department | Approve/Consult/Inform |
|--------------------------|------------------------------|------------------------|
| Stuart Dalglish | GM, Planning and Development | Approve |
| David Duckworth | City Manager | Approve |
| Carla Male | Chief Financial Officer | Approve |
| | | |