

THE CALGARY FILM STUDIO

EXECUTIVE SUMMARY

The Calgary Film Studio (the Studio) has developed a plan to build a facility to support the film, television and creative industries in the Calgary area. The Studio will comprise sound stages, production space, a warehouse, and workshop space in an 83,000 square foot facility on a site that the Studio will acquire. The consolidation of these amenities in a single building will make it attractive for the movie-making industry, and also prolong the film-making season in Calgary.

In 2011, Council approved \$10 million of the Municipal Sustainability Initiative (MSI) fund towards a \$32.4 million project for this purpose. Due to lower than expected match-funding for the 2011 plan, the project has now been adjusted to \$22.8 million. The revised project will retain the entire studio, warehouse, workshop, and training functionality of the original project and deliver the same outcomes. The office tower portion intended as a 'Creative Industries Project Lab' in the 2011 proposal will be deferred to a future construction phase. The original land choice at Canada Olympic Park may also change based on best value for the Studio.

A significant portion of the revised project is proposed to be funded through The City's investment of \$10 million. Alberta Culture has committed \$5 million, and private donations currently total \$1 million with an additional \$2.3 million targeted. The balance of funding will come from a Calgary Film Studio debt of \$4.5 million. Any fund-raising beyond the \$2.3 million target would lower the debt.

Due to the change in the scope of the project that was approved by Council in 2011, Administration is bringing the revised project forward for Council to re-affirm its \$10 million commitment towards the establishment of a film studio in Calgary.

Administration has reviewed the construction viability and long-term operational viability of the revised capital project, and is of the opinion that the Studio can build this project and operate it self-sufficiently.

Time is of the essence for this project. The prospective anchor tenant's lease at the Currie Barracks expires in 2015 January. Following land acquisition and permits, construction on the warehouse portion of the studio has to commence immediately.

ADMINISTRATION RECOMMENDATION(S)

That the SPC on Community and Protective Services recommends that Council approve release of \$10 million from Capital Program 639 to the Calgary Film Studio subject to the execution of a Funding Agreement.

RECOMMENDATION OF THE SPC ON COMMUNITY AND PROTECTIVE SERVICES, DATED 2014 MARCH 05:

That the Administration Recommendation contained in Report CPS2014-0206 be approved.

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Excerpt from the Minutes of the Special Meeting of the SPC on Community and Protective Services, Dated 2014 March 05:

“APPROVE, Moved by Councillor Pootmans, that the Administration Recommendation contained in Report CPS2014-0206 be approved, **after amendment**, as follows:

And further, that the Legislative Assistant attach all submissions and distributions received, to the Report, prior to being forwarded to Council.

CARRIED”

PREVIOUS COUNCIL DIRECTION / POLICY

On 2007 April 16, Council adopted CPS2007-20 Cultural Spaces for the Arts Strategy and Capital Plan, receiving for information CADA's Summary Report 'Reclaiming Calgary's Cultural Identity: Arts Spaces Strategy and Capital Plan'.

At the 2008 February 19 Special Meeting of Council, Council adopted CPS2007-74 Updated Culture, Parks, Recreation Infrastructure Investment Plan, approving 5% (up to \$165 million) of Municipal Sustainability Initiative funds, towards culture-related infrastructure projects. On 2011 July 25, Council adopted CPS2011-34 The Alberta Creative Hub, appropriating \$10 million MSI to Capital Program 639, and approving release of funds subject to confirmation of funding from other sources and conformance to The City's standard payment procedures.

BACKGROUND

In 2009 December, Calgary Economic Development (CED) formed the Alberta Creative Hub Corporation (ACH) as a non-profit corporation to build and operate film, television and interactive media facilities in Calgary. The 2005 Market and Feasibility Analysis for Motion Picture Production Facilities report, prepared for CED by a third party consultant determined that the capacity to grow the creative industry was constrained in part by the eventual loss of production facilities at Currie Barracks, as well as the lack of purpose-built sound stages in the region. The study confirmed that Calgary was the last major metropolitan city in Canada without adequate infrastructure to support the film and television industry. CED estimates that current and projected market demand substantiates the need for such a facility.

The Alberta Creative Hub developed a business plan to address this gap and presented it to Council in 2011 June. Based on the 2011 proposal, Council adopted CPS2011-34, appropriating \$10 million towards the Alberta Creative Hub on the strength of a positive due diligence review by Administration. Council's approval was subject to confirmation of match-funding from other sources (primarily Alberta Culture for \$10.5 million and Western Economic Diversification for \$5 million). The 2011 project included ACH debt of \$6.3 million.

In mid-2012, Alberta Culture informed CED and the ACH that it was adjusting its prospective grant from \$10.5 million to \$5 million due to budgetary constraints and that it was also looking for increased participation from the private sector towards this endeavour. To obtain the best proposal, Alberta Culture put out a call for submissions in mid-2013. Based on Calgary

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Economic Development's submission, Alberta Culture confirmed that Calgary Economic Development was selected for its \$5 million grant on 2014 February 3.

In its 2013 submission for the Alberta Culture grant, CED scaled back its original 2011 project. Given a \$5.5 million reduction in the Alberta Culture grant, CED determined that the office tower component of the original proposal would be deferred. The decision to defer the tower reduced the overall cost of the facility by approximately \$9.6 million, but enabled the rest of the project to deliver on the original intent, namely sound studios, a warehouse, and production space.

The Western Economic Diversification grant of \$5 million sought in the 2011 project can only be applied to the 'Creative Industries Project Lab'. As a result, the office tower component that includes the Lab will only be pursued when it is deemed viable.

The revised CED proposal, now referred to as the Calgary Film Studio proposal, would provide a needed facility in a sector that has grown to \$153 million in annual economic activity and is currently losing the ability to retain further growth due to a lack of suitable infrastructure. In partnership with local and regional educational facilities and in collaboration with screen-based production associations, the Studio will also provide the ability to train local talent and augment employment opportunities, supporting the diversification of the regional economy.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration has reviewed and analyzed the revised Studio plan. Specifically, the original deliverables and costs (capital & operating) were compared to the revised project.

On the deliverables: the sound stages, warehouse and production spaces remain the same between the original and revised plans. The difference between the two projects is entirely attributable to removing the office tower from the original proposal.

Capital cost-wise: the revised project is \$9.6 million less than the original proposal. The revised project cost of \$22.8 million will be financed as follows:

- City of Calgary - \$10 million (proposed)
- Alberta Culture - \$5 million (confirmed)
- Private donor - \$1 million (confirmed)
- Fund raising campaign target - \$2.3 million (to commence)
- Calgary Film Studio debt – \$4.5 million

On operations: After taking into account all the variables that have changed as a result of the change in project scope, Administration's analysis confirms that the revised project operations still yields a positive net cash balance after 5 years of projected operations. Operating estimates provided by the Studio appropriately account for market risk. Administration has tested the Studio's ability to carry a higher debt-load in the event that the projected fund-raising falls short or is deferred beyond the start of operations, and finds that due to low overhead costs, the projected net revenue from operations can sustain the higher load.

The request for The City's contribution in the revised project is the same as in the 2011 proposal. As a result, The City's share of the revised project is 44 per cent compared to 31 per

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cent in the original proposal, but still within Council policy of up to 50 per cent. Within the context of the economic, training and development benefits, and also due to the potential retention and repatriation of industry talent back to the region, The City's investment under the new proposal retains the same merit as the original proposal.

To further elaborate on the 'Creative Industries Project Lab' portion of the revised project: while a deferral represents an opportunity lost for the time being, the future development of this aspect of the project remains a goal of the Studio. Administration has determined that the operations for the Lab are planned as breaking even, thereby not affecting the economics of the sound studios and related components.

On the potential perception that The City is subsidizing a specific private sector operator through its capital grant: Administration has determined the prospective tenant could find alternate warehouse space independently of this project. It is the adjacency of sound stages, a warehouse, and ancillary production space that provides the synergy to benefit the industry as a whole. To remain sustainable, the Studio must rent out all space at market rates. Administration has conducted its due diligence on the revised project and is of the opinion that the overall benefit to The City justifies the \$10 million investment and the risk as described in the Risk Assessment section of this report. Through its Funding Agreement with the Studio, The City will ensure that risk in the event of failure is mitigated as best possible.

Stakeholder Engagement, Research and Communication

The Studio has confirmed the support of the private sector with a letter of commitment for \$1 million. A 5-year lease with two optional 5-year extensions at market rates has been agreed to in principle between the Studio and WF White International as the anchor tenant in the new facility.

The Alberta Media Production Industries Association and the Alberta Association of Motion Picture and Television Unions have provided letters of support. Post-secondary partners who have indicated support for the Studio include Mount Royal University, Alberta College of Art and Design, Southern Alberta Institute of Technology, Red Deer College, and the Banff Centre.

Strategic Alignment

The Calgary Film Studio proposal aligns with Council's Fiscal Plan for Calgary as follows:

- Ensuring every Calgarian lives in a safe community and has the opportunity to succeed
- Investing in great communities and a vibrant urban fabric
- Making Calgary the best place in Canada for a business to start and flourish

In addition, the proposal aligns with imagineCalgary's economic diversification and social enhancement objectives, with The City's Economic Development Strategy, and with the Cultural Spaces for the Arts Strategy and Capital Plan.

Social, Environmental, Economic (External)

Social: Providing facilities to foster creativity and a strong network of artists and producers will foster the attraction and retention of artistic talent in Calgary. Collaborative training initiatives with numerous educational institutions will enhance this.

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Environmental: The new facility will be built to conform to Council's Sustainable Building Policy.

Economic: According to Alberta Culture, every dollar invested through the Alberta Media Fund in the film, television and digital media industry results in \$6 of economic activity in the province.

Financial Capacity

Current and Future Operating Budget:

There is no impact on The City's operating budget since the Calgary Film Studio is an incorporated non-profit company owned by Calgary Economic Development. The Studio is projected to be self-sustaining.

Current and Future Capital Budget:

The capital funds are available in the Culture-Related MSI funds approved by Council in CPS2007-74. The Capital budget appropriations of \$5.7 million in 2011 and \$4.3 million in 2012 in capital program 639 that were approved by Council under CPS2011-34 have been carried forward to the 2014 fiscal year, and are available to be released.

Risk Assessment

The construction budget contains the appropriate contingencies. The Funding Agreement will specify that any cost over-runs are the responsibility of the Calgary Film Studio. The Studio is pursuing further fund-raising to reduce its debt exposure.

As to operations, Administration is of the opinion that the Studio's cost and revenue projections are reasonable based on the evidence provided. Based on those projections the Studio is deemed to be sustainable.

Debt is required for the viability of the project. Calgary Economic Development anticipates it may be asked to provide a loan guarantee in support of the Calgary Film Studio but no such request of The City is contemplated based on a current expression of interest to provide financing by a chartered bank. Both the Calgary Film Studio and Calgary Economic Development are incorporated companies and thus liabilities would not flow to The City. Regardless, there still remains risk that the Calgary Film Studio or Calgary Economic Development could return to The City for assistance with operational funding in the future. In that event, The City would not be legally required to assist, but Council would make any decision based on the circumstances at the time.

The standard Funding Agreement will provide repayment provisions in the event of an organizational change in use or termination.

REASON(S) FOR RECOMMENDATION(S):

The development of infrastructure to support the film, television and interactive media sector is considered a valuable investment towards economic diversification, the development and retention of creative talent in the region, the development of the cultural sector in general, and the enhancement of the quality of life in Calgary.

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The City's investment in the cultural development sector aligns with the strategic direction identified in the Calgary Arts Development Authority's Cultural Spaces for the Arts Strategy and Capital Plan, and also aligns with The City's Economic Development Strategy.

The Calgary Film Studio's revised Business Plan demonstrates the Studio's capacity to complete this project and to sustain future operations.

The City's \$10 million will be invested in the Calgary Film Studio (upon name change), a subsidiary of Calgary Economic Development, itself a wholly-owned entity of The City of Calgary.

**ATTACHMENT(S)
Submissions/Distributions**