

Economic Impact Assessment of the Rivers District Revitalization in Calgary

Event Centre Assessment Committee
January 25, 2019



Meeting Objectives, Agenda, Introductions

Meeting Objectives

The purpose of the meeting today is for EY to present the key findings of the Rivers District Revitalization economic impact assessment to the Event Centre Assessment Committee and answer any questions related to the assessment and the presentation

Agenda

1. Scope and methodology
2. Overview of master plan and key projects
3. Overview of the economic model
4. Summary of quantitative results
5. Summary of qualitative results
6. Summary of comparator jurisdictions
7. Key messages

EY Introductions

Lance Mortlock, Strategy Partner



Lance is a Calgary-based partner, leads the strategy practice for EY Canada and brings more than 20 years of consulting experience. Lance has worked with more than 60 different organizations bringing a broad set of strategic skills and experiences to help clients solve some of their most complex strategic problems. Many of these assignments have included economic impact analyses and businesses cases. Lance has studied advanced strategy at INSEAD, Innovation at Stanford Graduate School of Business and is an Executive Research Fellow at The Haskyane School of Business.

Dr. Mauricio Zelaya, Economics Leader



Dr. Zelaya is an economist with extensive experience in econometrics and statistical modelling for both private and public sector clients. He specializes in the economics of innovation, industrial organization, and more generally, the application of economic theory to real business issues. His work in this area spans across numerous industries, from oil & gas and mining to finance, healthcare, and pharmaceuticals. Dr. Zelaya is also an active member in the academic community, concurrently lecturing graduate economic courses at the Schulich School of Business at York University.

1. Scope and Methodology of the Assessment

EY was tasked with completing an economic impact assessment for the three primary Rivers District projects. A tried and tested methodology incorporating both quantitative and qualitative elements was used to prepare a comprehensive analysis.

Scope

EY was asked to perform an economic impact assessment of the Rivers District Revitalization, focused on the aggregate impact of three projects – the expansion of Arts Commons, the expansion of the BMO Centre and the construction of an Event Centre. The assessment includes both quantitative and qualitative results.

EY worked with key stakeholders to gather the required data for the economic modelling inputs:

- ▶ Arts Commons
- ▶ Calgary Arts Development
- ▶ Calgary Economic Development
- ▶ Calgary Municipal Land Corporation
- ▶ Calgary Sports and Entertainment Corporation
- ▶ Calgary Stampede

In Scope

Quantitative components:

- ▶ GDP
- ▶ Job creation
- ▶ Labour income
- ▶ Output

Qualitative components:

- ▶ Culture
- ▶ Social
- ▶ Connectivity
- ▶ Tourism
- ▶ Spillover effects (property values, wages, employment and environment)

Out of Scope

- ▶ Funding scenarios and requirements
- ▶ Any cost / benefit analysis
- ▶ Municipal taxes
- ▶ Results on an individual project basis

Methodology

To estimate these impacts, EY used a successful and proven methodology based on sound economic principles. This approach has been carefully considered and customized to the unique needs of the Rivers District Revitalization (steps can occur in parallel), and employs a methodology that will enable comparisons to other EIAs.



As an initial step to the assessment, EY conducted a thorough review of existing academic and industry research to inform three important areas of analysis relevant to the Rivers District Revitalization:

- ▶ Critiques and limitations of the I-O, and other, economic models: Research on this topic informed several adjustments to the specific methodology used to estimate the economic impacts e.g. the risk of overstating impacts due to the inclusion of indirect impacts.
- ▶ Value of mixed-use developments: Research on this topic heavily informed considerations used in conducting the qualitative analysis including spillover effects.
- ▶ Outcomes from other community revitalization projects: Research on this topic informed both the qualitative analysis, as well as some of the jurisdictional analysis.

EY also conducted an economist peer review to test the methodology and assumptions, and the feedback was incorporated.

2. Overview of Rivers District Revitalization Master Plan and Key Projects

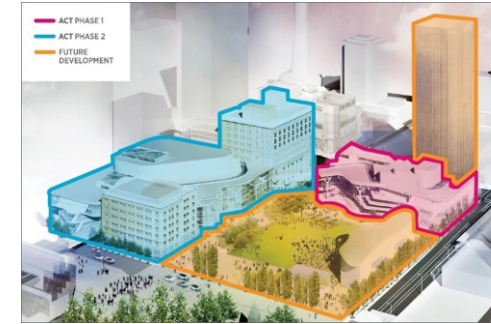
The master plan is the primary tool to ensure that key developments are in close proximity to each other and capture potential project synergies throughout the development cycle. It also helps to ensure alignment to Calgary's economic and destination strategies.

Rivers District Master Plan

The Rivers District refers to the 504 acre CRL (community revitalization levy) boundary, and the Rivers District master plan has been developed by CMLC and encompasses a smaller 286 acre subset of the area. This report refers to the Rivers District Revitalization, and includes three main projects – the expansion of Arts Commons, the expansion of the BMO Centre and construction of a new Event Centre.



Key Projects



Expansion of Art Commons

(2019-2026)

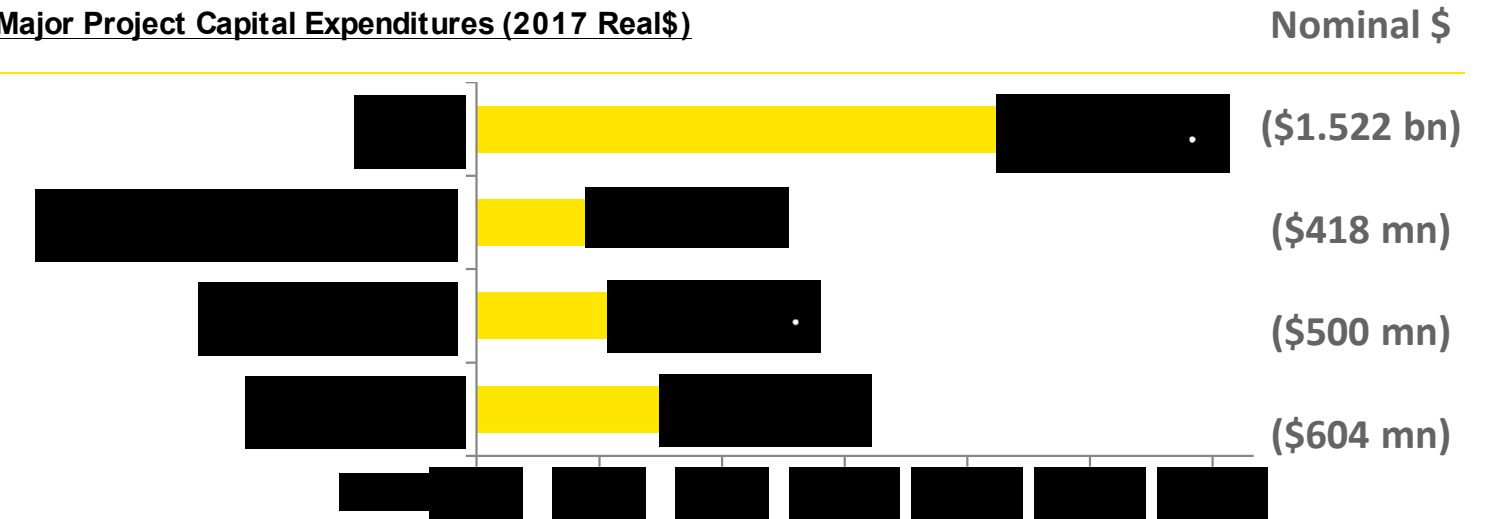
Expansion of BMO Centre

(2021-2024)
(Hall F 2019)

Construction of Event Centre

(2021-2023)

Major Project Capital Expenditures (2017 Real\$)



Note: Total capital expenditures have been rounded and are based on information provided to EY by key stakeholders. Bn. stands for billions and mn. stands for millions. Numbers are reported in 2017 dollars. Capital expenditures include hard-costs, soft-costs, and other related capital expenditures.

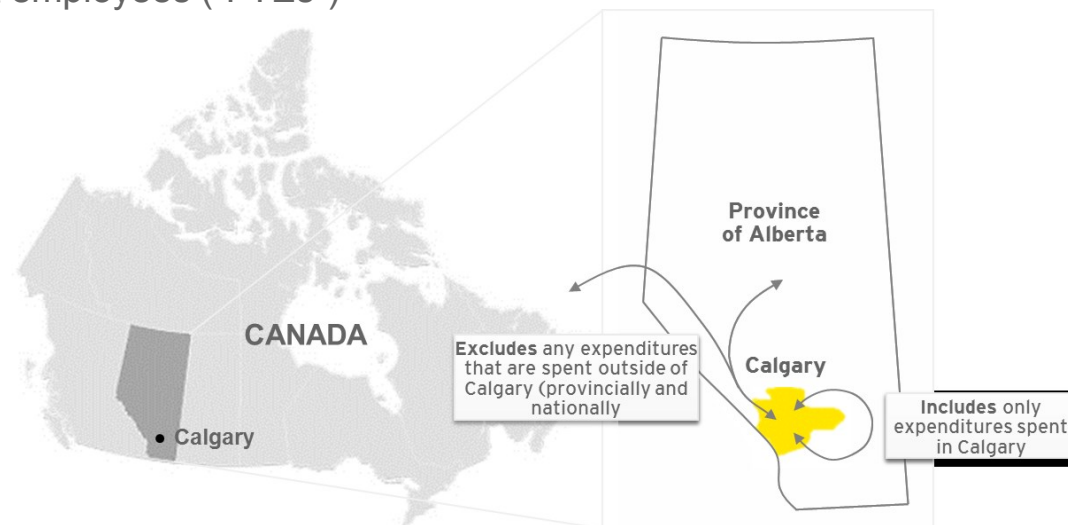
Source: EY calculations.

3. Overview of the Economic Model

EY took a conservative approach to the economic model, focusing only on direct and indirect impacts of the capital and operating expenditures. The analysis is based on the StatsCan Input / Output model, which allows for regional customization.

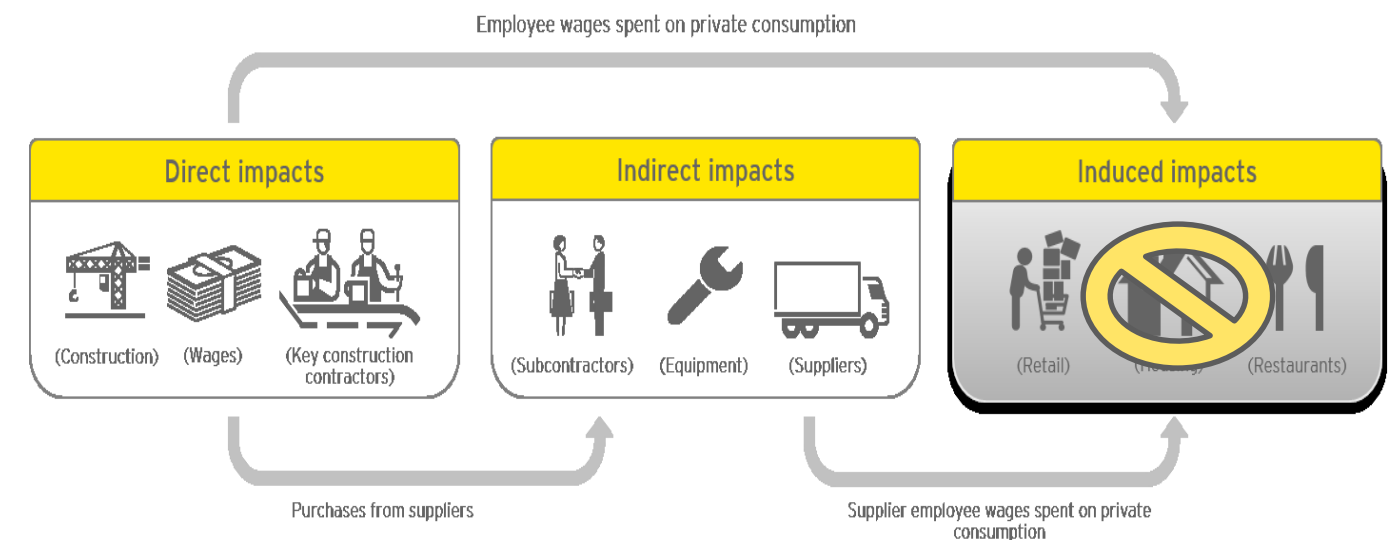
Overview

- ▶ An economic impact assessment (“EIA”) is a tool that economists use to quantify the likely economic effects of a certain event or project by using its business activities and investment decisions as inputs to the model.
- ▶ The impacts from an EIA can be categorized into the three distinct impacts:
 - ▶ **Direct impact:** includes the economic impact supported directly by the proposed capital investment costs and post-construction operation costs.
 - ▶ **Indirect impact:** includes the economic impact from business activities supporting the business operations of the Rivers District Revitalization.
 - ▶ **Induced impact:** includes the economic impact from employees benefiting from the economic activity in the Rivers District (including those directly employed) spending their incomes on goods and services locally.
- ▶ The economics impacts from an EIA are expressed in terms of the following economic indicators:
 - ▶ Gross Domestic Product (“GDP”)
 - ▶ Full-time equivalent employees (“FTEs”)
 - ▶ Labour Income
 - ▶ Gross Output



Key assumptions

- ▶ The economic impacts estimates produced in this report are conservative for the following reasons:
 - ▶ The model does not include induced impacts.
 - ▶ The model does not attempt to quantify potential increase in tourism spending arising from the construction and operation of the new facilities.
 - ▶ The model does not attempt to quantify other positive spillover effects as it relates to follow on investments.
- ▶ As such, the estimated economic impacts presented are considered to be very conservative.



4. Summary of Quantitative Results

EY took a conservative approach to the economic model, focusing only on direct and indirect impacts of the capital and operating expenditures. The analysis is based on the StatsCan Input / Output model, which allows for regional customization.

Quantitative results

- ▶ The results from the EIA are presented separately for the collective capital investment and annual operational spending, once the facilities are fully operational.
 - ▶ Further, due to the confidentiality of the information, the results presented below are the total impacts from the capital investment and operation spending.
- ▶ The economic impact results from the capital investment spending should be interpreted based on the aggregated impacts over the duration of the projects.
- ▶ The economic impact results from operational spending should be interpreted as the annual contribution, or economic footprint, from the operation and maintenance of the three facilities.

Key Considerations

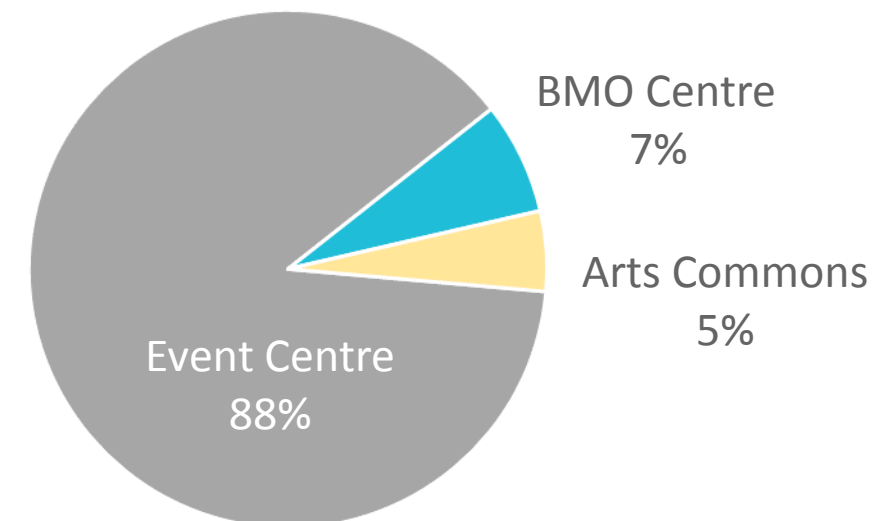
- ▶ The following are key considerations when interpreting the results from the economic impact assessment:
 - ▶ The estimates produced are gross values.
 - ▶ The estimates presented does not distinguish between public and private funding, but merely the economic impact when the capital investment is made.
 - ▶ The economic impact results do not consider alternative uses, or the opportunity cost, of allocating the funds to other proposed projects to assess the net incremental benefit of these projects.
 - ▶ The model assumes that all spending will generate positive impacts, when this may not be necessarily be the case.
 - ▶ The model is based on a snapshot of industry linkages from the province of Alberta as at 2014, resulting in a bias if the economic environment, or more specifically, the industries predicted to be impacted by the model, have significantly changed.

Summary of Economic Impacts from Expenditures

Expenditure Type	Person-Year FTEs	Wages (\$ mn.)	GDP (\$ mn.)	Output (\$ mn.)
Capital Expenditures (2019 to 2026)	4,750	413	602	1,701
Operational Expenditures (Annually, starting 2024)	1,536	161	168	297

Note: Capital expenditures are one time contributions to the local economy as they relate to the duration of the construction activities which are from 2019 to 2026. Operating expenditures are annual contributions to the local economy, and the associated FTEs are indicative of the ability to sustain those jobs annually. The values presented above for operational expenditures represent the expected annual impact in 2024.

Forecasted % of Total OPEX by Project (2024-2028)



- ▶ The economic model uses forecasted operating expenditures for each of the three facilities.
- ▶ This graph outlines the average % of total operating expenditures for each facility from 2024-2028.

5. Summary of Qualitative Results

There are a number of potential impacts likely to occur as a result of the Rivers District Revitalization that are tougher to measure and qualitative in nature. Nonetheless, they can be valuable pieces of information to complement the quantitative results.

Qualitative Results

The assessment considers the broader impact that the revitalization has on four areas, which are inherently harder to quantify:



Cultural

Enhanced arts and culture options are critical to improving Calgary's reputation as a city of choice for employers, visitors and citizens – helping to achieve the city's economic, cultural and destination strategies. Expansion of Arts Commons as well as the likely enhancements to Calgary's culture and entertainment scene as a result of the revitalization have the ability to improve Calgary's standing and perception.



Social

The creation of public spaces that all Calgarians of all income levels can enjoy is a core concept of the revitalization. An increase in civic pride and reputation is a common described benefit of such developments. Planned components such as Festival Street and increased outdoor gathering places would increase the social options available to Calgarians and visitors.



Connectivity

Current connectivity challenges in the area would be addressed with several planned enhancements, with a goal of connecting the area to surrounding neighborhoods and beltline (Stampede Trail, 5th Street underpass, 17th avenue and 12th avenue promenades, planned Green LRT line station).



Tourism

The projects identified would increase the scale and diversity of tourism destinations in Calgary, driving related spend in food and beverage, hotels, retail, etc. related to day trips and overnight stays. The master plan supports Tourism Calgary's destination strategy, which calls for a collaborative approach to enhance the city's hosting infrastructure for events, festivals and performances.

Impact on Surrounding Areas

Specific spillover effects that surrounding areas are likely to capture because of the Rivers District Revitalization have also been considered. The neighborhoods likely to observe spillover include: Downtown East Village, Ramsay, Inglewood, Beltline, Mission, Erlton and the Downtown Commercial Core.



Property Values

Proximity plays an important role - commercial developments such as retail space, office buildings and industrial sites have negligible impacts on property values. However, structures such as event centres and sporting arenas typically generate some level of economic impact on property values.



Wages

Large developments can impact wages through three primary channels (prices, amenities and urbanization). Prices can become more expensive, leading residents to seek out higher paying jobs, thereby increasing wages throughout the area.



Employment

Mixed use developments often comprise structures that that require a large labour force to operate, relying on local labour pools. There is also a positive relationship between the construction of these developments and labour growth in the service and retail sectors.



Environmental

There can be positive environmental benefits associated with transportation choices (walkability) based on close proximity and/or increased transit options. Negative impacts can include increased traffic, congestion, noise, etc.

6. Summary of Comparator Jurisdictions

All of the jurisdictions examined experienced significant follow on private investment as a result of the developments that took place. This often led to additional job creation in the commercial, retail and hospitality industries.

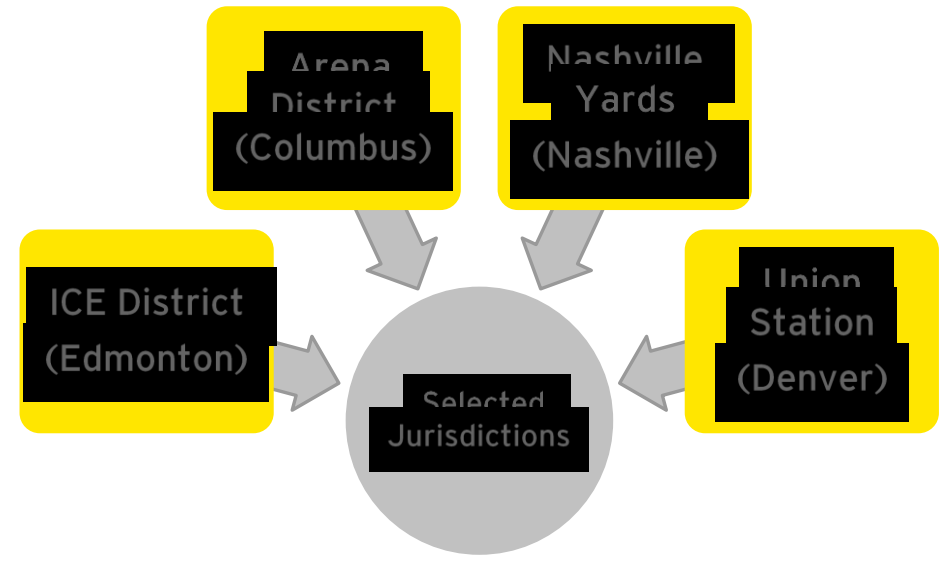
Selection Process

There are potentially dozens of comparable cities and projects for the Rivers District Revitalization. EY followed a deliberate and tested process, and evaluated potential projects based on several key criteria to come up with four appropriate comparators.

Some of the criteria assessed include:

- ▶ Comparable population, land size and employment
- ▶ Development stage (in progress or completed)
- ▶ Inclusion of event centre, convention centre, arts/performance centre
- ▶ Residential, commercial and hotel space

Selected Comparator Jurisdictions



- ▶ Denver and Columbus developments have been completed for some time and provide “actual” results of the impacts seen in the years following completion.
- ▶ Edmonton and Nashville are partially complete, however they better reflect the current market realities observed today.

Key Takeaways

Perhaps the largest takeaway from the jurisdictional assessment was the level of follow on private investment that occurred after initial development or completion:

- ▶ **Edmonton ICE District:** claims follow on investment of ~\$878 million. ICE District 2 (not confirmed) would be an additional extension onto the current development covering over 500,000 sq. ft. just behind Rogers Place, and would have the capacity to support another 3,000 residential units, retail and office spaces.
- ▶ **Columbus Arena District:** Aside from what was already planned for the area, an additional USD \$406.5 million was further invested in the District, which was primarily allocated towards developing further residential and commercial spaces.
- ▶ **Nashville Yards:** The Hyatt Hotels Corporation has committed to building the areas first luxury hotel, which will be a 591-room Grand Hyatt located at the heart of the development. Amazon is also investing ~USD \$230 million in the area for a new Operations Centre of Excellence, however it can not be directly concluded that this is a result of the Nashville Yards development.
- ▶ **Denver Union Station:** Due to the success of the Union Station development, there is now plans to redevelop Market Street Station for ~ USD \$200 million (expected completion for 2019) . This site is located just a few blocks south of the Union Station area, and will seek to add to the appeal of downtown Denver as a whole. Overall, the development has led to the construction of 25 new projects, which to date has generated ~ USD \$2 billion in private investments.

Additional impacts observed across jurisdictions included:

- ▶ An increase in employment and wages
- ▶ An increase in property values
- ▶ An increase in public outdoor spaces, perceptions of the area and tourism

7. Key Messages

- ▶ The presentation and report prepared by EY does not provide a recommendation – it simply provides results and relevant information from the quantitative and qualitative analysis. It is intended to be independent, unbiased and fact based.
- ▶ The approach to the economic modelling effort was intentionally conservative, the results only represent the direct and indirect impacts of capital and operating expenditures for the three facilities. There are likely to be additional impacts related to induced factors, tourism and follow on private investment (however they have not been included).
- ▶ A master plan that supports Calgary’s economic strategy is critical to ensuring that the expected outcomes will actually be delivered by a series of independent projects. Close proximity and proper planning is integral to ensuring synergies across projects can be achieved.
- ▶ The economic assessment of planned capital and operating expenditures for the three projects had positive results related to GDP, jobs, labour income and output.
- ▶ Additional qualitative benefits can be expected related to cultural, social and connectivity enhancements – this increases Calgary’s attractiveness as a destination and could lead to an increase in visitors and tourism spend.
- ▶ The key takeaway from the jurisdictional assessment was the level of follow on private investment that occurred in the years after initial public investment and project completion.