

Chief Financial Officer's Report to
Combined Meeting of Council
2019 March 18

ISC: UNRESTRICTED
C2019-0349

BMO Centre Expansion Funding

EXECUTIVE SUMMARY

The Calgary Stampede has requested that the BMO Centre expansion ("the Project") is funded equally by the three levels of government for \$166.7 million each (projected project cost of \$500 million). The City and the Government of Alberta's portion (up to \$333.3 million) will be funded through the Rivers District Community Revitalization Levy ("CRL"). Due to mismatch in timing of CRL revenues to the Project costs, Administration is requesting to execute an internal loan for up to \$333.3 million or two-thirds of the Project costs between the City of Calgary and Calgary Municipal Land Corp. ("CMLC") as the borrower of the internal loan.

In December 2018, Council approved the Project conditional upon written confirmation from the Government of Canada that it would fund one-third of the capital cost and the Government of Alberta approval of a CRL extension. On 2019 February 12, the Government of Alberta approved amendments to the 2007 Rivers District CRL Bylaw that provide a 20-year extension of the CRL (i.e. 2028-2047). The required legislation is now in place for The City to also fund the Government of Alberta's one-third share of the Project in exchange for receiving the 20-year CRL extension.

On 2019 March 4, Council approved the financial strategy for all four unfunded long term projects including the BMO Centre expansion, on the terms and conditions discussed during the closed session.

On 2019 March 6, the Government of Canada approved federal funding in principle for up to \$166.7 million total eligible costs for the Project, subject to execution of a contribution agreement which will represent the final federal approval of the Project.

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ADMINISTRATION RECOMMENDATION:

That Council:

1. Upon execution by The Government of Canada of a contribution agreement acceptable by The City as to terms and content with the Calgary Stampede to fund one-third of the Project's capital costs:
 - a. Direct Calgary Municipal Land Corp. ("CMLC") to request capital appropriation through its business plan and budget process for the Project for up to \$500 million.
 - b. Approve the City to execute an internal loan of up to \$333.3 million to be provided to CMLC representing The City and Government of Alberta's contributions towards the Project. The loan will be sourced from a Council directed Reserve and will require an execution of a Contribution Agreement and Loan Agreement between The City and CMLC;
 - c. Execute a Contribution Agreement from The City in favor of the Calgary Municipal Land Corporation, as project manager for the Project, summarizing the funding agreement requirements for The City's and Province of Alberta's two-thirds share of the Project capital costs, in a form and with terms acceptable to the Deputy City Manager, City Manager, Chief Financial Officer and the City Solicitor and General Counsel;
 - d. Execute a Loan Agreement from CMLC and an appropriate security for repayment of the indebtedness from the Calgary Stampede in a form and with terms acceptable to the City Treasurer, subject to approval of Loan Bylaw 12M2019;
2. Direct that Attachment 1 and Attachment 2 remain confidential pursuant to Sections 16, Section 24, 25, and 27 of the Freedom of Information and Protection of Privacy Act (Alberta), until intergovernmental funding matters have been resolved and review of the report's confidential status by 2021 March 18.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2019 March 4, Council:

- approved the financial strategy for all four unfunded long term projects (BMO Centre expansion, Event Centre, one phase of Arts Common, and Multi-Sport Field House) on the terms and conditions discussed during the closed session; and
- directed Administration to prepare a report for the 2019 March 18 Combined Council meeting outlining the capital funding approvals and supporting financial documents required to commence the BMO Centre expansion project.

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On 2019 January 28, Council received C2019-0135 Consideration of Unfunded Long Term Projects, and directed Administration to return to Council no later than April 2019 with further refined options to optimize funding, financing and schedules for four unfunded long term projects.

On 2018 December 17, Council adopted the recommendations in C2019-1285 and approved the BMO Centre expansion project conditional upon written confirmation from the Government of Canada that it would fund one-third of the capital cost and the Government of Alberta approved an amended Rivers District CRL Bylaw for a 20-year extension period (2028-2047). Council also directed Administration to bring options for funding The City's portion of the Project costs (including financing) to the Strategic Meeting of Council on 2019 January 28.

On 2018 July 4, Council adopted C2018-0816 with several amended confidential recommendations. The recommendations approved, in principle, the allocation of up to \$333.4 million from CRL revenues or other City sources to fund two-thirds of the Project's capital costs (plus related financing costs), subject to several conditions.

On 2018 February 28, Council adopted C2018-0206 with several amended confidential recommendations and a Motion Arising directing Administration to work with CMLC and Calgary Convention Centre Authority ("CCCA") to bring forward the CCCA strategic plan and a consolidated view of the Convention Market in Calgary.

On 2017 December 5, the Priorities and Finance Committee received a Stampede BMO Expansion update, directed Administration to continue the Stampede BMO Expansion Review work plan, and report on findings and next steps no later than Q1 2018.

On 2017 July 19, Council adopted NM2017-26 Stampede BMO Expansion Review and directed Administration to engage with the Calgary Stampede and CMLC to undertake a review of the Calgary Stampede Convention and Trade Centre Expansion Plan and report back on findings and next steps no later than Q4 2017.

BACKGROUND

In June 2017, the Calgary Stampede prepared a business case to enlarge and expand the BMO Centre. Following the business case analysis, the Calgary Stampede requested that The City fund \$166.7 million (one-third of the projected capital cost) of the Project. The same funding request was made to both the Government of Alberta and the Government of Canada.

The City and the Government of Alberta's portion (up to \$333.3 million) will be funded through the Rivers District Community Revitalization Levy ("CRL"). On 2019 March 6, the Government of Canada approved federal funding in principle for up to \$166.7 million total eligible costs for the Project, and a contribution agreement is expected to be executed to represent the final approval of the funding.

Calgary Municipal Land Corp. ("CMLC") have signed an agreement to market and develop land with the Calgary Stampede. Due to the mismatch in timing of CRL revenues and the Project

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costs, an internal loan to CMLC is being requested to ensure sufficient cash flows are available to fund the expected project costs on an annual basis.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

CRL Funding

The CRL funding will be used to fund two-thirds of the projected project costs and represents The City and Government of Alberta's contributions for the Project. The City is requesting to provide financing for up to \$333.3 million (two-thirds of the project costs) due to the mismatch of CRL revenue and project costs. The internal loan will be provided to CMLC to align with cash flow requirements during the construction period for the Project (i.e. 2019 to 2025) which will be fully repayable with CRL funds during the extension period (e.g. 2028 to 2047). In addition to a Loan Agreement, a Contribution Agreement will be executed between The City and CMLC setting out all funding and reporting obligations for the Project. Interest on the internal loan will be set to recover The City's foregone investment income and replenish The City's cash reserve from CMLC to The City throughout the life of the loan, as set out in Loan Bylaw 12M2019.

The City will request security related to the Project to support the proposed internal loan in form satisfactory to the Chief Financial Officer and City Solicitor and General Counsel.

Government of Canada Funding

The Government of Canada has indicated funding support for one-third of the capital cost of the Project. The Calgary Stampede has received an approval in principle for the federal government funding in a letter dated 2019 March 06 for federal funding up to 33.33% or up to \$166.7 million of Project costs, subject to execution of a Contribution Agreement with the Calgary Stampede.

Social, Environmental, Economic (External)

Economic Impact

Several economic studies have been completed relating to the Project, including:

1. Dunn Consulting Services / CBRE Group Inc. / Conference Board of Canada - Economic Impact (2016)
2. HVS Convention, Sports & Entertainment Facilities Consulting- Economic Impact Study Analysis (2016)
3. Price Waterhouse Coopers – Convention Market Study (2018)
4. Ernest and Young – Rivers District Economic Impact Analysis (2019)

Each study concluded that the Project would have a positive economic impact.

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Financial Capacity

Current and Future Operating Budget

All future operations, major/minor maintenance, and rehabilitation costs associated with the Project will remain the sole responsibility of the Calgary Stampede. The Calgary Stampede anticipated that the Project will be self-sustaining with no requirements for additional operating funding anticipated.

Current and Future Capital Budget

Approval of CMLC's Capital Budget for the Project will be sought as per Administration recommendation as the project will be executed by CMLC. There is no impact to The City's capital budget as a result of the recommendations in this report.

Financing Structure

The Financing structure of the Project is based on financing analysis using assumptions around CRL funding, construction timeline, interest rates, and loan draws and repayment. This analysis is further described in Attachment 2.

City Debt Impact

Internal loans to a controlled corporation of The City will have no debt impact on The City's existing debt limits.

City Debt Servicing Impact

Internal loans to a controlled corporation of The City will have no debt servicing impact on The City's existing debt servicing limits.

Funding the Financing Costs

The primary repayment source for The City's internal loan will be CRL revenue generated from 2028 onwards. The internal loan will also require payment of foregone investment income on The City's cash reserve throughout the life of the loan, as is set out in Loan Bylaw 12M2019. Administration has proposed an interest rate equal to the average weighted rate of return on the total fixed income portfolio based on the City's foregone investment income from utilizing cash reserve funding for the Project.

The Project is estimated to not consume all of the projected CRL revenue over the extension period and as such, CMLC will retain flexibility to prepay the loan balance over the life of the loan if excess CRL funds are available.

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Risk Assessment

Uncertainty with CRL Revenue Projections

Continued weakness in the office segment and slower development in the Rivers District will adversely impact revenue projections from 2019 to 2027 and beyond. Reduced CRL revenue could limit the ability of CMLC to undertake approved capital projects and the BMO Centre expansion concurrently, while ensuring they have financial capacity to service related indebtedness.

Increase Financing costs for CMLC

The floating interest rate on the proposed loan will be equal to The City's average weighted rate of return on the total fixed income portfolio and is not known in advance over the life of the loan. Actual financing costs for the proposed loan financing may exceed estimates and additional CRL funds may be required to service the loan.

Asset Ownership

The Calgary Stampede will continue to operate and maintain the existing BMO centre. During construction period, CMLC has proposed to enter into a license of occupation with the Calgary Stampede, where the leasehold improvements on the expanded BMO Centre will be recorded on CMLC's balance sheet and will transfer to the Calgary Stampede at construction completion.

Ineligible Costs for Federal Funding

The federal contribution for the Project is subject to execution of a Contribution Agreement that will set out eligible and ineligible costs for federal funding to the Calgary Stampede. A portion of the Project's capital costs may not be eligible for 33.33% federal funding and the Calgary Stampede will be required to fund any shortfall.

REASONS FOR RECOMMENDATIONS

The reason for the internal loan structure is to lower external interest costs and to replenish the City's cash reserves while compensating the City's lost investment income. The internal loan will also offer more flexibility on structure to CMLC as well as more oversight from The City's perspective.

ATTACHMENT(S)

1. Attachment 1 – Federal Funding Confirmation CONFIDENTIAL
2. Attachment 2 – City Funding and Loan Financing Analysis CONFIDENTIAL