


Hamilton

INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: September 13, 2011	
SUBJECT/REPORT NO: International Event Opportunities - 2015 Pan Am Games Velodrome Business Plan (CM10005(c)) (City Wide)	
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Council Direction:

At the August 29, 2011 General Issues Committee, staff were asked to report back to Council with an update on progress made in regards to the Pan Am Velodrome project and existing funding gap. This update was required prior to Toronto 2015 issuing a Request for Proposal (RFP) that would include the location of the proposed velodrome. Information Report CM1005(c) is meant to provide this update.

Information:

The Request for Proposal (RFP) being prepared by Toronto 2015 and Infrastructure Ontario includes the proposed Hamilton Velodrome and stadium, as well as the York University stadium, and will be sent to the three proponents selected as a result of the RFQ process which closed on May 12, 2011. The RFP is scheduled to be released to the three proponents on September 15, 2011, and will close late February 2012. Following the close of the RFP there will be an evaluation with the successful proponent being named in the Spring of 2012. Although the RFP will be released over the coming days, given the current funding issues surrounding the Velodrome, the location of this venue may not be noted. The only scenario in which the Velodrome location would be noted, will be if Council were to agree to take full responsibility for the current funding gap (by committing to fund 46% of capital construction costs) prior to September 15, 2011.

Update on the Investigation of Potential Sources for Funding Shortfall

City and Mohawk College representatives have contacted a number of potential partners regarding capital funding for the construction of the Velodrome including:

- Senator David Braley
- MP David Sweet
- MP Dean Allison
- MPP and Minister of Revenue Sophia Aggelonitis
- Mohawk College
- Private Sector interests

At this point, no one has committed additional funding to the project. Provincial and Federal partners maintain their commitment is covered by the 56% funding responsibility agreed to in accordance with the 2015 Parapan American Games Multi-Party Agreement

Financial

Detailed financial implications and funding gaps in regards to both capital and operating costs were discussed as part of staff report CM10005(b). Given that information regarding the financials has not changed since staff report CM10005(b) was discussed on August 29, 2011, the original section from that report describing the costs, funding sources and shortfall is included as Appendix A to Report CM10005(c).

In summary:

Capital costs

Construction costs for the Velodrome are estimated to be between \$35 - 45 million, site preparation costs are estimated at \$1.5 million, Velodrome site relocation, development and parking is estimated at \$3 million, with no land acquisition costs being assumed at this time. Therefore, the total cost estimate for the Velodrome is \$39.5 - 49.5 million.

Toronto 2015's commitment to fund 56% of the capital construction costs translates into a range from \$19.6 - 25.2 million. The City of Hamilton has committed to providing \$5 million towards construction and Mohawk College is willing to contribute \$2 million towards the Velodrome (an additional \$15 million will be contributed towards a Mohawk Recreational Facility that would be included as part of the total development on the site).

This represents a capital funding gap of between \$13 million and 17.3 million.

Council has previously capped the City's contribution to the Velodrome at \$5 million and Mohawk College has capped its capital contribution at \$2 million. To date, no commitments have been made by either the City of Hamilton or Mohawk College to increase their capital contributions.

Operating costs

Annual operating costs for the Velodrome are based on three scenarios (which are detailed in Appendix A to Report CM10005(c)), all of which results in an operating

shortfall. Part of the operating shortfall would be funded through an allocation provided by the Toronto 2015 Legacy Fund.

Update on Discussions with Toronto 2015

Staff have continued to discuss the Velodrome project with Toronto 2015. In particular, the discussions have focused on how to work together to secure additional capital funds, as well as on the timeline for a decision on a Velodrome location. Toronto 2015, Mohawk College and the City of Hamilton are partners in moving the project forward, and are continuing to work together to find a solution which will allow for a permanent Velodrome to be built in Hamilton as part of the Pan Am Games legacy. Given the broader national and provincial benefits of having a permanent facility in Canada and Ontario, one can argue that the responsibility to close the current gap in funding does not lie solely with the City of Hamilton, but rather that the Toronto 2015 Organizing Committee needs to play more of a lead role in addressing this funding shortfall.

Recent talks between Toronto 2015 and City staff have resulted in Toronto 2015 offering an extension of four weeks, or October 11, 2011, to investigate alternative funding sources required to build a permanent Velodrome. If directed, over the next four weeks, City staff will continue to work with Toronto 2015 and report back to Council prior to the expiration of the four week extension in regards to progress made towards eliminating the gap. It should be noted that this extension will not impact the timing of the RFP and as such it will go out on September 15, 2011, but may not identify a location for the Velodrome.

Update on the Partnership with Mohawk College

City staff continue to meet with representatives from Mohawk College to develop a Terms Sheet/Memorandum of Understanding regarding the Velodrome, its construction, the capital costs, operating costs, programming and the responsibilities of each party. Although significant work has been made in developing a draft document, prior to providing a copy of this document to Council, staff still require further discussions with Mohawk College and wish to vet it through Risk Management and Legal. As such, a copy of it has not been attached to this report.

JS/dg



Financial Section (Pages 7 to 10) of Report CM10005(b)

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial:

CAPITAL

Currently, there is an allocation of \$11.4 million (2008 dollars) in the Pan Am Games capital budget for a velodrome, of which the City has committed \$5 million. However, under the Multi-Party Pan Am Agreement, the City, should it chose to continue with the project, has committed itself to funding 44% of facility construction costs plus 100% of land acquisition and site development costs.

Further work on the functional program for the velodrome, as well as discussions with both Infrastructure Ontario and Toronto 2015, has indicated that the total project cost will be significantly in excess of the original estimate, and that the actual project cost will not be known until early in 2012. The current capital construction cost estimate for the velodrome project ranges between \$35 million and \$45 million, of which the City is responsible for 44% (\$15.4 million to 19.8 million) as per the Multi-Party Agreement.

In addition to the capital cost, there are site costs associated with building at the Mohawk College site of approximately \$4.5 million which the City must also fund.

The total project / development would now incorporate a new Recreational Facility for Mohawk College. Mohawk would finance 100% of the cost related to its own facility (including construction, land and site development).

Table 1 - CAPITAL COSTS

Velodrome Construction	\$35M - \$45M
Velodrome Site Preparation costs	\$1.5M
Velodrome Site Relocation, Development and Parking	\$3.0M
Land Acquisition (Lease)	0
Subtotal Velodrome	\$39.5M - \$49.5M
Mohawk Rec Facility (incl. site development)	\$15M
Total Development	\$54.5M - \$64.5M

Table 2 - SOURCES OF FUNDS

Committed Funds:	
Toronto 2015 @ 56%	\$19.6M - \$25.2M
City Of Hamilton	\$5M
Mohawk Students Association	\$17M
<u>SUBTOTAL</u>	<u>\$41.6M - \$47.2M</u>
Shortfall:	\$13M - \$17.3M

Toronto 2015 has committed to fund 56% of capital construction costs, which at the higher cost estimate of \$45 million would amount to \$25.2 million. Toronto 2015 is also committed to pay for its share i.e. 56% of any cost increases, should they occur.

It is also important to note that while the Mohawk Recreation Facility is projected to cost \$15 million, the College is willing to contribute \$17 million to the total development, effectively providing for a \$2 million contribution towards the Velodrome. In addition, the \$17 million will actually come from students themselves, as the Mohawk Students Association has agreed to provide the funding.

Table 3 - POTENTIAL SOURCES FOR FUNDING SHORTFALL

City of Hamilton - Additional Funds	\$5M
Fundraising	\$3m - \$5M
Naming Rights	\$1M - \$3M
Other	unknown
Shortfall if City Provides Additional \$5 million	\$7.9m - \$12.3m

Council has capped the City's contribution to \$5 million but realistically, if Council wanted to proceed with this project it would have to contribute at least an additional \$5 million (bringing the City of Hamilton's share to \$10 million). If Council wanted to take this approach, then the remaining funding shortfall would be about \$8 million to \$12.5 million. Given our existing capital budget constraints, this does represent a considerable risk to the City of Hamilton.

Given the City existing capital budget pressures, if Council decided to provide additional funds for the Velodrome project, then staff would recommend that these be debt financed. An additional \$5 million in debt would cost about \$482,000 in annual debt

charges and represent about a 0.1% impact on residential property taxes. This impact, does not include the additional \$8 million to \$12.5 million (approx.) potential unfunded portion noted in the previous paragraph.

Although the costs outlined in Table 1 exceed the current commitment from the City of Hamilton, staff feel the greatest chance for attracting additional funds to cover the gap is to partner with Mohawk College. Mohawk has committed to assisting with the fundraising campaign. The fundraising strategy will include a combination of philanthropic gifts, government contributions, and naming rights. Toronto 2015 will also assist in securing additional senior government funding. Should the targeted fundraising objective not be achievable, alternative revenue sources will need to be identified and a risk assessment approach will need to be reviewed. More importantly, if Council chooses to proceed with the project, the City must accept this risk.

It is important to note, that the RFP process requires a firm commitment from the City of Hamilton in order to proceed. Therefore the City would be required to assume the forecasted project funding shortfalls as well as 44% of any construction cost increases.

Operating Projections

The Sierra Planning Group prepared revenue and cost projections for operating a new proposed velodrome in Hamilton. Three alternative scenarios were assessed as follows:

1. Base Case: Scenario - City Owned / Operated
2. Sensitivity 1: Base case at 75% Utilization of Track
3. Sensitivity 2: Base case at 75% Utilization of Track Plus Reductions in achievable revenues / pricing

The latter two scenarios (i.e. numbers 2 and 3) are cash flow variants of the first base case scenario (i.e. number 1) whereby facility usage and revenues are reduced to provide for more conservative assumptions (i.e. a worst case scenario).

Based on the business case provided by Sierra Planning and Management, a detailed operating budget identified a net operating shortfall ranging from -\$143,000 to -\$374,000, which includes a modest 0.5% capital reserve (budgeted at \$100,000). The Consultant has noted that this capital reserve estimate is low and an argument exists for raising it by **at least** \$100,000 (i.e. to the 1.0%). These estimates however were based on a \$20 million construction cost estimate. At \$30 million, however, the capital reserve provision should be at least \$300,000 (i.e. 1%) or \$450,000 (i.e. 1.5%).

Part of this operating shortfall would be funded through an allocation provided by the Toronto 2015 Legacy Fund plus payments made by Mohawk College for use of the facility. The amount to be paid by Mohawk is still to be finalized through the Memorandum of Understanding discussions.

The table below presents the annual project operating budget shortfalls using the higher (but more realistic) capital reserve provisions of 1% and 1.5% and a \$30 million capital construction component.

Table 4 - PROJECTED ANNUAL NET OPERATING POSITION

	Low	Mid	High
Net Shortfall From Operations	- \$42,911	- \$83,993	- \$273,824
Capital Reserve @ 1.0% per Year on \$30m	- \$300,000	- \$300,000	
Capital Reserve @ 1.5% per Year on \$30m			- \$450,000
Total	- \$342,911	- \$383,993	- \$723,824

Appendix "F" contains a summary table of the Financial Operating Analysis prepared by the Consultant.

In discussions with Toronto 2015 regarding the Pan Am Legacy Fund, the following points were confirmed:

- The Velodrome is one of three facilities identified to receive Pan Am Legacy Funding
- The Pan Am Legacy Fund will be \$70 million and the annual disbursement will be shared between the three facilities (the percentage amounts will be determined by a Legacy Fund Corporation)
- 75% of the Legacy Fund disbursement will go towards operating costs and capital maintenance costs and 25% for programs to support high performance sport

If the Legacy Funds earns 2% to 3% interest per year, this would provide \$1.4 million to \$2.1 million in annual funding to support the three Legacy Facilities. Given the significant financial exposure to the City of building and maintaining a year round, permanent velodrome facility, staff recommend that if Council wants to proceed with the project it makes the City's participation conditional on receiving at least \$500,000 annually from the Legacy Fund.