MSECC Risk Mitigation Discussion
URA Oct 15 Meeting

Overview of Presentation:

1. To provide URA members who are undecided on the project with more information
2. Step by step overview of how one person believes the deal may be structured, recommended risk mitigation steps, and remaining issues
3. Some parts of presentation have been reviewed with CAO staff but they have not endorsed the statements or numbers
4. Presentation may provide a framework to help Council members complete their due diligence responsibilities

Initial Building Phase

GTA Sports

Request that the City confirm or modify the following steps related to GTA Sports:

1. GTA Sports has engaged BBB Architects, and consulted with others leading architects and design firms to design the building
2. PCL, under contract to GTA Sports ,will build the arena under a fixed price contract
3. If PCL recommends change orders, GTA Sports can accept or reject
4. PCL will provide construction financing to complete the arena

City of Markham

Request that the City confirm or modify the following risk mitigation steps:

1. City will hire an independent consultant to peer review architectural and design phases
2. City will hire an independent consultant to peer review all aspects of construction phase
3. City will only be obliged to pay for change order requests pre-authorized by the City
4. City will audit construction financing to ensure best market terms
5. City will be under no contractual obligation to purchase the building until all deficiencies are corrected

Building and Land Purchase

GTA Sports

Request that the City confirm or modify the following steps in the building and land purchase.

1. Remington will assign the 6 acres of land to Markham to meet parkland dedication requirements
2. This land transfer will be based on “acre for acre” requirements and not overvalue these 6 acres due to location
3. GTA Sports or PCL will sell the building to Markham for no more than $325 million + construction financing interest costs, or less if building cost is under estimate
4. GTA Sports, with Remington guarantees will contract to pay half of mortgage payments on mortgage due dates
5. Remington guarantees will have market value in excess of total mortgage payment amounts and will include a letter of credit, liquid security and lands, buildings

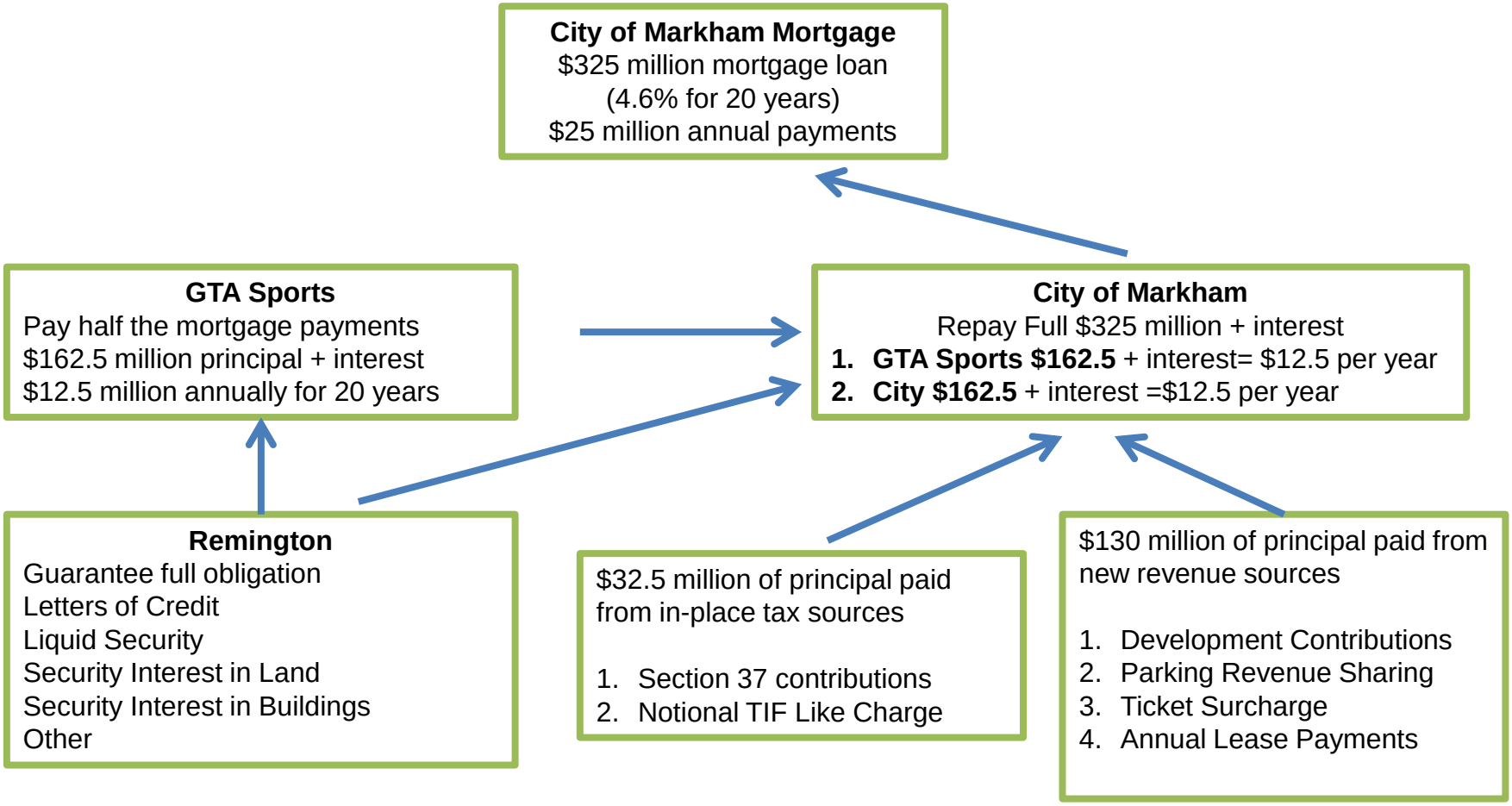
City of Markham

Request that the confirm or modify the following risk mitigation steps:

1. An opinion from the City Solicitor will confirm that City is within its rights to sole source the transaction
2. Markham will take out a mortgage loan for purchase amount (max of $325 million) at best available commercial rates, with a 20 year repayment period. (modelled at 4.6%, but less if taken out today)
3. On mortgage payment due dates, Markham will receive half of funds from GTA Sports and pay the other half using receipts from specific revenue-see remaining slides
4. An opinion from the City Solicitor will confirm that the Remington collateral rights are secure
5. An independent peer review will confirm the market valuations on all collateral security
6. Any shortfalls in cash receipts will be paid from contingencies and only from general tax revenue as a last resort

Mortgage Loan Overview

No new information released by City on the financial framework. Little is known, but can draw certain conclusions, subject to confirmation by the City Request that the City confirm or modify these steps



GTA Sports Loan Repayment

A key question surrounding the entire deal is the risk of GTA Sports meeting their obligation to repay their $162.5 million share of the mortgage loan with annual payments to the City of $12.5 million

Request that the City confirm or modify the following understanding of GTA Sports/ Remington obligations for mortgage loan repayments

1. Repayment obligation of approx. $12.5 million per year, for 20 year total of $250 million
2. Global Spectrum, an expert in major arena management has created a business plan for GTA Sports indicating that 130 annual events and 780,000 spectators is viable for the GTA Centre without an NHL team
3. An independent consultant, Raymond James has reviewed this work and opined that it will generate sufficient cash flow to meet GTA Sports annual payment obligations to Markham
4. Members of Council will complete due diligence on these reports prior to final vote

5. First source of scheduled payments from cash flows of GTA Sports, second from cash infusions into GTA Sports, and backup source from liquidation of Remington collateral
6. Remington will have a powerful incentive to insert new cash into GTA Sports if necessary to avoid default and liquidation of security
7. The initial appraised value of pledged Remington security will be at least 110% of future loan payments
8. An Independent appraiser, hired by the City will confirm the market value of collateral
9. Collateral will be released as loan paid down, but at each reset remaining collateral will be independently appraised at no less than 110% of remaining loan payments

TIF and Section 37 Contributions

The financial framework confirms that $32.5 million of Markham's $162.5 million of loan obligations will be paid back through Section 37 Contributions and a new "TIF Like Charge"

The City's Development Contribution, Section 37 Contribution, and TIF Contribution numbers are based on the Ontario Places to Grow Act, which forecasts Markham growth from 308,000 people today to 420,000 in 2031

Section 37

Section 37 of the Planning Act allows Markham to grant an increase in height and / or density to a development in return for cash and other matters

Long established source of revenue for Markham

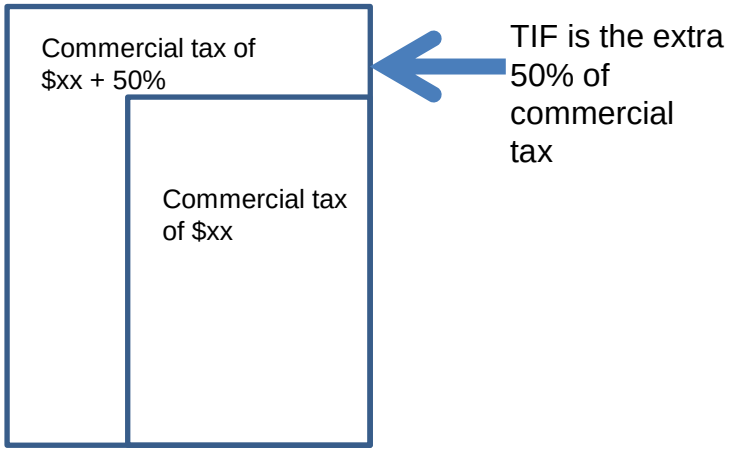
Request that the City confirm the following understanding of the Section 37 and TIF Contributions

1. Less than half of overall Section 37 Contributions will be directed to repaying this mortgage
2. This percentage will be higher in Markham Centre and lower outside of Markham Centre
3. Section 37 Contributions and the TIF like charge will cover approximately 20% of the annual mortgage payments of $12.5 million = $2.5 million per year

TIF Life Charge

Request that the City confirm the following understanding of the "TIF like charge"

1. TIF is a notional allocation of current commercial tax rules and is not a new tax
2. It is based on assumption that new larger commercial development in Markham Centre will be a by-product of arena driven demand
3. Therefore the incremental portion of tax received will be allocated to arena debt



Development Contribution

Development Contribution

Request that the City confirm the reasonableness of the following guess of Development Contributions:

1. Population Growth from 308,000 to 420,00. Therefore approx. 30,000 new homes over 20 years. Average of 1,500 new homes per year
2. Growth will be skewed towards the first half of the 20 year period
3. 1,750 new unit starts a year for first 5 years and average charge of $4,000 = $7 million per year
4. 1,525 new starts after that, with average charge moving to $4,600 due to annual indexation = $7 million per year
5. Development Contributions therefore may represent approximately 55% of Markham's annual share of mortgage payments

Per Unit	Outside Markham Centre	Inside Markham Centre
Singes and Semis	$5,000	NA
Townhouses	$4,000	$4,500
Condo / Apt	$2,000	$4,500

Key Financial Framework Risk

The key risk in the financial framework is the question of whether these charges are covered by legislation or require ongoing political persuasion over the life of 4 more councils:

- 2014 Election
- 2018 Election
- 2022 Election
- 2026 Election

Request that the City confirm plans to formalize these charges in development agreements with major developers

City of Markham Loan Repayment

Request that the City confirm or revise the understanding below of the source of funds to repay the City's share of the mortgage

Markham Sources of Cash

Request that the City confirm or revise the following understanding of Markham's loan repayments:

1. Repayment obligation of approx. $12.5 million per year, for 20 year total of $250 million
2. Approximately $2.5 million of cash from Section 37 and TIF from previous slides
3. Approximately $7 million of cash from Developer Contributions from previous slides
4. Approximately $3 million from GTA Sports / Remington
5. Parking and ticket charges are a contractual commitment on GTA Sports and Remington and are based on 780,000 attendees annually, but will vary with volume
6. An independent consultant, BDR, has reviewed the Markham financial framework and provided an opinion that it is logically and mathematically sound
7. If requested, this report will be available for Council review

City of Markham

Request that the City confirm or revise the following guess at the sources of fund for annual mortgage payments

Guess at source of funds for Mortgage Loan Repayment	Total Annual Payments ($ in millions)
Section 37 Contributions	$xx
"TIF like charge"	$xx
Subtotal – existing sources	***$2.5***
Development Contribution	$7.0
Ticket Surcharge	
Parking Sharing – 10 years	$3.0
MSECC Lease Payments	
Subtotal – new cash sources	***$10.0***
Total	$12.5

Landlord Tenant Lease Arrangement

GTA Sports

It is essential that the City of Markham confirms the following aspects of the lease agreement with GTA Sports:

1. GTA Sports will sign a lease agreement with the City of Markham, to lease the facility for in the range of 20 to 25 years.
2. GTA Sports will have the right to use the building for commercial sports, entertainment and cultural events, and be responsible for:
    i. All ongoing building maintenance and repair
    ii. All operating and insurance costs of the Centre
    iii. Upgrades to keep the Centre commercially up to date
    iv. Taxes, incl. HST and Property Taxes if applicable
    v. Returning the building to Markham in good merchandisable condition at lease termination
3. GTA Sports will provide a number of dates still to be negotiated for Markham use, at no cost expect for direct event related variable costs
4. Negotiations are continuing on the question of additional lease payments/ other revenue sources to Markham if a major sports team uses the Centre in the future

City of Markham

It is essential that the City of Markham confirms the following aspects of the lease agreement with GTA Sports:

1. Markham will have full inspection rights to ensure that all lease terms are complied with
2. If GTA Sports fails to comply with lease terms, Markham will have normal landlord rights to enforce compliance, including the right to remediate at the tenant's expense and the right to evict in cases of continued breach
3. Standard dispute resolution processes are incorporated in the lease, including binding arbitration
4. The City Solicitor will provide an opinion that if the building usage is as planned, the Centre will qualify as a Municipal Capital Facility. If not, then GTA Sports will be contractually responsible for all incremental taxes
5. In the event of GTA Sports failure, Remington could seek a new operator, and failing that, Markham could seek a new operator under more favourable financial conditions because the Remington guarantees will pay for half the building

Just for Fun- Why Not a Different Ownership Model ?

A key question in this proposal is why the mortgage loan agreements have been structured in this complicated fashion. A simpler model, with a better result for Markham and the same cash flows for GTA Sports would be:

GTA Sports/ Remington Loan from a Financial Institution
$162.5 million mortgage loan
(4.6% for 20 years)
$12.5 million annual payments

GTA Sports / Remington
Pay $12.5 million of mortgage payments for 20 years

Remington
Guarantee full obligation
Letters of Credit
Security Interest in Land
Security Interest in Buildings
Other

City of Markham Loan
$162.5 million mortgage loan
(4.6% for 20 years)
$12.5 million annual payments

$32.5 million of principal paid from in place tax sources

1. Section 37 contributions
2. Notional TIF Like Charge

$130 million of principal paid from new revenue sources

1. Development Contributions
2. Annual Lease Payments

Markham and GTA Sports / Remington co-own the building
Markham leases their half of building to GTA Sports
Markham receives higher lease payments but no parking / ticket surcharge revenue
GTA Sports / Remington assigns their half of building to Markham at the end of lease term

Opening Day Parking / Transit

July 2012 "City of Markham Site Plan Approval – GTA Centre",

1. Required parking will be provided in three new lots in Markham Centre directly to the east of the facility (1950 spaces) and two shard lots (1,350 spaces)
2. Three lots outside of Markham Centre (the Milliken, Mount Joy and Langstaff GO Stations – 950 spaces) are also proposed to be used
3. In addition there is the potential to establish parking in a lot, south of Highway 407, which would relieve requirements within the Centre itself.

"Genivar – MSECC Transportation Overview, July 30, 2012"

1. Go Transit has agreed to work with the City to examine the potential for special event service
2. City and GO Transit in process of developing a MOU
3. The following are to be assessed:
   i. Feasibility of GO Train Service to and from Unionville Station
   ii. Feasibility to utilize four GO Transit parking lots
   iii. Most appropriate pedestrian connection to facility
   iv. Cost of service and who pays
4. Agreed to Steering Committee / Working Group Approach
5. Addition of parking facility south of Highway 407 (within Hydro corridor)
   - Supplements Potential Shortfall in:
     i. New north side parking
     ii. Shared parking facilities

It is essential that the City confirm the following prior to a final Council vote on the proposal:

1. Remington will initially provide above ground parking for 3,300 vehicles for all major events, and will contractually commit to an ongoing inventory of no fewer than these 3,300 spots during build out of the immediate area, and the conversion to underground parking
2. Firm opening day transportation and parking plans are in place
3. The firm parking and transportation plans will be peer reviewed by an independent consultant

Key Issues

Key Issues:

1. Still lacking sufficient information for reasonable Council due diligence
2. If as expected the Development Contribution charge is the major source of cash infusion to pay the City's debt, then Council needs to know how secure the funding source is – 5 , 10, and 15 years from now
3. Parking and street access are still moving targets, both in the short term and the longer term. Will the final solutions be determined and peer reviewed prior to Council being expected to vote?
4. Is Committed event based Go Train service a requirement prior to final Council vote on the project?
5. What details of community access will be provided prior to a final Council vote?
6. What is the expected useful life of the arena, before it becomes obsolete? Markham is purchasing a $325 million building for $162.5 million, but is it then leasing the building to GTA Sports at favourable rates for the remainder of it's practical life?
7. The assumptions backing up the financial framework are 130 events a year with an average of 6,000 attendees. Will the City be caught in a "catch 22" of either not having parking capability for peak attendance, or paying for parking capacity that is unused except for rare sold out events?