TO:	CHAIR AND MEMBERS FINANCE AND ADMINISTRATION COMMITTEE MEETING ON MARCH 30, 2011
FROM:	MIKE TURNER DEPUTY CITY TREASURER
SUBJECT:	EXPENDITURE AND DEBT INFORMATION UPDATE ON JOHN LABATT CENTRE

RECOMMENDATION

That on the recommendation of the Deputy City Treasurer, this report **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Board of Control, August 3, 2000 – Memorandum of Understanding between London Civic Centre and the City of London
Board of Control January 8, 2001 - Final Closing Documents Between City of London and London Civic Centre
Board of Control, March 23, 2005 - 2004 Annual Update on John Labatt Centre
Board of Control, December 15, 2005 – 2005 Annual Update on John Labatt Centre
Board of Control, April 28, 2010 – 2009 Annual Update on John Labatt Centre
Finance and Administration Committee, February 11, 2011 – 2010 Annual Update on John Labatt Centre

BACKGROUND

At its meeting held on February 16, 2011, the Finance and Administration Committee requested additional information on financing details, including such information as future options and expenses for which the City of London has been directly responsible for during the life of the JLC and also requested future updates on a quarterly basis, rather than an annual basis. This item was referred back to Civic Administration.

The John Labatt Centre operates as a public private partnership and is designated as a municipal capital facility under the Municipal Act. The Centre completed its eighth year of operation in June 2010. The London Civic Centre (LP) is the City's partner on this project having provided $9.5 million in private sector funding. The City's contribution to the project was $32 million, plus the land valued at $10 million of which approximately one third serves as a municipally operated public parking lot.

Management

The Centre is managed by Global Spectrum on behalf of the partnership London Civic Centre (LP). Global is responsible for the sale of naming rights, advertising, attractions, sale of suites and club seats, and the operation of the Centre. Global receives a management fee for its services, which in 2010 amounted to $583,453.

All of the 38 suites in the Centre are leased and there is a considerable waiting list for the 1,100 club seats. The naming rights for the facility have been sold for ten years to Labatt Brewing Company and the small theatre seating naming rights have been sold to RBC Dominion.

The City's share of the net proceeds varies over the life of the lease. In years one to five, the City's share was 20%; years six to ten, 45% and years eleven to fifty, 70%.

Investment

The private sector return on investment in the original pro forma cash flow statements was anticipated to be about 12%. This return recognizes that the private sector assumes all operating losses and capital repair risk on the operation of the Centre. The City's return on investment was estimated to be between 1% and 2% over the fifty years, plus the economic spin-offs and a contribution to the downtown revitalization from the Centre. The City compared this rate of return with other centres in Ontario at the time of developing the agreements and found that compared to Guelph, Brampton and Sarnia, three other public private partnerships at the time, the City's rate of return was higher. Brampton and Guelph have both defaulted and are effectively now public facilities. All municipally operated centres operate at a loss (when capital costs are included), meaning there is no return on investment other than the economic spin-offs.

The WFCU Centre in Windsor has failed to attain the revenue goals that were promised in the facility's business plan, which has forced decisions on how to make up the shortfall. This has led to draws on their reserve funds each of the last two years.

Centres such as the John Labatt Centre have a private sector value based on cash flow and profit potential, not construction value. The private sector investment in the John Labatt Centre was based on an agreed to pro forma of cash flows, which provided a reasonable rate of return on investment to the private sector given the project's risks. The expectation that this Centre should provide a market return on investment for the City's investment, would simply mean that this Centre would never have been built under these expectations. There are two examples to draw upon to underscore this point. Scotiabank Place in Ottawa was built with private sector money at a cost approaching $200 million. It sold in bankruptcy for $25 million. Similarly, the Rogers Centre was built for $600 million and was sold to Rogers Communications for $27 million. Both buildings sold based upon anticipated cash flow going forward, not construction value. The City's investment in the Centre anticipated a low cash flow return on City investment and a high economic spin-off return on investment. The revitalization of the area around the Centre has been significant.

The City earlier retained KPMG LLP to undertake certain procedures and report its findings in connection with certain practices and processes of Global Spectrum in managing the John Labatt Centre to determine compliance with the agreements between the City and the London Civic Centre Corporation (LP). KPMG LLP completed its work and determined London Civic Centre Corporation (LP) has comprehensive accounting procedures in place, that the available cash is calculated in accordance with the agreements, that partnership related expenses were consistent with the agreements and the concession commissions earned were found to be in accordance with the license agreement. There were no areas of concerns raised by KPMG LLP with respect to compliance with the agreements and accounting practices.

Agreements

There are dozens of agreements associated with this project, all of which were fully vetted through Council, with input from legal counsel and consultants. The main agreements which govern the operations of the JLC are the Ground Lease and the Participatory Occupancy Lease.

A Trust Indenture Agreement was established to setup the City of London Arena Trust.

The City of London Arena Trust has entered into a fifty year Ground Lease for the land owned by the City of London. The City acts as landlord over the land and the Trust is the tenant.

The London Civic Centre (LP) has entered into a fifty year Participatory Occupancy Lease for the building with the City of London Arena Trust, who is the landlord and owns the building for the term of the ground lease, subject to the provisions of the agreement.

The London Civic Centre (LP) is subject to detailed agreements on performance and maintaining the building at a high quality level. The London Civic Centre (LP) is responsible for capital improvements to the building and has put in place a facility fee on tickets which partially funds capital improvements which began to accumulate in a capital reserve account after year three of the agreement. At the end of the fifty years, the building reverts back to the City.

The London Civic Centre (LP) has entered into a confidential agreement for the management of the facility. This agreement was reviewed by Arthur Anderson and deemed to be market competitive.

Other City Revenues or Expenditures

In addition to the expenditures for the John Labatt Centre, the City spent $1.5 million on the Jubilee Square and parking area at the Centre. The expenditures do not include the video marquee in the square, as this was paid for by the London Civic Centre (LP).

This land is owned by the City and the City does receive parking revenues from the lot. The City has received over $1 million in gross proceeds from the lot, since the opening. The City also pays for the maintenance of the square and parking areas, which reduces the net proceeds to $260,000.

In the original building phase, an upgrade to the scoreboard took place and the City paid for the original cost for the betterment. The City received funding from the Superbuild program to cover this additional cost. The Centre has recently replaced the scoreboard with a new scoreboard complete with high-definition capable video display. This was incorporated into the ongoing operating expenses of the Centre.

The City's 2010 capital budget contributed $250,000 to Centennial Hall repairs and $500,000 to the London Convention Centre Reserve Fund for capital repairs. Both facilities will require similar contributions in future years to maintain the building adequately. For the Wolf Performance Hall at the Central Library, the City includes their capital maintenance along with the Library budget of $50,000. The City makes no contribution to capital repairs at the JLC as this is funded from the existing ticket facility fees and operating revenue and is the responsibility of the London Civic Centre (LP). There are also no operating expenditures from the City to the operations.

Debt Issued, Principal and Interest Payments

Four debentures were issued between 2000 and 2003 for a total of $43,169,484. Refinancing of $12.7 million is required in 2011, as a balloon payment is required on the 2001 issuance. Refinancing of $5.6 million is required in 2012, as a balloon payment is required on the 2002 issuance.

Attached as Appendix "A" are the details of debt servicing costs by year, our list of assumptions (required due to the refinancing) and the original issues. Total debt servicing costs are estimated at $67 million with completion by 2023.

Options

There are a number of termination options in the agreements which could provide the City with earlier ownership of the building. Prior to completion of the twentieth fiscal year, there are payments required to the tenant equal to the present value of the aggregate of what would have been the tenant's share of indexed future cash flow. In the first six months of the twenty-first fiscal period, the early termination amount is zero.

Upon exercising it's early termination option, the City would become responsible for the operations of the Centre, taking on the risks associated with the operation, including operational, capital repairs and financial.

The intentions of the termination options provided for in the agreement, were predominantly in the case that the Centre was not achieving acceptable performance. The Centre to date has performed above the standards deemed as acceptable performance.

Quarterly Reporting

The terms of the Participatory Occupancy Lease require that the City receive audited statements for the fiscal year within 120 days of the end of the fiscal period. These are the results we report on annually, along with both our share of net income and the funds received from the ticket surcharge. The City has the right to request an interim audit at any time, giving 48 hours notice at a cost to the City.

The City receives quarterly, a listing of events and the attendance at the centre for which the City receives ticket surcharges on, which could be provided quarterly. Any additional information required would need to be discussed with Global Spectrum.

RECOMMENDED BY:
MIKE TURNER **DEPUTY CITY TREASURER**

Attach: Appendix A

c. J. Fielding
M. Hayward

Appendix A

TOTAL COSTS INCLUDING LAND

	Debt Servicing Costs (Principal & Interest)	Interest
2001-2010	36,562,005	16,555,303
2011 [1]	2,823,132	1,289,887
2012 [2]	2,977,746	1,109,328
2013	3,013,258	996,974
2014	2,921,905	895,235
2015	2,830,551	792,927
2016	2,739,198	690,018
2017	2,647,845	586,474
2018	2,556,492	482,261
2019	2,465,139	377,343
2020	2,373,786	271,680
2021	2,282,433	165,232
2022	923,752	57,955
2023	336,030	13,171

Notes:

[1] Refinancing of $12.7 million required in 2011 with an assumed average interest rate of 5.00%.

[2] Refinancing of $5.6 million required in 2012 with an assumed average interest rate of 5.00%.

[3] Debt issuance of JLC:

Year	By-Law	Amount
2000	D-737-206	9,559,024
2001	D-740-266	20,536,460
Refinancing of $12.7 million is required in 2011 for the building (2001 issuance based on balloon payment in 2011)		
2002	D-746-272	9,000,000
Refinancing of $5.6 million is required in 2012 for the building (2002 issuance based on balloon payment in 2012)		
2003	D-750-237	4,074,000