
TO: Kelly Daniels
Chief Administrative Officer

DATE: May 7, 2002

FROM: Neil Connelly
General Manager, Community Services

FILE: 5330-20-TWIN

**SUBJECT: District 69 Arena Project
Proposal Review and Approval**

PURPOSE

To review the arena proposals from CAPE Development Corporation, RG Properties Ltd. and the Regional District January 2002 arena twinning project and to provide for the Board's consideration and approval, the actions required for a project to proceed to referendum on June 15, 2002.

BACKGROUND

At the April 9, 2002 Board meeting the following two resolutions were approved:

- 1. That the Regional District proceed with further discussions with RG Properties Ltd. on their proposal for a twinned arena facility at Wembley Mall and with CAPE Developments Corporation on their proposal for a twinned arena facility at the existing arena site.*
- 2. That staff prepare a report to allow for the Board's consideration of a proposal and next steps, including a schedule for a referendum.*

Staff have met with representatives from both RG Properties Ltd. (RG) and CAPE Development Corporation (CAPE) to review and obtain further clarification and details on their twinned arena project proposals as well as resolve any issues associated with their proposals. This allowed for the evaluation process to continue. Both proponents were advised of the nature of the ongoing discussions and the steps in the final evaluation leading to the Board's consideration of a staff report at a special meeting on May 7, 2002.

A. Agreement Process

Memorandums of Understanding (MOU) have been prepared by the Regional District's solicitors for each of the two proposals. The MOUs are to be approved by the proponents prior to the May 7th Board meeting. The CAPE MOU has been executed by the company and the RG MOU is substantially complete but has not yet been executed by the company. They outline the essential principles and terms of the proposals, as described and modified, and through discussions with staff. The MOUs are non-legally binding agreements. They set out the essential business principles of the

proposals that have been agreed to between the parties. It refers to the negotiation and approval of a Partnering Agreement with the successful proponent.

The Partnering Agreement would set out all of the essential terms and conditions governing the transaction. It would need to be completed by May 14, 2002 to allow for its consideration and approval by the Regional Board on that date. This Agreement would be a binding agreement that would set out all of the essential terms and conditions governing the transactions as outlined in the MOU.

In addition to the Partnering Agreement, the MOU for RG provides for the development of subsequent agreements for management and operational services.

B. Referendum Process

June 15, 2002 has been scheduled as a referendum date to obtain electorate consent for the Bylaws and Agreement related to the District 69 Arena project. It meets the timeline required for notices and advance voting day opportunities. The January 2002 arena twinning project is also referenced.

C. Arena Proposals

Updated proposal summaries are outlined below based on the subsequent discussions and the provision of additional information by the two companies to support their initial proposals. The summaries describe the proposals as they are represented in the MOUs, which have been completed with CAPE and substantially completed with RG. The January 2002 arena twinning project is also referenced.

1. CAPE Development Corporation

The MOU pertaining to Cape's design/build proposal is for a twinned ice sheet, with leisure ice at the existing arena site for a Guaranteed Price of \$5,903,000 plus GST. Discussion with the company's representatives over the past few weeks have centered on a number of clarification items related to their proposal. In addition, provision was made for the company to review and adjust different items to allow for the proposal to, at a minimum, match the standards outlined for the January 2002 shadow project. As a result, a design/build proposal, with several revisions was provided and is reflected in the MOU. The MOU includes provision to match the roofing standard in the shadow project, sprinkler arrangements for the existing arena, deletion of a proposed equipment cash allowance, adjustments to match the City's parking bylaw requirements, and provision of a second level viewing platform. Other amenities included in the new addition are six new change rooms, new skate shop area, expanded administration and office areas, expanded lobby area, a new meeting room and a multi-purpose room, coaches and referees rooms, a first aid room and a second Zamboni / internal snow dump area. As the proposal included limited information on the facility design specifications, the Memorandum of Understanding provides for a process that allows for Regional District approval of the final design, performance and construction specifications. If the Regional District does not approve the final design and specifications, the Partnering Agreement with CAPE could be terminated.

2. RG Properties Ltd.

The MOU with RG provides for the company to design and build a new two ice sheet facility with leisure ice attached to the north side of their Wembley Mall parcel. The capital cost of the facility was specified at a Guaranteed Price. The MOU provides for the Regional District to either make annual payments for fifteen years or within that period make arrangements to acquire the parcel at a price to be agreed upon. The Regional District would own title to the parcel to the end of the 55 year period except in the case where it was purchased. RG would design and build the facility for the Guaranteed Price. Facility amenities include seating capacity in rink #1 of 800 with added room for a future installation of 200 seats, 200 seats in rink #2, space for two Zamboni machines, eight change rooms, a concession and skate shop, first aid room, referees room and storage rooms and the provision of additional second floor space to accommodate the office requirements of the Recreation and Parks Department and a multi-purpose room. It is anticipated under this proposal and with the existing arena being put to alternative uses, such as a curling facility and dry floor sport facility, the department administration office would relocate.

The MOU provides for RG properties the right to operate the concession and skate rental with the hours and terms to be agreed upon with the Regional District with all revenues and expenses incurred by RG Properties. RG will also provide a score clock and have the right to sell the scoreboard advertising. RDN retains the right to sell rink board and wallboard advertising, facility-naming rights and rink naming rights. Trade shows and concerts are proposed to be handled by RG through arrangements with the Regional District that would have terms for RG access to the facility for a specified number of events at no cost and with terms regarding financial responsibilities including a 50 / 50 net revenue cost share. An option for RG to provide adult hockey league marketing services on a year-to-year basis to the Regional District is also outlined. The Regional District would operate, manage, program and maintain all other aspects of the new facility.

3. Arena Twinning Project

This project involves the Regional District's construction of a second ice sheet and leisure ice sheet in conjunction with the existing arena, through a project/construction management method, at an estimated cost of \$6,257,592, as determined in January 2002. It was referred to in the arena Request for Proposals as the project which was to be used as a benchmark to test whether the proposals offered, in general terms, substantially better value for money.

D. City of Parksville Related Issues

a) Servicing Issues

Discussion on the two proposals has included City staff on issues regarding property, zoning and servicing. A number of issues have been identified pertaining to the Wembley Mall proposal, given that many of the issues related to the park site were addressed through previous discussions. They include rezoning application and approval items and works and services obligations for an arena project at the mall site. The latter involves charges for road upgrades and water and sewer infrastructure that are applied to the developer but have not been specifically accounted for in the RG proposal given that it is their view that they are not necessary to meet the building requirements for arena construction. The City has indicated, and Council is scheduled to confirm

its position at a May 6, 2002 meeting, that although it would look to RG Properties, as the property owner to be responsible for all of its standard development charges, it would provide for any off-site water or sewer servicing costs, not directly required for the arena project, to be deferred to the future and that would become applicable at the time the next commercial or other use development application came forward from the property owner to the City. Any off-site water or sewer charges required by the arena project would be the responsibility of RG Properties Ltd., although it is noted that RG Properties has in their proposal and budget not provided for such costs. The City has further indicated that off-site charges related to road upgrades, including traffic signals, that could be triggered by the arena project, will be deferred and charged to the developer as part of any future development application on the property.

b) Zoning

With respect to zoning, no changes are required to accommodate a twinned ice facility at the existing site in the Parksville Community Park. The MOU with RG specifies a number of items related to the creation of a separate arena parcel at the Wembley Mall site and the need for appropriate zoning. They include the City's approval of the creation of a new parcel and RG's requirement to obtain a rezoning from the City to allow for the arena facility. In addition, it refers to RG's intention to apply to the City for rezoning of the Mall site to obtain comprehensive development zoning to allow for future development of the Mall, including commercial developments, seniors' housing and other future residential uses. It is recognized that the City, at this point, may only provide for their consideration of such an application. The MOU indicates that the arena facility zoning at the Mall site is an essential condition to the transaction, whereas the latter more comprehensive zoning is not.

c) Financial Support

The City of Parksville has advised that Council is prepared to assist the Regional District with the arena project by providing \$400,000 of financial assistance. This position would replace Council's January 21, 2002 resolution that provided for financial support to the January twinned arena project at the existing site. It provided for the City to lease the added land in the park for \$1.00, to pay 100% of all off-site servicing costs, to pay all the water related on-site servicing costs and for a building permit to be provided at no charge. This approach would allow for the Regional District to decide upon how the funds could be utilized for either of the projects, with regular City charges and requirements to apply.

PROPOSAL EVALUATION

The review of the proposals has included an assessment of the overall short term and longer-term financial costs to the Regional District as well as other factors that are generated from the evaluation process. They are outlined below:

1. COSTS

a) CAPE Development Corporation Proposal

The CAPE MOU specifies a guaranteed price of \$5,903,000. There is, however, some uncertainty that the Guaranteed Price will not cover the final project costs after completion of the design stage necessitating the need to add a contingency amount for the project of \$200,000. For example, we understand that the company has allowed for a \$25,000 contingency for a “soft connection” to the existing arena. There is some question whether that amount will be sufficient.

There may also be the need to hire a quality control manager to act as an agent for the RDN for an approximate cost of \$50,000. The referendum number therefore would be \$6,153,000.

b) RG Properties Proposal

The capital cost of the facility was specified at a Guaranteed Price. The MOU provides the option for the Regional District to make an annual payment for a period of 15 years. The RDN would then have title of the facility for a 55-year period with the title reverting to RG after this term. The RDN also has an option to purchase title at an agreed upon assessed market rate at any time during the 15-year period. There may be an opportunity for the Regional District to utilize the \$400,000 provided by the City of Parksville to help offset land costs for the facility at the Wembley Mall site. Other costs related to this project have been also identified. Legal, surveying and other costs associated with the creation of a separate arena parcel have been estimated to be up to \$100,000. As a result, for referendum purposes, a higher project cost would need to be specified. Given that the proposal is on another site, its construction would not impact the use or expected rental revenues from the existing arena but it has other implications for the existing facility that are outlined below.

c) Arena Twinning Project

The January 2002 arena project had an estimated cost of \$6,260,000. This number included contingencies and management fees so would therefore be used as the referendum number.

2. LONGER TERM CAPITAL COSTS

a) CAPE Development Corporation Proposal

Over the longer term, it is recognized that there will be ongoing capital costs required to maintain the existing arena. In the next twenty-five (25) years the facility will be fifty-two (52) years old and there will be requirements at that time to replace the 1974 arena. If it were to be replaced, major new capital costs would be incurred at that time. This scenario would see new borrowing undertaken at the time that the twenty-five borrowing costs for the proposal, presently under consideration, are ending. As a result, the present value after fifty-five (55) years for the facility could be projected for illustration purposes to reach \$13,546,622.

b) RG Properties Proposal

The Wembley Mall proposal provides for the construction of a brand new facility and a land lease to the Regional District for a period of fifty-five (55) years. At the end of that period, the facility

would revert back to the property owner, with no compensation to the RDN unless the Regional District chose to buy the land. At this point, the market value of the land is uncertain. It could be expected that the residual value of the building at that time would be low, however it would likely raise questions regarding the approach to be taken to address the replacement of the facility. Present value calculations for the fifty-five (55) year period provide for illustration purposes, a net cost of \$12,363,554.

c) Arena Twinning Project

Longer-term costs associated with this project would be similar to those outlined for the CAPE proposal above. Differences in the projected 55-year scenario would be reflective of the borrowing costs associated with different capital costs of construction. An estimated present value of \$13,682,015 has been calculated.

3. OTHER FACTORS

Alternative Use of the District 69 Arena

a) CAPE Development Corporation Proposal and Arena Twinning Project

These proposals require a City referendum related to the park but avoid the need for a rezoning process. Unlike the RG proposal they do not raise issues regarding the status and alternative use of the existing arena as they add to the facility.

b) RG Properties Proposal

The Wembley Mall proposal would require that the existing arena be converted to an alternative use. The Board received an information report at its April 9, 2002 meeting on this matter. Subsequent discussions have been held with representatives of the Parksville Curling Club Society. A letter expressing their interest in the facilities is attached. It would appear that the potential exists by the group to take on the task of converting the existing arena to a curling facility. One arrangement could provide for the club to manage the building in partnership with other groups like indoor lacrosse. The financial projections outlined, which relate to the Wembley Mall proposal, have not added additional Regional District costs pertaining to the operation or upkeep of the existing arena. It has been anticipated that if it were to proceed, the potential would exist for the curling club group to look after the facility at no cost to the Regional District. Over time, agreements could provide for limited lease payments, as is provided for in the arrangements between the Qualicum Beach Curling Club and the Town of Qualicum Beach. Agreements would not extend for periods longer than five years. Under this approach the facility would serve to provide for an added recreational use and, if circumstances change in the future, the facility would still be available as an arena.

ALTERNATIVES

1. Enter into a Memorandum of Understanding with CAPE Development Corporation that provides for their design and building of a twinned arena facility, with leisure ice at the existing arena site for a price of \$6,153,000.

[EAs E, F, G, H, Parksville, Qualicum Beach – Weighted Vote]

It would also require that the following motions be endorsed:

- i) That the Board endorse proceeding to referendum on June 15, 2002 to obtain voter assent for the borrowing of \$6,153,000 for the project with the question:

(a) [To be finalized for the meeting.]

- (b) Are you in favour of Bylaw No. 1287, 2002, which if approved, would authorize the Regional District to enter into an agreement with the City of Parksville for the lease of land for thirty (30) years in the Parksville Community Park for the Arena project?

[All Directors – Weighted Vote]

- ii) That the Regional District of Nanaimo Arena Project Loan Bylaw Authorization No. _____, 2002 be introduced and given three readings and proceed to referendum to obtain voter assent.

[All Directors – Weighted Vote]

- iii) That C. Mason be appointed as Chief Elections Officer and M. Pearse as Deputy Elections Officer for the referendum.

[All Directors – One Vote]

2. Enter into a Memorandum of Understanding with RG Properties Ltd. for their construction of a twinned ice facility, with leisure ice at their Wembley Mall site, under the terms regarding Regional District operation and ownership, among other items, at a guaranteed price.

[EAs E, F, G, H, Parksville, Qualicum Beach – Weighted Vote]

It would also require that the following motions be endorsed:

- i) That the Board endorse proceeding to referendum on June 15, 2002 to obtain voter assent for the borrowing of \$_____ for the project with the question:

[To be finalized for the meeting and the signing of the Memorandum of Understanding by RG Properties Ltd.]

[All Directors – Weighted Vote]

- ii) That the Regional District of Nanaimo Arena Project Loan Authorization Bylaw No. _____, 2002” be introduced and given three readings and proceed to referendum to obtain voter assent.

[All Directors – Weighted Vote]

- iii) That C. Mason be appointed as Chief Elections Officer and M. Pearse as Deputy Elections Officer for the referendum.

[All Directors – One Vote]

3. Provide for the arena-twinning project at the existing arena site, as specified in January 2002 with cost reductions at a cost of \$6,260,000, to proceed. The project, were it to be advanced, envisioned Regional District retention of project/construction management services.

FINANCIAL IMPLICATIONS

1. CAPE's proposal to build the twinned ice sheet complex at a capital cost of \$6,153,000 with Regional District operation of the facility would require a projected additional tax requisition of \$609,710. It is derived from a \$525,760 annual debt service payment (25 years) and a projected \$83,950 net additional annual facility operating cost.

The annual borrowing cost for a \$6.153 million project translates to an estimated \$13.41 cost per \$100,000 of residential assessment values.

2. RG's proposal to build a twinned ice sheet facility at the Wembley Mall site has the following budget and tax requisition impacts. RDN annual borrowing costs for the facility are estimated to be \$693,836. The projected tax requisition to support the function would be \$1,209,736, which represents a \$762,786 increase from the 2002 budget. Annual borrowing costs for the project translate to an estimated \$17.69 cost per 100,000 of residential assessment values.
3. Estimated annual costs based on a \$6,260,000 twinned arena project with leisure ice are \$1,065,803, of which \$534,900 is annual debt retirement payments. This represents a \$618,853 tax requisition increase from the 2002 budget for the function. Annual borrowing costs for a \$6,260,000 project translate to an estimated \$13.64 cost per \$100,000 of residential assessment values.

INTERGOVERNMENTAL IMPLICATIONS

Alternatives 1 and 3 involve the construction of a twinned ice facility at the existing arena site in the Parksville Community Park. As additional land would be required to be leased from the City of Parksville and the lease terms would extend over thirty (30) years, a separate referendum on the lease would be required to be conducted by the municipality. It is necessitated by trust conditions that are specified on the park title. The City of Parksville has advised that they are prepared to conduct their referendum to obtain voter assent at the same time that the Regional District would hold a referendum on a twinning project.

The Wembley Mall facility proposal would not require a City referendum. RG Properties, however, under their proposal would be required to advance a rezoning application to the City and to successfully complete that process.

SUMMARY/CONCLUSION

Memorandums of Understanding have been developed with CAPE Development Corporation and RG Properties Ltd. The one with CAPE has been completed and executed by the company. The Agreement with RG is substantially complete and is scheduled to be executed by the company prior to the Board meeting. The terms of the MOU have been described in this report as they have been represented at this time. It is also noted that for both proposals as represented by Alternatives 1 and 2, specific wording for

the appropriate resolutions and the referendum question needs to be developed. They will be provided for the Board meeting.

The review and evaluation of the proposals has outlined a number of financial and other factors to assist in the consideration of next steps. A summary overview of the financial assessment is provided in the table and other factors in the evaluation process are outlined below.

PROJECT	CAPE	RG	TWINNED ARENA (SHADOW PROJECT)
CAPITAL COST	\$5,903,000	not finalized	\$6,260,000
BORROWING COSTS SPECIFIED FOR THE REFERENDUM QUESTIONS	\$6,153,000	not finalized	\$6,260,000
INCREASED TAX REQUISITION COSTS	\$609,710	(estimated) \$762,786	\$618,853
BORROWING COSTS EXPRESSED AS \$ PER \$100,000 ASSESSMENT VALUE	\$13.41	(estimated) \$17.69	\$13.64
ESTIMATED PRESENT VALUE (55 YEARS)	\$13,546,622	(estimated) \$12,363,554	\$13,682,018

Factors taken into account in the evaluation process included the need for a City referendum for a project in the community Park and the need for a rezoning approval to be ultimately obtained for a project at the Wembley Mall site. The desired project timeline for construction completion by the Fall of 2003 should not be affected as the City vote is scheduled to be held at the same time as the District referendum and a rezoning application can be advanced in a timely manner.

Other perspectives on the proposals would suggest that from a “value for money” assessment they are relatively equal. Each proposal offers different levels of certainty on key matters. The CAPE proposal and MOU specify a guaranteed price, but lack detail around design and performance specifications. Although the MOU refers to the Partnering Agreement and the process by which the Regional District would approve the final specifications, there is the potential for disagreement.

The RG proposal provides an entirely new facility but at a higher cost and without Regional District ownership of the site. The MOU sets out the parameters under which the project could be advanced to referendum. Given the nature of the proposal, it includes various items that require further work to be finalized in subsequent agreements. They involve agreements related to the creation and registration of the air space parcel for the facility and parking, management services for concession operations, advertising sales arrangements between the parties and trade show and concert promotion and bookings. Although the MOU outlines the business principles and terms for these matters, they have some significant financial and operating impacts that extend over a long term. As a result, the items as they are ultimately finalized will have a lasting role in the levels of successful business performance that are attained by the facility. Advancing the proposal to referendum, requires a level of confidence that uncertain and incomplete items, given their nature, at this stage of a proposal process will be successfully completed in a manner that does not negatively impact the favourable aspects of the project. A delay in the referendum date to the Fall would allow for additional time for further details on the RG proposal to be negotiated and finalized.

Based on the review of the proposals, staff offer that the Board may wish to consider advancing the arena twinning project as presented in January (Alternative 3) or providing direction for the further continuation

of negotiations with RG Properties Ltd. to allow for more complete information to be obtained. In particular, an approach to provide for Regional District acquisition of the arena parcel at an appropriate price is an item referenced in the MOU for an ultimate decision between the parties. With the arena twinning project, referendum plans could proceed on June 15, 2002 while the latter approach would shift a referendum on the Wembley Mall proposal to either mid-September or in November in conjunction with the local government elections. A projected facility completion and opening would also be extended beyond the Fall of 2003 to early in 2004.

With the information available at this time, staff are recommending that the twinning of the existing arena with a second ice sheet and a leisure ice sheet be advanced to referendum on June 15th through the motions outlined. It (Alternative 3) provides good financial value over the longer term, relative to the other proposals, and provides the most certainty around costs. The proposal addresses the provision of additional ice in District 69, with a facility that is controlled and owned by the Regional District.

RECOMMENDATIONS

1. That the Regional District, provide for the January 2002 arena twinning project at the existing arena site at a project cost of \$6,260,000 to proceed to referendum on June 15, 2002.

[EAs E, F, G, H, Parksville, Qualicum Beach – Weighted Vote]

2. That the Board endorse proceeding to referendum on June 15, 2002 to obtain voter assent for the following questions:

- (i) Are you in favour of “Regional District of Nanaimo District 69 Arena Twinning Project Loan Authorization Bylaw No. 1286, 2002”, which if approved, would authorize the borrowing of SIX MILLION TWO HUNDRED AND SIXTY THOUSAND DOLLARS (\$6,260,000) for the purpose of constructing a second ice sheet at the District 69 Arena located at Parksville Community Park?
- (ii) Are you in favour of the Regional District of Nanaimo entering into a Lease for a term of thirty (30) years at a rental of FIVE DOLLARS (\$5.00) per year for an area of approximately 20,100 m² within Parksville Community Park for the District 69 Ice Arena and accessory parking area as shown on the sketch attached to the Lease Agreement as Schedule ‘A’. The Lease will include the following obligations on the part of the Regional District of Nanaimo:

~~///~~ The payment of any taxes, rates, user fees and charges for public utilities and assessments resulting from the Regional District of Nanaimo’s occupation of the premises;

~~///~~ Indemnification of the City of Parksville from all liability arising from the Regional District of Nanaimo’s breach of any enactment, a defect in the premises, an injury to person or loss to property;

~~///~~ A requirement that the Regional District of Nanaimo take out and maintain public liability insurance for the term of the Lease;

~~///~~ A requirement that the Regional District of Nanaimo indemnify the City of Parksville for any liens filed against title to the land;

~~2~~ Maintenance of the premises to a reasonable standard.

[All Directors - One Vote]

3. That the “Regional District of Nanaimo District 69 Arena Twinning Project Loan Authorization Bylaw No. 1286, 2002” be introduced and given three readings and proceed to referendum to obtain voter assent.

[All Directors – Weighted Vote]

4. That the Lease Agreement between the Regional District of Nanaimo and the City of Parksville for the land located within the Parksville Community Park for the District 69 Arena and accessory parking be approved for a term of thirty (30) years, subject to the assent of electors.

[All Directors – Weighted Vote]

5. That C. Mason be appointed as Chief Elections Officer and M. Pearse as Deputy Elections Officer for the referendum.

[All Directors – One Vote]

Report Writer

CAO Concurrence

COMMENTS: