



# **Nanaimo Events Centre**

## ***Draft Business Plan***

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# LETTER FROM THE CHIEF FINANCIAL OFFICER

Wednesday, February 22, 2017

## **Mayor and Council**

City of Nanaimo

### **RE: NANAIMO EVENTS CENTRE DRAFT BUSINESS PLAN**

The business plan, which incorporates the project and operating plan, is now complete. This business plan is based on construction of a facility with between 5,200 - 7,000 fixed seats for sporting events, 7,100 - 8,300 seats for concerts and other general events at 1 Port Drive, a site that the City of Nanaimo owns. The site is part of the South Downtown Waterfront area. The facility is estimated to cost \$70 million split between \$58 million for hard construction costs and \$12 million for soft costs. The facility will include other ancillary space for retail, space for other recreation use and events. Off site costs for road access and sewer line relocation are estimated at \$10 million.

As part of the feasibility assessment completed in Phase 2 on the contemplated Nanaimo Events Centre project, Stafford Sports was retained to develop a business plan for the project. This business plan is subject to the four (4) guiding principles that Council set on December 19, 2016 regarding development and operation of the Nanaimo Events Centre:

1. Ensure the interests of Nanaimo citizens are protected.
2. The Events Centre is a community meeting place catering to all and promoting community wellness.
3. Funding for development and operations of the Events Centre come from a mix of public, private and other sources; and
4. The Events Centre is complementary to existing facilities and is a catalyst for downtown revitalization.

A number of studies were completed as part of Phase 2 that have informed the project costs and financing plan. These reports include;

1. Transportation Feasibility Study – Bunt & Associates
2. Sanitary Sewer and Road Design – Urban Systems
3. Geotechnical and Environmental Assessment – Tetra Tech EBA Inc.

4. Public Engagement Report – Calder Bateman Communications
5. Order of Magnitude Estimate # 1 – BTY [confidential]

Non-confidential reports are publicly available at [nanaimo.ca/eventscentre](http://nanaimo.ca/eventscentre).

At Council's discretion, Staff engaged Ernst & Young Orenda Corporate Finance Inc., (EY) to undertake a review of the plan provided by Stafford Sports. This third party assessment of the plan's viability was requested to ensure the highest level of accountability regarding costs and revenue projections.

The plan developed by Stafford Sports did not consider project financing as at the time the City had not decided on a project financing model. In early January 2017, Council approved Staff's recommended project financing plan. EY has review both the operating plan, developed by Stafford Sports, and the project financing plan developed by Staff.

The business plan developed by Stafford Sports contains commercially confidential information that will assist the City in negotiating several agreements. Such negotiations are underway and will continue. Staff is releasing this business plan, albeit at a high level, with enough disclosure not to compromise the City's negotiating position and to provide residents of the City of Nanaimo with enough relevant information as they consider financial implications of this community investment.

As various negotiations progress, Staff and EY will continue to refine and update this business plan. As part of risk management, Staff will continue to monitor the various assumptions and will advise Council promptly of changes that would significantly impact financial and operational outcomes.

Submitted By,



Victor Mema, MPA, CPA, CMA, CTP  
**CHIEF FINANCIAL OFFICER**  
City of Nanaimo

cc Tracy Samra, Chief Administrative Officer – City of Nanaimo  
Andre Koncewicz, Vice President – Infrastructure Advisory – EY  
Brad MacLellan, Weirfoulds LLP

# EXECUTIVE SUMMARY

In early 2016, City of Nanaimo Council approved a Strategic Plan Update for the period 2016 – 2019. The strategic plan update is predicated on five (5) values; **economic health, environmental responsibility, social equity, cultural vitality and healthy lifestyle.**

Working from these values, Council identified five (5) priorities for the updated strategic plan:

- a. Phased development of South Downtown Waterfront;**
- b. Recreation, culture, sports and tourism;**
- c. Public safety;**
- d. Governance renewal; and**
- e. Community wellness.**

The 2016 – 2019 Strategic Plan Update outlines five (5) projects;

1. 1 Port Drive/South Downtown Waterfront
2. Beban Park Facilities Re-Development/Master Plan
- 3. Sports and Entertainment Centre**
4. Waterfront Walkway
5. Georgia Avenue Pedestrian/Cycle Bridge

The proposed Events Centre is in direct response to the Sport and Entertainment Centre and the 1 Port Drive/South Downtown Waterfront project priorities. This business plan is based on construction of an Event Centre facility at 1 Port Drive in downtown Nanaimo. This facility will provide 5,200 – 5,700 seats for hockey, 7,100 – 8,300 for concerts and other events, retail space (200 seat restaurant, other food/beverage/merchandise space), multi-purpose rooms, climate controlled walking and, space for arts and culture displays and activities.

The total estimated cost including construction, fixtures, fittings and equipment is \$70 million. Additional off site work at an estimated cost of \$10 million is required to provide road access, relocate the sewer line for the South Downtown Waterfront area in general and realign Front Street.

It is projected that construction of the Event Centre will generate a \$59.0 M economic boost for Nanaimo while operations will generate an additional \$6.2 M annual in economic activity in Nanaimo.

At the completion of construction, economic activity due to increased tourism visitation is estimated to be \$4.0 M annually.

In October 2016 Council initiated feasibility assessments for the Events Centre. In Phase 1 an Events Centre Study examined Concept Assessment. The Phase 2 Event Centre Study included a Business Case assessment. A business plan was developed by Stafford Sports as part of Phase 2. Ernst & Young Orenda Corporate Finance Inc. conducted a review of both plans and provided financial advice.

Undertaking this community facility will require a total investment of \$80 million. City Staff have developed a funding model for both construction and operations that will not require an increase in property taxes. The City will borrow up to \$80 million over a term of 20 years at an estimated interest rate of 3% per year.

The Provincial Government has provided approval of the Events Centre Debt Financing Plan.

Debt service in the amount of \$5.4 million per annum will come from existing funding sources:

Strategic Infrastructure Reserve	\$2.4 million
General Revenue	\$1.6 million
Hotel Tax	\$0.2 million
Payments in Lieu of Taxes	\$0.4 million
Community Works Fund	\$0.7 million

Through work undertaken by EY and City Staff, all financial scenarios provide a positive Net Operating Income (NOI) from year one except the Conservative Case. The Conservative Case provides a positive NOI in year three (3), but would require an operating subsidy of \$0.2 million for years one (1) and two (2).

Based on the assessments, City Staff developed a financial risk mitigation strategy that will provide an internally generated revenue stabilization fund. This reserve will be funded through a ticket surcharge, a practice used at similar facilities. The revenue stabilization fund will be in addition to an annual contribution of about \$.4 million already provided from operations for asset management and major facility repairs or upgrades.

# NANAIMO EVENTS CENTRE PROJECT

## WHY AN EVENTS CENTRE?

The Events Centre will play a key role in the City's downtown, the region and the local economy. It will be means of meeting the objectives of local business, sports and cultural stakeholders well into the future. The Event Centre will:

- Enhance Nanaimo's role as a cultural, recreation and sports hub of mid/north Vancouver Island;
- Stimulate economic development, recreation and tourism in the City and region;
- Be a catalyst for revitalization of Nanaimo's waterfront and downtown business district;
- Enhance Nanaimo's quality of life by providing more opportunities for culture, sports and active lifestyles;
- Attract business investment, jobs and innovation within the community and region; and
- Strengthen cultural, social networks and partnerships with First Nations and local community groups.
- Enhance ability for the City and Region to host larger events complimenting the Vancouver Island Convention Centre and the Port Theater.
- Meet the unmet demand for an extra 1,500 ice-time hours for members of the community.

## PROJECT DESCRIPTION

City of Nanaimo (the City) Council identified the Events Centre as one of their priority projects in the 2016-2019 Strategic Plan Update in the summer of 2016. In Spring 2016 the Western Hockey League (WHL) approached the City of Nanaimo to consider hosting a WHL team. Council then directed staff to undertake a concept and feasibility assessment, engage the public, and undertake due diligence including a Business Case and develop a Finance Plan.

Citizens and stakeholders have indicated a desire for a multiuse facility where sports, concerts, arts and culture events can be held. The proposed Events Centre would include the following:

- 5,200 – 5,700 fixed seats for sports events
- 7,100 – 8,200 seats for concerts and other events
- Retail space including a 200 seat restaurant
- Multipurpose rooms
- Indoor walking trail
- An outdoor plaza



## PROJECT LOCATION

The City assessed five (5) sites. The list of sites narrowed to two (2) sites within the downtown area. Council chose to locate the Events Centre within the 1 Port Drive lands in the South Downtown area. The City of Nanaimo owns the land and retained a number of experts to undertake specific review work on the site.

### Geotechnical and Environmental Assessment

The City retained Tetra Tech to undertake a geotechnical and environmental assessment. In summary, Tetra Tech<sup>1</sup> recommended the following actions should the City decide to proceed developing the portion of the 1 Port Drive lands for the Events Centre:

1. Cone Penetration Testing, which will help determine the risk of liquefaction and potential failure occurring at this site;
2. Additional bedrock coring; and
3. Investigation of the potential sinkhole area from the unmapped mine shaft.

This review also flagged design and engineering considerations that have been taken into account and inform site preparation and construction. The report notes that prior studies indicate presence of soils that will require proper management. Remediation costs including permits and consulting have been estimated to range between \$300,000 and \$575,000. **These costs have been provided for in the project costing.**

### Access and Utilities – Off Site Assessment

Urban Systems<sup>2</sup> was retained to undertake preliminary design and evaluation of the following:

1. Road improvements on Front Street;
2. Relocation of the Regional District of Nanaimo Truck Sanitary Sewer; and
3. Relocation of the Storm Sewer.

Costing of preliminary designs for the above has estimated construction costs of \$10.0 million. This work will serve the 1 Port Drive lands in general regardless of specific developments on these lands. **\$10.0 million in offsite costs has been included in the preliminary project costs.**

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<sup>1</sup> Preliminary Geotechnical and Environmental Assessment of potential Event Centre development site – 1 Port Drive Report by Tetra Tech, Nanaimo Events Centre, Phase 2 Feasibility Assessment, Appendices, TAB B

<sup>2</sup> Nanaimo Multiplex – Front Street Roads and Utility Evaluation Report by Urban Systems, Nanaimo Events Centre, Phase 2 Study, Appendices, TAB C.

## Transportation and Parking

Bunt & Associates<sup>3</sup> undertook a review of transportation and parking in relation to the location of an Events Centre on the 1 Port Drive lands.

The study was guided by transportation and parking demands arising from the following programming:

- Maximum capacity for up to 8,300 patrons (potentially a few occasions per year);
- Design Land Conditions of 6,400 patrons;
- Large Event Typical Attendance 5,000 patrons; and
- Valet operated, event parking for up to 100 vehicles.

### Travel Demand Forecasts

Event attendance assumptions informed design attendance as outlined in the table below:

EVENT TYPE	DESIGN ATTENDANCE	EVENTS PER YEAR	COMMENTS
<b>Design Load</b>	6,400	7 to 8	Concerts, family shows etc.
<b>Major Events</b>	4,000 to 6,400	50 to 70	WHL Hockey Games etc.
<b>Mid-Size Events</b>	2,500 to 4,000	25 to 30	Other concerts, sport events etc.
<b>Small Events</b>	500 to 2,500	25 to 30	Conferences, Trade Shows etc.

Source: Bunt & Associates, December 14, 2016, Transportation Feasibility Study

### Travel Mode

Travel mode assumptions assumed for the Events Centre included type of event and availability of parking.

The following table summarizes travel mode splits.

EVENT TYPE	PRIVATE AUTOMOBILES	TRANSIT/CHARTER BUS/TAXI/DROP OFF, WALK
<b>Design Load</b>	80%	20%
<b>Major Events</b>	80%	20%
<b>Mid-Size Events</b>	85%	15%
<b>Small Events</b>	90%	10%

Source: Bunt & Associates, December 14, 2016, Transportation Feasibility Study

<sup>3</sup> Transportation Feasibility Study, Nanaimo Event Centre, 1 Port Drive, BC by Bunt & Associates, December 14, 2016, Nanaimo Events Centre, Phase 2 Feasibility Assessment, Appendices, TAB D.

### Parking Demand Estimates

Auto occupancy of 2.7 was applied to the Design Load event attendance in order to arrive at estimated parking demand estimates.

EVENT TYPE	ASSUMED PATRON ATTENDANCE	MODE SPLIT TO AUTO	PATRONS ARRIVING BY PRIVATE AUTO	ASSUMED AUTO OCCUPANCY	PROJECTED PARKING DEMAND
<b>Design Load</b>	6,400	80%	5,120	2.7	1,900
<b>Major Events</b>	5,000	80%	4,000	2.5	1,600
<b>Mid-Size Events</b>	3,250	85%	2,750	2.0	1,375
<b>Small Events</b>	1,500	90%	1,350	1.8	750

Source: Bunt & Associates, December 14, 2016, Transportation Feasibility Study

Bunt & Associates conducted a number of parking surveys. Results from these surveys are summarized as follows:

WALKING DISTANCE	NUMBER OF PARKING SPACES	TYPE OF PARKING SPACE
<b>2 to 4 minutes</b>	800	Mall Parking*
<b>5 to 6 minutes</b>	708	Off-Street
<b>8 to 10 minutes</b>	472	Off-Street
<b>10 minutes</b>	770	On-Street - Regulated
<b>10 minutes</b>	590	On-Street - Unregulated

\* The City has not held discussions with private owners of the mall parking. Survey indicates that some of the parking could be commercialized and available with some management consideration.

Bunt & Associates concluded that available parking would accommodate 97% of parking requirements for Major Events and 80% required parking for Design Load and recommended that for Major and Design Load events a Special Event Parking and Traffic Management Plan be required of organizers.

Design has provided 100 parking spaces around the Events Centre grounds. These will provide accessible parking and general parking for mid-size events.

# PROJECT CAPITAL COSTS AND FINANCING MODEL

## CAPITAL PROJECT COSTS

BTY Group (BTY)<sup>4</sup>, a professional cost estimator, was retained as part of the feasibility assessment to provide on site and construction cost estimates. BTY provided Class D cost estimates. The report remains confidential. Project costs are a combination of on site, construction and off site costs. BTY provided on site and design and construction cost estimates while Urban System provided off site costs estimates (e.g. sewer, roads).

While related costs details remain confidential, for planning purposes and public discourse the following cost summaries have been put together.

<b>COST DESCRIPTION</b>	<b>AMOUNT (\$)</b>
<b>On Site Costs:</b>	
<b>Design and Construction Costs</b>	69,800,000
<b>Off Site Costs:</b>	9,890,000
<b>Total Costs</b>	<b>79,690,000</b>

For planning purposes the estimated total project costs have been set at \$80.0 million.

## CAPITAL PROJECT COST FINANCING MODEL

On January 25, 2017 City Council approved the following capital project cost Financing Plan:

### *Resolution:*

It was moved and seconded that Council approves Events Centre and South Downtown Waterfront utilities projects development, construction and operating financing framework as follows:

1. Financing Development and Construction of the Events Centre through an \$80.0 million borrowing with debt service of \$5.4 million funded from current revenue sources as set out on the following page:

<sup>4</sup> Order of Magnitude Estimate #1, By BTY Group, Nanaimo Events Centre, December 19, 2016. [CONFIDENTIAL]

**Annual Debt Service****\$5,377,260****Funding Sources:**

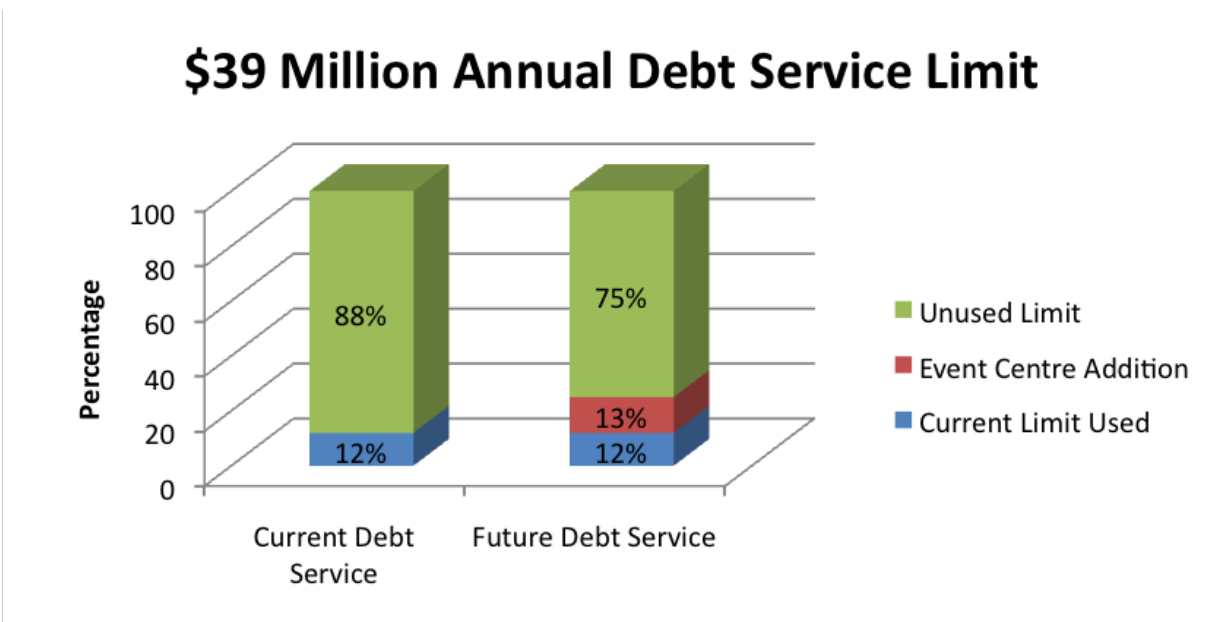
		<b>Type:</b>	<b>%</b>
Property tax increment financing - TBD		Property Tax	-
Hotel Tax at 1%	(240,000)	Consumption Tax	4
Strategic Infrastructure Reserve Fund (SIRF)	(2,465,100)	Reserve*	46
Current Property Taxes	(1,600,000)	Property Tax**	30
Payments in Lieu of Taxes	(400,000)	Property Tax	7
Community Works Fund	(672,160)	Grant***	13
<b>Net</b>			<b>100</b>

- \* Staff is recommending that Council considers adopting a property tax increment financing strategy (TIF) whereby the City designate a portion of future incremental property tax from non-market assessment growth in the Nanaimo downtown boundaries towards debt service for the Events Centre. This strategy will allow the City to replenish the Strategic Infrastructure Reserve for future priorities. Further details on this financing strategy will be brought to a future Finance and Audit Committee for consideration. The Strategic Infrastructure Reserve is funded at \$3,000,000 per year from gaming revenue and Fortis BC agreement proceeds. Only gaming revenue contribution will be utilized for the Events Centre.
- \*\* Currently, the City collects \$7,000,000 through property taxes for general capital projects. The intent is to utilize up to \$2,000,000 of these funds going forward. In order to maintain projects already in the financial plan, the Community Works Funds will be utilized to replace the redirected \$2,000,000. No projects will be de-funded and the City will continue to be able to respond to emerging issues in the future.
- \*\*\* Community Works Fund will be utilized for utility amenities required for the redevelopment of the South Downtown Waterfront Area. These include storm and sewer lines, Front Street realignment and an access road. The Community Works Fund has a current balance of \$7,000,000 unallocated. The City receives about \$3.4 million annually as gas tax grant transfers.

## CITY OF NANAIMO BORROWING CAPACITY

The City's borrowing is guided by the BC Community Charter<sup>5</sup>, specifically Division 3, Sections 173 – 182. The BC Governor has also issued a supporting regulation, Community Charter, Municipal Liabilities Regulation, B.C. Reg. 254/2004<sup>6</sup> which set liability limits. Further, all municipalities in BC except the City of Vancouver are required to borrow from the Municipal Finance Authority B.C.

The City of Nanaimo's current liability servicing limit as set by B.C. Reg. 254/2004 is \$39 million per year. The City currently utilizes 12% of this limit. Assuming the additional \$5.4 million debt service for the Events Centre will add an additional 13% bringing the utilization to a total of 25%. This would leave the City with 75% or \$29 million in unused annual debt service limit.



<sup>5</sup> BC Community Charter: [http://www.bclaws.ca/civix/document/id/complete/statreg/03026\\_00](http://www.bclaws.ca/civix/document/id/complete/statreg/03026_00)

<sup>6</sup> Community Charter, Municipal Liabilities Regulation, B.C. Reg. 254/2004:

[http://www.bclaws.ca/civix/document/id/complete/statreg/254\\_2004](http://www.bclaws.ca/civix/document/id/complete/statreg/254_2004)

# OPERATING MODELS AND PROJECTED OPERATING RESULTS

## MANAGEMENT OPERATING MODEL

Generally, there are three (3) management operating models used in the industry;

1. Private Management Firm
2. Arms Length Society
3. City Managed

Each of these models has advantages and disadvantages. 'Private Management Firm' management operating model has been identified as one that would be a best fit and provide the City with necessary capacity for effective management. Some of the advantages are:

1. Private Management Firms that provide event management services have developed the required infrastructure relating to;
  - a. Venue Management
  - b. Ticketing
  - c. Fan Engagement
  - d. Food and Hospitality Services
2. Access and relationships with event promoters.

## MAJOR TENANT(S)

Phase 2 feasibility study identified that the City will need a major sporting tenant. At this point, a WHL team is under consideration. The City has set as one condition for a WHL team tenant a requirement for a long term lease that at least covers the borrowing term of 20 years.

Other tenants, such as retail space operators will be engaged in due course.

## PROJECTED OPERATING RESULTS

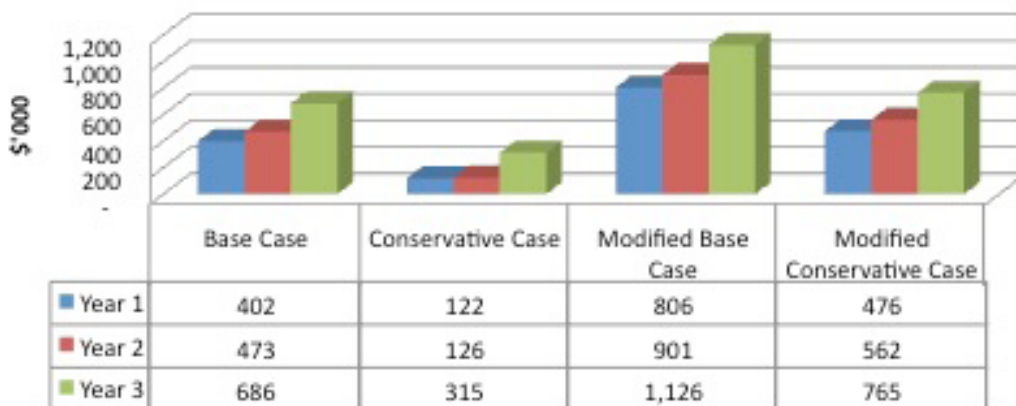
Based on work completed by Stafford Sports, EY and City staff a range of operating result scenarios has been developed and based on major project operations and financing of similar events centres.

Four (4) scenarios have been developed:

1. **Base Case:** Based on work completed by Stafford Sports.
2. **Conservative Case:** Based on work completed by EY through a stress testing model of the Base Case.
3. **Modified Base Case:** Based on an overlay of a ticket surcharge model at the recommendation of City Staff to ensure Event Centre operations are self sustaining.
4. **Modified Conservative Case:** Based on an overlay of a ticket surcharge model at the recommendation of City Staff to ensure Event Centre operations are self sustaining.

The Base Case developed by Stafford Sports incorporated a Capital Reserve Fund contribution based on project capital or construction cost. The 'modified' scenarios provide an additional Revenue Stabilization Reserve.

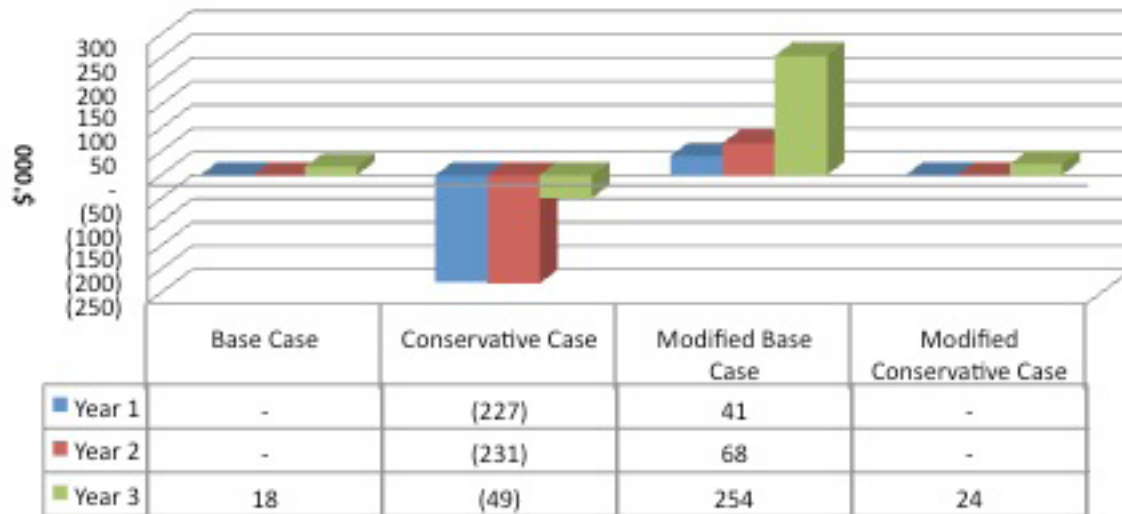
**Nanaimo Events Centre**  
**Projected NOI Before Transfers to Reserves and**  
**Debt Service**  
**\$'000**



All scenarios show Net Operating Income (NOI) before transfers to reserves and debt service. This indicates that operations are generating enough funds to cover day to day operations of the centre.



## Nanaimo Events Centre Projected NOI After Transfers to Reserves and Debt Service \$'000



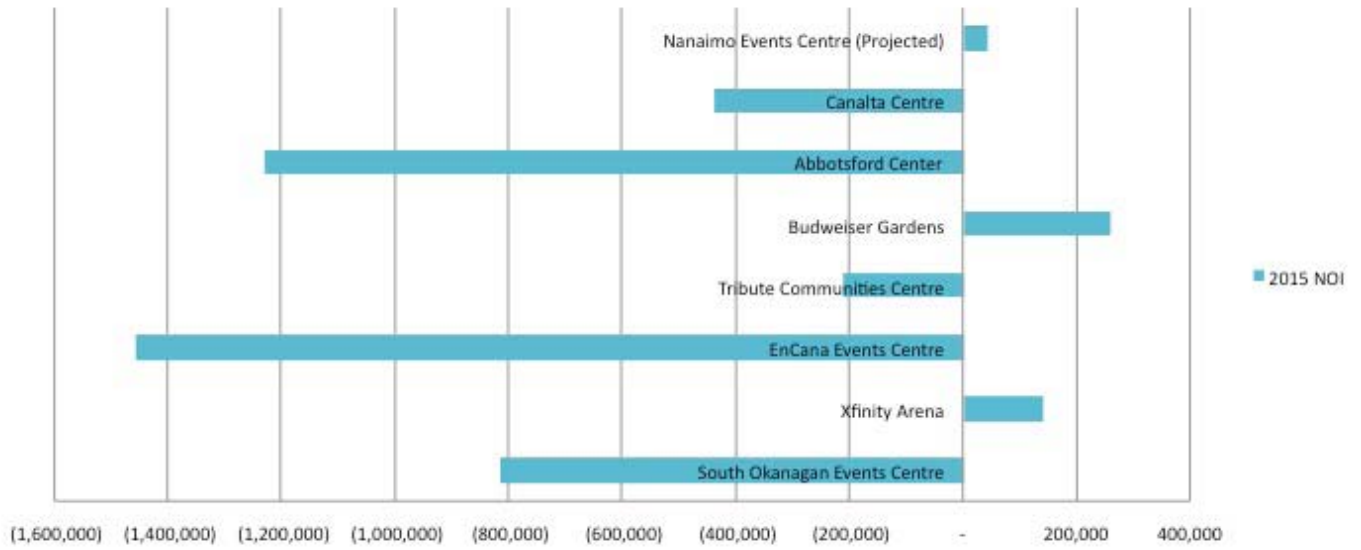
NOI after transfers to reserves and debt service show mixed results and indicate the Conservative Case has a negative net income of \$231 thousand in each of the first two years of operations. This range of outcomes is key to planning. Tactical options have been considered that include shared services to lower personnel costs. This and other related cost containment parameters will be subject of plans between the City and the facility management firm. At this point, none of the scenarios rely on property tax increases or a reduction on City services or projects as options.

### FACILITY NET OPERATING INCOME (NOI) COMPARISON

A comparison has been done with a few comparable facilities to the proposed Nanaimo Events Centre operating results. Results are based on 2015 for other facilities and for the proposed Nanaimo Events Centre the Modified Base Case scenario is used.

It is important to note that facility comparisons need context relative to underlying operating models, contracts, population catchment areas, programming, general economy and general management practices. The general results of the comparison are summarized on the following chart:

## 2015 Net Operating Income (NOI) For Comparative Facilities

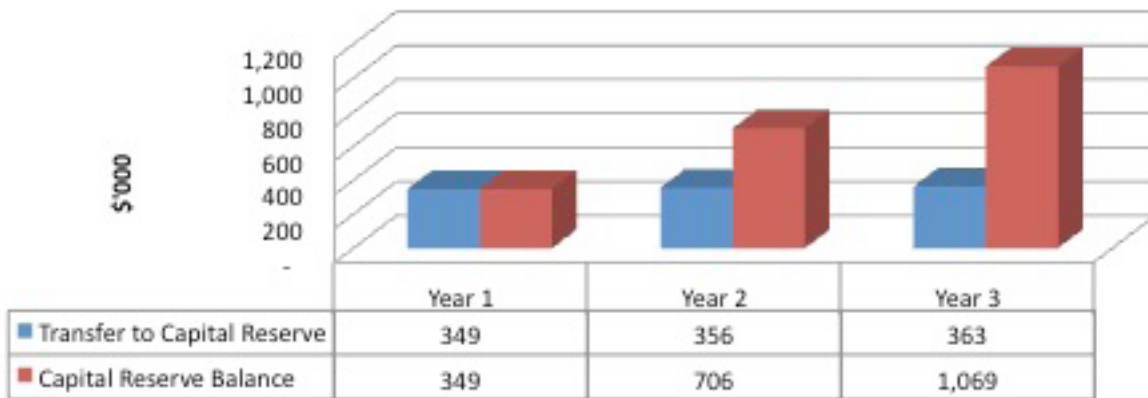


These comparisons have provided a number of considerations in terms of operating model, contracts, programming and general facility management.

## FACILITY RESERVE FUND

Industry standard is to provide a capital reserve funding equivalent to at least 0.5% of construction costs. The funding model for this reserve is the same for all scenarios resulting in the following outcome.

**Nanaimo Events Centre  
Projected Capital Reserve Fund Transfers and Balance  
\$'000**

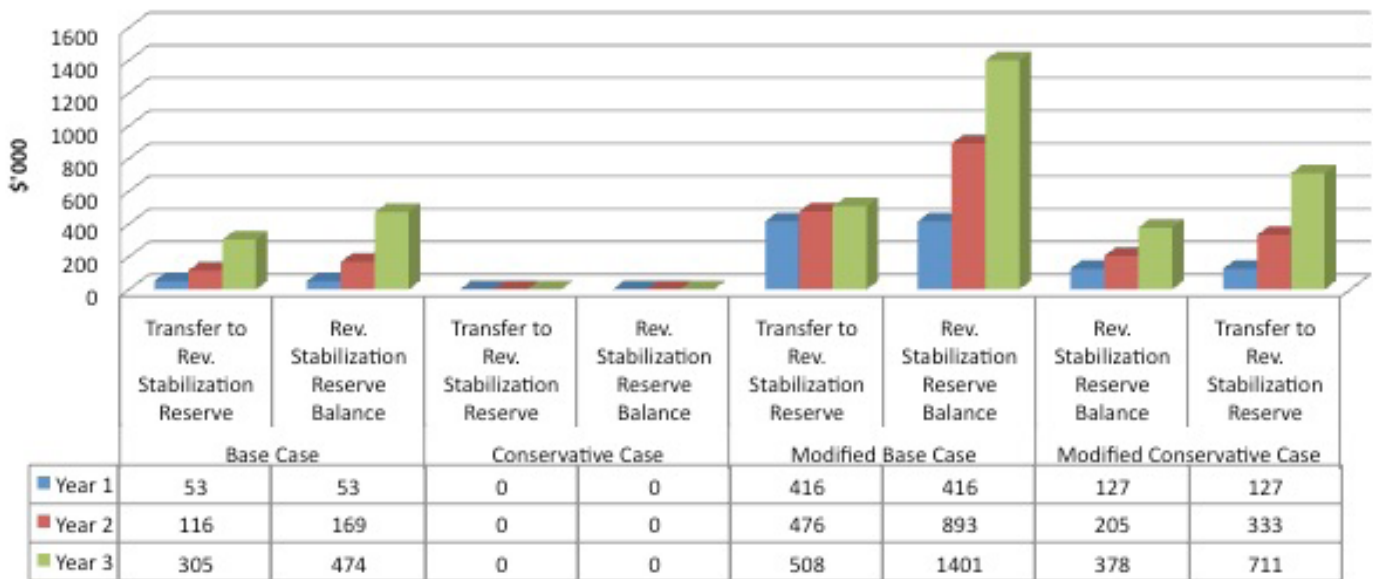


These funds will be used for major capital works and upgrades that may be required as part of an asset management strategy for the facility. This funding does not include routine maintenance costs that are covered as an annual operating expense.

## REVENUE STABILIZATION FUND

One of the strategies to ensure that the facility is able weather fluctuations in activities between years without relying on the City is establishing a revenue stabilization fund. This will be funded through a ticket surcharge of 9.5% on a sliding scale based on ticket prices. Lower priced tickets will attract the standard surcharges to minimize impact on ticket affordability and uptake.

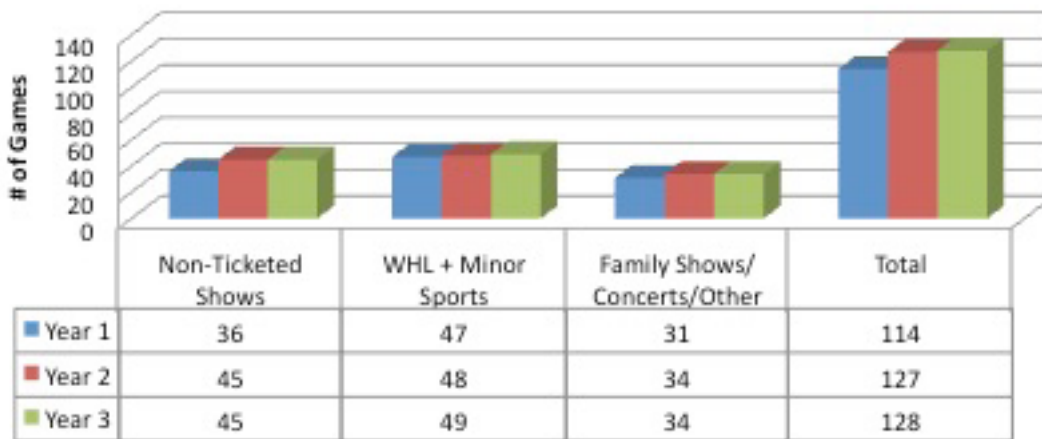
**Nanaimo Events Centre  
Projected Revenue Stabilization Reserve Fund  
\$'000**



## FACILITY PROJECTED EVENTS

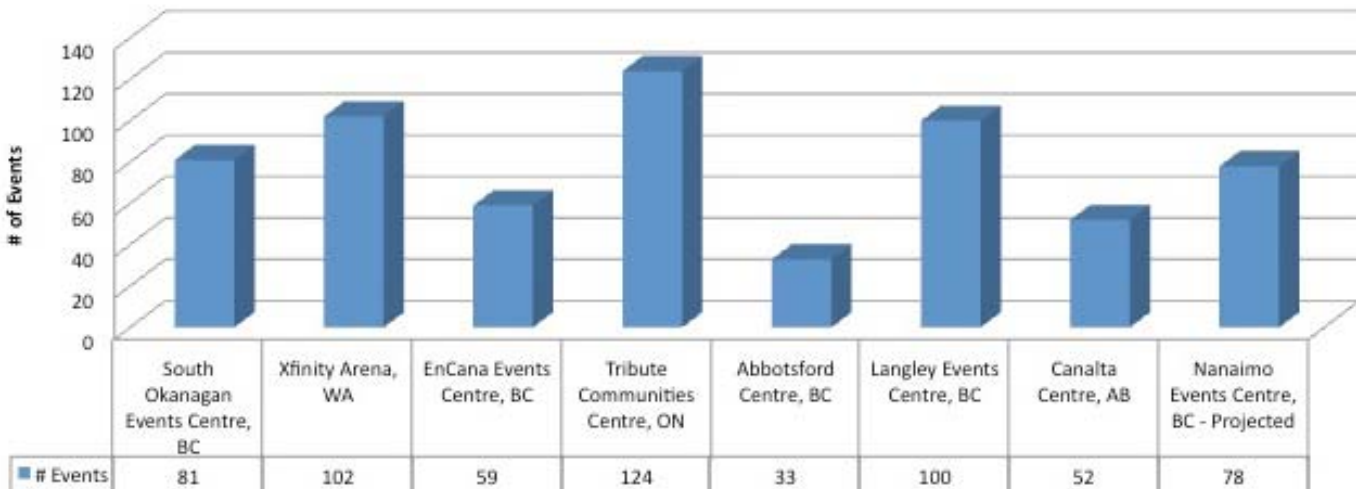
One of the critical aspects of operating an events centre is that adequate events are held attracting enough patronage. Projected events for the facility are:

### Nanaimo Events Centre Projected Number of Events



Through research and review of comparative facilities the following chart shows a comparison on ticketed events.

### Comparative Events Centre Ticketed Events



Results in the above chart relate to 2015 event counts and a projection for the City of Nanaimo facility provided by Stafford Sports. Review completed by EY established that the range of events is between 80 – 130 events per year as confirmed by industry participants.

# PROCUREMENT MODEL

The City has considered a number of project procurement models. Colliers Project Leaders, the City's project manager has provided City Staff with options and considerations on procurement models. The report is under consideration. Five (5) models have been presented:

1. Tradition (Design-Bid-Build)
2. Construction Management for Services (CM as agent)
3. Construction Management for Services and Construction (CM at Risk)
4. Design-Build (DB)
5. Public Private Partnership (P3) – Design-Build-Operate-Maintain (DBOM)

The options have been assessed with respect to risk associated with the project schedule, cost and quality. City Staff will select the appropriate model based several criteria, including but not limited to:

- Achievement of best value for the City and citizens of Nanaimo;
- Transfer of risk for costs of design and construction;
- Transfer of risk to meet a scheduled completion by September 2019;
- Local and regional construction market conditions; and
- Design options, flexibility and innovation.

Finalization of the procurement model will be made by City Staff prior to the end of March 2017.

# ECONOMIC IMPACT

MNP<sup>7</sup> undertook an economic impact study of the proposed Events Study as part of Phase 2 Feasibility Assessment. MNP's work brief covered:

- Estimates of economic impacts of the construction and operation of an Event Centre in Nanaimo using an input-output model.
- A description of potential economic benefits that may be associated with visitors that come to Nanaimo to attend events at the Event Centre.
- A description of the potential economic and community benefits of a Western Hockey League ("WHL") team being based out of the Event Centre.

## ESTIMATED ECONOMIC IMPACTS OF DEVELOPMENT OF THE FACILITY

Construction of the Events Centre is projected to yield economic impacts relative to purchase of materials and construction labor secured locally when practical. The following table summarizes economic impacts projected at the construction stage (\$ in millions):

	<b>OUTPUT</b>	<b>GDP</b>	<b>FTEs</b>	<b>FEDERAL TAXES</b>	<b>PROVINCIAL TAXES</b>	<b>MUNICIPAL TAXES</b>
<b>Direct</b>	\$69.00	\$28.96	384	\$3.67	\$2.13	\$0.00
<b>Indirect &amp; Induced</b>	\$51.39	\$30.36	321	\$3.75	\$2.72	\$0.86
<b>Total</b>	\$120.39	\$59.32	705	\$7.42	\$4.85	\$0.86

Source: MNP, December 2016, Economic Impact of a Proposed Nanaimo Event Centre

<sup>7</sup> Economic Impact of a Proposed Nanaimo Events Centre Report by MNP, Nanaimo Events Centre Study – Phase 2, December 2016.

## ESTIMATED ECONOMIC IMPACTS OF OPERATIONS

Beyond construction, it is expected that the proposed Events Centre will provide ongoing economic impacts. Annual operating expenditures including 20 full-time positions and 133 part-time positions at this facility are projected to generate the following economic impacts<sup>8</sup>:

- \$7.12 million in economic output in BC.
- \$4.19 million in GDP in BC.
- \$0.91 million in revenue for all three levels of government.
- 45 FTEs of direct employment and 66 FTEs of total employment.

The above economic impacts will largely be within the local economy. The following table summarizes the estimated annual economic impacts of operating the Events Centre (\$ in millions).

	OUTPUT	GDP	FTEs	FEDERAL TAXES	PROVINCIAL TAXES	MUNICIPAL TAXES
<b>Direct</b>	\$3.86	\$2.16	45	\$0.26	\$0.14	\$0.00
<b>Indirect &amp; Induced</b>	\$3.26	\$2.03	21	\$0.25	\$0.19	\$0.07
<b>Total</b>	\$7.12	\$4.19	66	\$0.51	\$0.33	\$0.07

Source: MNP, December 2016, Economic Impact of a Proposed Event Centre

## ESTIMATED ECONOMIC IMPACT OF VISITORS (OUT-OF-TOWN) PATRONS OF THE PROPOSED EVENTS CENTRE

Out-of-town visitors provide incremental spending in the local economy on such items as food and accommodation.

The economic impact is summarized as follows (\$ in millions):

	OUTPUT	GDP	FTEs	FEDERAL TAXES	PROVINCIAL TAXES	MUNICIPAL TAXES
<b>Direct</b>	\$0.15	\$0.09	1.5	\$0.010	\$0.008	\$0.002
<b>Indirect &amp; Induced</b>	\$0.10	\$0.06	0.6	\$0.007	\$0.006	\$0.002
<b>Total</b>	\$0.25	\$0.15	2.1	\$0.017	\$0.014	\$0.004

Source: MNP, December 2016, Economic Impact of a Proposed Event Centre

<sup>8</sup> Economic Impact of a Proposed Nanaimo Events Centre Report by MNP; Page # 9, December 2016.



## ESTIMATED ECONOMIC IMPACT OF A WHL TEAM

WHL teams provide both economic and social benefits in the following areas to local or host communities:

- General operational spending;
- Visiting teams and patrons;
- Community and Charitable initiatives; and
- Volunteerism.

In general it has been established that a WHL operations budget averages \$3 million a year. This spending includes; salaries for staff, team/player costs, facility rental, marketing/advertising and travel. The following table outlines the estimated economic impact of a WHL team to a host community. (\$ in millions)

	OUTPUT	GDP	FTEs	FEDERAL TAXES	PROVINCIAL TAXES	MUNICIPAL TAXES
<b>Direct</b>	\$1.71	\$0.97	30	\$0.117	\$0.051	\$0.00
<b>Indirect &amp; Induced</b>	\$1.34	\$0.83	8	\$0.103	\$0.080	\$0.029
<b>Total</b>	\$3.05	\$1.80	38	\$0.220	\$0.131	\$0.029

Source: MNP, December 2016, Economic Impact of a Proposed Event Centre

Visiting teams also provide economic impacts in spending when they come through the community to play the local team. Estimated annual economic impacts of spending by visiting teams are summarized as follows (\$ in millions):

	OUTPUT	GDP	FTEs	FEDERAL TAXES	PROVINCIAL TAXES	MUNICIPAL TAXES
<b>Direct</b>	\$0.21	\$0.12	2	\$0.015	\$0.011	\$0.004
<b>Indirect &amp; Induced</b>	\$0.15	\$0.09	1	\$0.009	\$0.009	\$0.003
<b>Total</b>	\$0.36	\$0.21	3	\$0.026	\$0.020	\$0.007

Source: MNP, December 2016, Economic Impact of a Proposed Event Centre

# RISK ASSESSMENT AND MANAGEMENT

City Staff have consulted with EY and Colliers Project Leaders and conducted a risk identification and assessment. The identified risks are based on comparable events centre projects, operations and market and industry participants. Documented risks follow municipal and the Province of BC Capital Asset Management Framework. A formal Risk Register (confidential) has been developed and will form the basis, if the project proceeds, for development of a risk management plan with accompanying mitigation management strategies with designated owners. The probability and impact of each risk was thoroughly evaluated and a planned risk response developed. A Risk Management approach requires the City Staff to execute ongoing monitoring, control and evaluation during project implementation in order to ensure the successful delivery of the new Events Centre. The key risk events and corresponding planned risk responses relative to this Business Plan are summarized below:

RISK EVENT		PLANNED RISK RESPONSE
1	<b>Net Operating Income is lower than estimated</b>	Apply ticket surcharges on a sliding scale. Access Revenue Stabilization Fund to address any short-falls.  Enhance marketing and sales strategies to increase number of ticketed events per year.  Establish Operations, Maintenance and Management Agreement that includes shared risk in achieving operating income targets.
2	<b>WHL Facility Licence and Lease Agreement not secured</b>	Obtain agreement by April 15, 2017 prior to significant expenditure and progress is made on design. Integrate contingency clauses in design and construction contracts.
3	<b>Project completion by September 2019</b>	Select the appropriate procurement model that transfers risk of schedule risk to the design and construction contractors and consultants.
4	<b>Unforeseen site contamination and site conditions</b>	Implement recommended soil testing and geo-technical surveying, bedrock coring and potential sinkhole identification.
5	<b>Construction costs exceed budget</b>	Select the appropriate procurement model that transfers risk of construction cost to design and construction contractors and consultants.

6	<b>Scope and program creep</b>	<p>Proactively manage scope creep, program change and change orders by utilizing a Scope Ladder that keeps project team and City accountable to budget and schedule constraints.</p> <p>Establish controlled change order process and project governance model to reduce unnecessary, non-critical changes.</p>
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As the Events Centre project is initiated, the City Staff and its Project Manager will apply the Risk Register, Scope Ladder and its existing risk management processes based on the Project Management Institute’s Project Management Body of Knowledge (PMI-PMBOK) to manage risk throughout the lifecycle of the project.

# CONCLUSION

The following outline summarizes the business plan for the proposed Events Centre:

1. The proposed Events Centre is 1 of 5 projects approved as priorities in the 2016-2019 Strategic Plan Update approved by City Council in the summary of 2016.
2. The City of Nanaimo has an opportunity to host a WHL team beginning the 2017/2018 season using the Frank Crane Arena with a plan that the team would move in to a new facility for the 2019/2020 season.
3. The City has established that a multi-purpose facility that will provide the following:
  - a. 5,200 – 5,700 seats for sporting events
  - b. 7,100 – 8,300 seats for family shows, concerts, and other community gatherings
  - c. Retail space including a 200 seat restaurant
  - d. Multipurpose rooms
  - e. Indoor walking trail
  - f. An outdoor plaza
4. Construction of the proposed Events Centre will cost \$80 million:
  - a. \$70 million for onsite and construction costs
  - b. \$10 million for offsite and services costs for 1PDL in general
5. Construction cost of \$80 million will be paid for through borrowing under the following terms:
  - a. 20 years
  - b. At 3% interest per annum
  - c. Annual debt service is estimated at \$5.4 million
6. The City will pay the annual debt service of \$5.4 million using existing revenue sources that include the Strategic Infrastructure Reserve, Hotel Tax, Payments in Lieu of Taxes, General Revenue and Community Works Funds for offsite costs.
7. Review by EY has indicated that Events Centres of a similar size and programming on average experience a Net Operating Income of between +/- \$500 thousand.
8. The proposed Events Centre's Net Operating Income is projected to range between +/- \$200 thousand in the first two years of operation after contributing \$350 thousand towards asset management reserve.

9. A ticket surcharge of 9.5% for high end or more expensive shows has been assumed in order to contribute towards a Revenue Stabilization Reserve that will be used to cover possible deficits.
10. The Inspector of Municipalities reviewed project due diligence reports, EY financial review, project financing plan, the City's borrowing capacity and ability to assume additional debt for this project and provided approval of the borrowing bylaw and referendum question.
11. The financing plan for the proposed Events Centre will not result in increased property taxes.
12. No services or infrastructure projects have been cancelled because of undertaking the proposed events centre.
13. A risk register has been put in place as a risk management strategy.

# SCHEDULE 1: BASE SCENARIO

	Year 1	Year 2	Year 3
<i>Number of Events</i>	114	127	128
<i>Attendance</i>	340,656	376,916	395,604
<b><u>Rental, Suite and Ticket Income</u></b>			
Net Rental Income	363,325	401,298	593,794
Suite Ticket Income	180,041	180,041	202,376
<b>Total Net Rental and Suite Income</b>	<b>543,366</b>	<b>581,339</b>	<b>796,170</b>
Ticket Surcharge Income			
Facility Fee Income	138,190	151,287	158,355
Capital Reserve Fee Income	448,359	483,641	509,860
Modified Ticket Surcharge Income	-	-	-
<b>Ticket Surcharge Income</b>	<b>586,549</b>	<b>634,928</b>	<b>668,215</b>
Ticket Convenience Fee Income	179,675	207,891	208,135
<b>Total Rental, Suite and Ticketing Income</b>	<b>\$ 1,309,590</b>	<b>\$ 1,424,158</b>	<b>\$ 1,672,520</b>
<b><u>Ancillary Income</u></b>			
Concessions	461,358	514,127	557,685
Suites/Catering	95,030	103,925	107,944
Novelties	36,022	40,203	42,559
Parking	-	-	-
<b>Total Ancillary Income</b>	<b>592,410</b>	<b>658,255</b>	<b>708,189</b>
<b>Total Event Income</b>	<b>\$ 1,902,000</b>	<b>\$ 2,082,413</b>	<b>\$ 2,380,709</b>
<b><u>Other Operating Income</u></b>			
Advertising (net)	240,000	252,000	264,600
Naming Rights (net)	140,000	140,000	140,000
Pouring Rights (net)	20,000	20,000	20,000
Luxury Seating (net):			
Club Seats	160,000	160,000	160,000
Suites	347,700	347,700	347,700
Individual Event Suite Rentals	100,000	100,000	100,000
Loge Boxes	97,600	97,600	97,600
Interest/Miscellaneous Income	25,000	25,500	26,010
Ice Rentals/Camps/Public Skating (net)	250,000	257,500	265,225
<b>Total Other Operating Income</b>	<b>1,380,300</b>	<b>1,400,300</b>	<b>1,421,135</b>
<b>Total Adjusted Gross Income</b>	<b>\$ 3,282,300</b>	<b>\$ 3,482,713</b>	<b>\$ 3,801,844</b>
<b><u>Indirect Operating Expenses</u></b>			
Salaries & Benefits (Full-Time & Part-Time)	1,622,449	1,663,010	1,704,585
Materials, Supplies & Services	1,257,730	1,347,140	1,411,193
<b>Total Indirect Operating Expenses</b>	<b>\$ 2,880,179</b>	<b>\$ 3,010,150</b>	<b>\$ 3,115,778</b>
<b>Net Operating Income/(Loss) before Transfers to Reserves, Debt Service and Property Insurance</b>	<b>402,121</b>	<b>472,563</b>	<b>686,065</b>
<b><u>Transfers to Reserves</u></b>			
Capital Reserve	(349,336)	(356,323)	(363,449)
Revenue Stabilization Reserve	(52,785)	(116,240)	(304,766)
<b>Total Transfers to Reserves</b>	<b>(402,121)</b>	<b>(472,563)</b>	<b>(668,215)</b>
<b><u>Debt Service and Property Insurance</u></b>			
Transfer from City of Nanaimo	5,600,000	5,600,000	5,600,000
Debt Service	(5,400,000)	(5,400,000)	(5,400,000)
Property Insurance	(200,000)	(200,000)	(200,000)
<b>Total Debt Service and Property Insurance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Operating Income/(Loss) after Transfers to Reserves, Debt Service and Property Insurance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,850</b>

# SCHEDULE 2: CONSERVATIVE SCENARIO

	Year 1	Year 2	Year 3
<i>Number of Events</i>	105	118	118
<i>Attendance</i>	313,578	331,568	345,655
<b><u>Rental, Suite and Ticket Income</u></b>			
Net Rental Income	315,316	351,276	541,129
Suite Ticket Income	134,765	134,765	155,751
<b>Total Net Rental and Suite Income</b>	<b>450,081</b>	<b>486,042</b>	<b>696,880</b>
Ticket Surcharge Income			
Facility Fee Income	111,112	123,429	126,979
Capital Reserve Fee Income	407,742	415,619	434,936
Modified Ticket Surcharge Income	-	-	-
<b>Ticket Surcharge Income</b>	<b>518,854</b>	<b>539,048</b>	<b>561,915</b>
Ticket Convenience Fee Income	151,890	171,489	171,089
<b>Total Rental, Suite and Ticketing Income</b>	<b>\$ 1,120,825</b>	<b>\$ 1,196,579</b>	<b>\$ 1,429,884</b>
<b><u>Ancillary Income</u></b>			
Concessions	431,949	450,148	486,310
Suites/Catering	92,558	100,784	104,627
Novelties	26,907	31,881	33,742
Parking	-	-	-
<b>Total Ancillary Income</b>	<b>551,414</b>	<b>582,814</b>	<b>624,679</b>
<b>Total Event Income</b>	<b>1,672,239</b>	<b>1,779,393</b>	<b>2,054,564</b>
<b><u>Other Operating Income</u></b>			
Advertising (net)	240,000	252,000	264,600
Naming Rights (net)	140,000	140,000	140,000
Pouring Rights (net)	20,000	20,000	20,000
Luxury Seating (net):			
Club Seats	160,000	160,000	160,000
Suites	347,700	347,700	347,700
Individual Event Suite Rentals	100,000	100,000	100,000
Loge Boxes	97,600	97,600	97,600
Interest/Miscellaneous Income	25,000	25,500	26,010
Ice Rentals/Camps/Public Skating (net)	200,000	206,000	212,180
<b>Total Other Operating Income</b>	<b>1,330,300</b>	<b>1,348,800</b>	<b>1,368,090</b>
<b>Total Adjusted Gross Income</b>	<b>\$ 3,002,539</b>	<b>\$ 3,128,193</b>	<b>\$ 3,422,654</b>
<b><u>Indirect Operating Expenses</u></b>			
Salaries & Benefits (Full-Time & Part-Time)	1,622,449	1,663,010	1,704,585
Materials, Supplies & Services	1,257,730	1,339,521	1,403,384
<b>Total Indirect Operating Expenses</b>	<b>\$ 2,880,179</b>	<b>\$ 3,002,531</b>	<b>\$ 3,107,969</b>
<b>Net Operating Income/(Loss) before Transfers to Reserves, Debt Service and Property Insurance</b>	<b>122,360</b>	<b>125,662</b>	<b>314,684</b>
<b><u>Transfers to Reserves</u></b>			
Capital Reserve	(349,336)	(356,323)	(363,449)
Revenue Stabilization Reserve	-	-	-
<b>Total Transfers to Reserves</b>	<b>(349,336)</b>	<b>(356,323)</b>	<b>(363,449)</b>
<b><u>Debt Service and Property Insurance</u></b>			
Transfer from City of Nanaimo	5,600,000	5,600,000	5,600,000
Debt Service	(5,400,000)	(5,400,000)	(5,400,000)
Property Insurance	(200,000)	(200,000)	(200,000)
<b>Total Debt Service and Property Insurance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Operating Income/(Loss) after Transfers to Reserves, Debt Service and Property Insurance</b>	<b>\$ (226,976)</b>	<b>\$ (230,661)</b>	<b>\$ (48,765)</b>

# SCHEDULE 3: MODIFIED BASE SCENARIO

	Year 1	Year 2	Year 3
<i>Number of Events</i>	114	127	128
<i>Attendance</i>	340,656	376,916	395,604
<b><u>Rental, Suite and Ticket Income</u></b>			
Net Rental Income	363,325	401,298	593,794
Suite Ticket Income	180,041	180,041	202,376
<b>Total Net Rental and Suite Income</b>	<b>543,366</b>	<b>581,340</b>	<b>796,170</b>
Ticket Surcharge Income			
Facility Fee Income	-	-	-
Capital Reserve Fee Income	-	-	-
Modified Ticket Surcharge Income	765,614	832,622	871,606
<b>Ticket Surcharge Income</b>	<b>765,614</b>	<b>832,622</b>	<b>871,606</b>
Ticket Convenience Fee Income	179,675	207,891	208,135
<b>Total Rental, Suite and Ticketing Income</b>	<b>\$ 1,488,655</b>	<b>\$ 1,621,852</b>	<b>\$ 1,875,911</b>
<b><u>Ancillary Income</u></b>			
Concessions	461,358	514,127	557,685
Suites/Catering	95,030	103,925	107,944
Novelties	36,022	40,203	42,559
Parking	-	-	-
<b>Total Ancillary Income</b>	<b>592,410</b>	<b>658,255</b>	<b>708,189</b>
<b>Total Event Income</b>	<b>2,081,065</b>	<b>2,280,107</b>	<b>2,584,100</b>
<b><u>Other Operating Income</u></b>			
Advertising (net)	240,000	252,000	264,600
Naming Rights (net)	140,000	140,000	140,000
Pouring Rights (net)	20,000	20,000	20,000
Luxury Seating (net):			
Club Seats	160,000	160,000	160,000
Suites	347,700	347,700	347,700
Individual Event Suite Rentals	100,000	100,000	100,000
Loge Boxes	97,600	97,600	97,600
Interest/Miscellaneous Income	25,000	25,500	26,010
Ice Rentals/Camps/Public Skating (net)	250,000	257,500	265,225
<b>Total Other Operating Income</b>	<b>1,380,300</b>	<b>1,400,300</b>	<b>1,421,135</b>
<b>Total Adjusted Gross Income</b>	<b>\$ 3,461,365</b>	<b>\$ 3,680,407</b>	<b>\$ 4,005,235</b>
<b><u>Indirect Operating Expenses</u></b>			
Salaries & Benefits (Full-Time & Part-Time)	1,397,449	1,432,385	1,468,194
Materials, Supplies & Services	1,257,730	1,347,140	1,411,193
<b>Total Indirect Operating Expenses</b>	<b>\$ 2,655,179</b>	<b>\$ 2,779,525</b>	<b>\$ 2,879,388</b>
<b>Net Operating Income/(Loss) before Transfers to Reserves, Debt Service and Property Insurance</b>	<b>806,187</b>	<b>900,882</b>	<b>1,125,847</b>
<b><u>Transfers to Reserves</u></b>			
Capital Reserve	(349,336)	(356,323)	(363,449)
Revenue Stabilization Reserve	(416,278)	(476,299)	(508,157)
<b>Total Transfers to Reserves</b>	<b>(765,614)</b>	<b>(832,622)</b>	<b>(871,606)</b>
<b><u>Debt Service and Property Insurance</u></b>			
Transfer from City of Nanaimo	5,600,000	5,600,000	5,600,000
Debt Service	(5,400,000)	(5,400,000)	(5,400,000)
Property Insurance	(200,000)	(200,000)	(200,000)
<b>Total Debt Service and Property Insurance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Operating Income/(Loss) after Transfers to Reserves, Debt Service and Property Insurance</b>	<b>\$ 40,573</b>	<b>\$ 68,260</b>	<b>\$ 254,241</b>



# SCHEDULE 4: MODIFIED CONSERVATIVE SCENARIO

	Year 1	Year 2	Year 3
<i>Number of Events</i>	105	118	118
<i>Attendance</i>	313,578	349,058	364,229
<b><u>Rental, Suite and Ticket Income</u></b>			
Net Rental Income	315,316	351,276	541,129
Suite Ticket Income	134,765	134,765	155,751
<b>Total Net Rental and Suite Income</b>	<b>\$ 450,081</b>	<b>\$ 486,042</b>	<b>\$ 696,880</b>
Ticket Surcharge Income			
Facility Fee Income	-	-	-
Capital Reserve Fee Income	-	-	-
Modified Ticket Surcharge Income	647,905	713,066	741,819
<b>Ticket Surcharge Income</b>	<b>\$ 647,905</b>	<b>\$ 713,066</b>	<b>\$ 741,819</b>
Ticket Convenience Fee Income	151,890	174,401	174,014
<b>Total Rental, Suite and Ticketing Income</b>	<b>\$ 1,249,876</b>	<b>\$ 1,373,508</b>	<b>\$ 1,612,714</b>
<b><u>Ancillary Income</u></b>			
Concessions	431,949	481,674	520,794
Suites/Catering	92,558	100,784	104,627
Novelties	26,907	31,881	33,742
Parking	-	-	-
<b>Total Ancillary Income</b>	<b>\$ 551,414</b>	<b>\$ 614,340</b>	<b>\$ 659,164</b>
<b>Total Event Income</b>	<b>\$ 1,801,290</b>	<b>\$ 1,987,848</b>	<b>\$ 2,271,878</b>
<b><u>Other Operating Income</u></b>			
Advertising (net)	240,000	252,000	264,600
Naming Rights (net)	140,000	140,000	140,000
Pouring Rights (net)	20,000	20,000	20,000
Luxury Seating (net):			
Club Seats	160,000	160,000	160,000
Suites	347,700	347,700	347,700
Individual Event Suite Rentals	100,000	100,000	100,000
Loge Boxes	97,600	97,600	97,600
Interest/Miscellaneous Income	25,000	25,500	26,010
Ice Rentals/Camps/Public Skating (net)	200,000	206,000	212,180
<b>Total Other Operating Income</b>	<b>\$ 1,330,300</b>	<b>\$ 1,348,800</b>	<b>\$ 1,368,090</b>
<b>Total Adjusted Gross Income</b>	<b>\$ 3,131,590</b>	<b>\$ 3,336,648</b>	<b>\$ 3,639,968</b>
<b><u>Indirect Operating Expenses</u></b>			
Salaries & Benefits (Full-Time & Part-Time)	1,397,449	1,432,385	1,468,194
Materials, Supplies & Services	1,257,730	1,342,460	1,406,396
<b>Total Indirect Operating Expenses</b>	<b>\$ 2,655,179</b>	<b>\$ 2,774,845</b>	<b>\$ 2,874,591</b>
<b>Net Operating Income/(Loss) before Transfers to Reserves, Debt Service and Property Insurance</b>	<b>\$ 476,412</b>	<b>\$ 561,803</b>	<b>\$ 765,377</b>
<b><u>Transfers to Reserves</u></b>			
Capital Reserve	(349,336)	(356,323)	(363,449)
Revenue Stabilization Reserve	(127,075)	(205,481)	(378,370)
<b>Total Transfers to Reserves</b>	<b>\$ (476,412)</b>	<b>\$ (561,803)</b>	<b>\$ (741,819)</b>
<b><u>Debt Service and Property Insurance</u></b>			
Transfer from City of Nanaimo	5,600,000	5,600,000	5,600,000
Debt Service	(5,400,000)	(5,400,000)	(5,400,000)
Property Insurance	(200,000)	(200,000)	(200,000)
<b>Total Debt Service and Property Insurance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Net Operating Income/(Loss) after Transfers to Reserves, Debt Service and Property Insurance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,558</b>

# APPENDIX A: MAJOR OPERATING AND PROJECT ASSUMPTIONS

## GENERAL ASSUMPTIONS

1. All calculations in this business plan are in Canadian dollars unless stated otherwise.
2. The following facilities have been used for comparison:
  - a. South Okanagan Events Centre (Penticton, BC)
  - b. Xfinity Arena at Everett (Everett, WA)
  - c. EnCana Events Centre (Dawson Creek, BC)
  - d. General Motors Centre (Oshawa, ON)
  - e. Budweiser Gardens (London, ON)
  - f. Sasktel Centre (Saskatoon, SK)
  - g. Wells Fargo Arena (Des Moines, IA)
  - h. AT&T Centre (San Antonio, TX)
  - i. XL Centre (Hartford, CT)
  - j. Abbotsford Entertainment and Sports Centre (Abbotsford, BC)
  - k. Langley Events Centre (Langley, BC)
  - l. Canalta Centre (Medicine Hat, AB)
  - m. Victoria Event Centre (Victoria, BC)
3. The event and attendance assumptions are based on current activity in the general market place, Stafford Sports' industry experience, analysis of similar facilities, and direct communication with event promoters and facility managers.
4. This business plan assumes a full and stabilized operating year.
5. The business plan is a good faith estimate and is based on the information available to Stafford Sports and City of Nanaimo Staff at the time the estimates were developed.
6. The facility is assumed to be home to a Western Hockey League (WHL) team. The lease terms utilized in this business are subject to change based upon the actual negotiations with the team.

## REVENUE ASSUMPTIONS

1. **Net Rental Income**, represents the revenue generated from events is based upon Stafford Sports' industry knowledge and experience, as well results from similar venue. This includes contract rent, services billed, and event expenses for the event.
2. **Suite Ticket Income** represents the ticket sales revenues retained by the facility for those tickets purchased by suite holders that are not included in the annual suite price.
3. **Fee and Surcharge Income**, the business plan assumes typical fees applied to ticket prices to offset the routine repairs and maintenance of the facility, long term capital repairs, industry ticketing by a 3rd party and for a revenue stabilization reserve.
4. **Concessions and Suites/Catering**, the business assumes food and beverage will either be handled on an in-house basis or by a 3rd party with a net yield to the facility. This is subject to change based upon the operating model and/or terms.
5. **Novelties**, the business plan assumes the facility will retain a portion of the novelty/merchandise sales from a portion of non-hockey, ticketed events under industry-standard arrangements.
6. **Parking Revenue**, there are no revenue generating spaces assumed in the business plan.
7. **Premium Seating Revenue**, this revenue is based on Stafford Sports estimates of gross sales and assumes commissions paid to a 3rd party sales organization for providing such services.
8. **Advertising & Sponsorship Revenue**, this revenue is based upon Stafford Sports' estimates of gross sales and assumes commissions paid to a 3rd party sales organization for providing such services.
9. **Naming Rights and Pouring Rights Revenue**, this revenue is based on Stafford Sports' estimates of gross sales and assumes commissions paid to a 3rd party sales organizations for providing such services.
10. **Interest/Miscellaneous Income**, represents revenues generated from interest on ticket proceeds and other revenues, as well as miscellaneous revenues from such things as equipment rentals, vending fees, credit card fees, etc.

11. **Ice Rentals/Camps/Public Skating**, represents net revenue generated from various ice-related activities and is based upon Stafford Sports experience in comparable facilities.

## OPERATING ASSUMPTIONS

1. **Full-Time Personnel Expenses**, full-time staffing is based upon the comparable set of facilities.
2. **Materials, Supplies & Services**, these operating expenses are based on Stafford Sports industry knowledge and the comparable facilities noted.
3. **Facility Management Fees**, the business plan does not include an incentive-based fee paid to a 3rd party management company. An estimated base management fee has been included as an operating expense.
4. **Debt Service**, the business plan includes an estimated debt service on a 20 year term loan of \$80.0 million. The debt service estimate has been determined by City of Nanaimo Staff.
5. **Property Taxes**, the business plan does not include property taxes as this facility is assumed to be developed and owned by the City of Nanaimo.
6. **Property and Other Insurance**, the business plan includes an estimate for property and other insurance expense determined by City of Nanaimo Staff through the City's property insurers.

## SCENARIO ANALYSIS ASSUMPTIONS

Through the work undertaken by EY, four (4) scenarios were developed to 'stress-test' the original business plan assumptions developed by Stafford Sports and also incorporate City Staff financial risk mitigation strategies regarding long-term facility maintenance and renewal and revenue stabilization.

1. **Base Case**, represents the business plan as developed by Stafford Sports, with the exception of the Capital Reserve contribution, which reflects an annual cost of 0.5% of the capital cost of the facility.
2. **Conservative Case**, represents a reduced number of ticketed events based on a range identified by market participants.
3. **Modified Base Case**, incorporates a graduate 9.5% ticket surcharge on spectacular, major and minor concerts and assumes common operations and management agreement across the Conference Centre and Events Centre.
4. **Modified Conservative Case**, incorporates the Reduced Events Case described above, but applying the same modifications as the Modified Base Case.

# APPENDIX B: CITY OF NANAIMO EVENTS CENTRE - BUSINESS PLAN FINANCIAL AND RISK REVIEW

## City of Nanaimo Events Centre

Business Plan Financial and Risk Analysis

21 February 2017



Building a better  
working world



## Contents

- Statement of assumptions and limited conditions
- Scope of work
- Analysis
- Key financial outcomes
- Summary

## Statement of assumptions and limiting conditions

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The analyses contained in this report are based upon estimates, assumptions and other information developed from our research, knowledge of the industry, and information obtained from select discussions with market representatives. These sources of information are the basis for the observations that are stated in the report. While we believe that the sources of information are reasonably reliable, Ernst & Young Orenda Corporate Finance Inc (EY) has not, as part of its analyses, performed an audit or review of any of the information used and, therefore, does not express an opinion or any other form of assurance on the accuracy of such information.

EY has not rendered an attestation or assurance report, nor does this report constitute (1) an audit, review or examination of financial statements in accordance with generally accepted auditing standards, (2) an examination of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) or CPA Canada or (3) a review to detect fraud or illegal acts. EY Services, as defined in the Scope of Work dated 12 December 2016, did not produce a report relating to the effectiveness of internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act, nor did they include any procedures to test compliance with the laws or regulations of any jurisdiction. The report does not constitute any legal opinion or advice.

Any financial analysis contained in the workpapers or report is not considered to be forecasts or projections as these terms are defined by the AICPA or CPA Canada. Rather, they are used in the sense contemplated by the Uniform Standards of Professional Appraisal Practice. As used in any analysis in this engagement and the report, terms such as "value," "project," "projections," "estimate" or "forecast" relate to broad and generally perceived expectations of future events or market conditions. All such estimates and assumptions are inherently subject to uncertainty and variation depending on the unfolding of future events, which cannot be accurately foreseen.

Our report is based on facts as we know them, estimates, assumptions and other information developed from our research of the market, knowledge of the industry and meetings with you or third parties during which EY was provided with certain information. Our estimates are based on general economic conditions, as they existed on the date of the analysis and recommendation, and do not include an estimate of the potential of any sudden or sharp rise or decline in general economic conditions. Events or transactions that may occur subsequent to the effective date of this report have not been considered. Consequently, EY does not represent these estimates as results that are anticipated to be achieved. Actual results achieved may vary materially from those presented.

The services and the information, records, data, advice or recommendations contained in any reports, materials, presentations or other communications, written or otherwise, in draft or final form, provided by EY are intended solely for the information and use of the City of Nanaimo (Client). The Client may not rely on any draft reports. Except where compelled by legal process, of which the Client shall promptly inform EY and tender to EY, if it so elects, the defense thereof, the Client may not disclose, orally or in writing, any reports or any portion, abstract or summary thereof, or make any reference to EY in connection therewith, to any third party without (a) the prior written consent of EY and (b) obtaining an executed letter substantially in the form we prescribe. To the extent the Client is permitted to disclose any written report as set forth herein, it shall disclose such report only in the original, complete and unaltered form provided by EY, with all restrictive legends and other agreements intact.

To the fullest extent permitted by applicable law, the Client shall indemnify and hold harmless the EY Entities and their respective assignees, subcontractors, members, shareholders, directors, officers, managers, partners, employees, agents and consultants (collectively, Indemnities), from and against all (A) claims and causes of action, pending or threatened, of any kind (whether based on contract, tort or otherwise) by third parties, including any affiliate of the Client, related to or arising out of (1) the use, disclosure of or reliance on any report or any portion, abstract or summary thereof by any person or entity that obtains access to it, directly or indirectly, from, through or at the request of the Client, or (2) the Client's failure to provide timely, accurate and complete information and resources as necessary for EY to perform the Services in accordance herewith ((1) and (2), collectively, Claims) and (B) liabilities, losses, damages, costs and expenses (including, without limitation, reasonable outside attorneys' fees and the allocable costs of in-house counsel) suffered or incurred by any of the Indemnities in connection with any Claims.



## EY scope of work

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EY was provided with the following key information (the Information) as a basis for its work:

Nanaimo Event Centre Phase 2 Study (the Phase 2 Study) – report prepared by BBB Architects, which included input from BTY Group, Stafford Sports, MNP, Stadium Consultants International, Tetra Tech, Bunt & Associates, Urban Systems, WSP, and WATT Consulting Group (the Phase 2 Study Team)

Stafford Sports Nanaimo New Event Centre Draft Business Plan prepared by Stafford Sports (the Business Plan) and associated financial model (the Business Plan Financial Model)

Phase 2 Study Team responses to questions submitted by EY.

Based on the statement of work dated 12 December 2016, EY undertook the following:

Identified key assumptions underlying the Business Plan

Held discussions with market participants with direct knowledge of operating comparable facilities (e.g., third party facility management companies in the events centre/sport arena operations business in order to facilitate the identification of risks associated with assumptions in the Business Plan

Sought clarification with respect to key assumptions from the Phase 2 Study Team

Considered the capital costs of the project based on information provided to EY by the City of Nanaimo

Worked with the City of Nanaimo to consider alternative scenarios with respect to Business Plan assumptions and used the Business Plan financial model to calculate alternative financial outcomes

Worked with the City of Nanaimo to consider potential public funding sources to address funding requirements associated with the City of Nanaimo Events Centre Project (Project)

Presented findings to stakeholders and developed this report.

EY's commentary in respect of analysis undertaken was based on:

Our reading and interpretation of the Information provided to us by the City of Nanaimo

Our experience performing advisory services related to professional sport arena and stadium developments and mixed-used retail and entertainment facilities complementary to sports and other public-use facilities

Discussions with market participants with direct knowledge of operating comparable facilities.

# Analysis

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An overall risk rating (high, medium, or low risk) was assigned based on the extent to which assumptions were in alignment with market benchmarks. The risk ratings were assigned based primarily on the following guidelines:

**Low risk** rating was applied when the assumption appears achievable and supported by market benchmarks.


**Medium risk** rating was applied when there is a higher degree of uncertainty with respect to the appropriateness of the assumption or, while there may not be evidence to suggest a major issue exists, further work is recommended in order to have greater confidence in the appropriateness of the assumption

**High risk** rating was applied when the assumption appears unreasonable and/or may have a materially negative impact on the project's feasibility/success


The following key visually identifies the risk ratings described above:




**Risk analysis key:**  
 High Risk     Medium Risk     Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
<b>Operating budget</b>				
Number of events	Year 1: 114 Year 2: 127 Year 3: 128	<p>Range of 80 – 130 events (10 – 15 family shows) could be expected in a facility and location consistent with Nanaimo, based on discussions with market participants</p> <p>128 events by year 3 is at the top end of this range, family shows within range</p> <p>Joint management with Vancouver Island Conference Center would be supportive of event numbers</p> <p>Memorial Centre in Victoria could be complementary as events can amortize expense over more shows</p> <p>Events assumption dependent upon ability to secure an anchor tenant and a leading venue management company.</p>		<p>Conduct independent analysis to analyze directly comparable event centers</p> <p>Conduct stress test to determine results related to more conservative assumptions</p> <p>Conduct diligence related to cost allocations and cost overhead associated with consolidating management of the Event Centre and the existing Vancouver Island Conference Centre.</p>

**Risk analysis key:**  
 High Risk     Medium Risk     Low Risk



Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Attendance	Hockey: 4,500 Concerts avg.: 4,000 Family shows avg.: 2,550 All events avg.: 2,870	<p>Hockey attendance in line with market average of 4,500 and historical attendance performance of 4,268 – 4,815;</p> <p>Assumption of 78.9% of capacity (4,500/5,700) is within market range of 71.7% – 83.1%</p> <p>Concert attendance at high-end of market range of 3,000 – 4,000 attendees;</p> <p>Demand in Canadian market down; Port Theatre a potential competitive threat</p> <p>Family show attendance ranges from 1,500 – 3,000 attendees;</p> <p>Family show attendance within the expected range</p> <p>Attendance assumptions dependent upon ability to secure an anchor tenant, size of marketing budget, ability to drive demand.</p>		<p>Conduct market demand study</p> <p>Conduct stress test on attendance assumptions.</p>

**Risk analysis key:**  
 High Risk   
 Medium Risk   
 Low Risk




Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Ticket pricing	Hockey: \$14.00 Concerts avg.: \$57.50 Family shows avg.: \$39.34 All events avg.: \$19.92	<p>The hockey ticket pricing assumption of \$14.00 appears within the range of market indicators of other WHL teams of \$10.00 - \$20.00 (base ticket pricing) and slightly below the average of \$18.00 according to market participants</p> <p>According to market participants, the average concert ticket pricing ranges from \$55 - \$70, placing the concert ticket pricing assumption within the market range</p> <p>According to market participants, the average family show ticket pricing assumption of \$39.94 is at the high-end of the market range.</p>		<p>Conduct comprehensive benchmarking study of all ticket pricing assumptions</p> <p>Conduct stress test on ticket pricing assumptions</p>

**Risk analysis key:**




 High Risk
  Medium Risk
  Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Admission ticket surcharges	\$0.00 - \$2.00 facility fee \$0.00 - \$1.50 city capital reserve fee \$0.00 - \$8.00 ticket convenience fee	<p>According to market participants, admission ticket surcharges are typically dynamic and adjusted by event type and the average range for hockey games is \$0.50 - \$1.00 per ticket, while concert surcharges range from \$2.00 - \$3.50 or possibly more depending on unique circumstances</p> <p>In this context, the assumption of up to a combined \$3.50 surcharge (facility fee plus capital reserve fee) does not appear unreasonable</p> <p>It is noted that ticket surcharges have a direct relationship with attendance levels and increases in surcharges beyond those assumed in the Business Plan may impact attendance assumptions</p> <p>Ticket convenience fees are understood to reflect a market acceptable structure, and within the quantum ranges discussed with market participants.</p>		Conduct additional diligence on admission ticket surcharges, including market testing with potential attendees as well as event promoters, to validate consistency between attendance assumptions and proposed ticket surcharges.
Naming rights revenue (annually)	\$175,000 gross revenue \$140,000 net revenue	<p>According to market participants, average naming rights revenue ranges from \$150,000 - \$225,000 before commissions; most recently, the Save on Foods Memorial Centre in Victoria recently renegotiated their naming rights deal for approximately \$150,000 - \$175,000 per year</p> <p>Thus, a \$175,000 naming rights revenue assumption appears supportable.</p>		None noted.

**Risk analysis key:**  
 High Risk     Medium Risk     Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Net arena advertising revenue	Year 1: \$240,000 Year 2: \$252,000 Year 3: \$264,600	According to market participants, an average net advertising range of \$225,000 - \$275,000 would be expected based on the characteristics of the proposed arena  Thus, an assumption ranging from \$240,000 - \$264,600 appears supportable.		None noted.
Net luxury suites revenue	Years 1 - 3: \$347,700  \$37,500 gross revenue per suite  \$18,300 net revenue per suite	According to market participants, the average gross revenue per luxury suite ranges from \$25,000 - \$40,000 which have a profit margin that ranges from approximately 50.0% - 60.0%  While an assumption of \$18,300 appears supportable, the market demand for 19 luxury suites (less three for the team, owner, and naming rights holder) is uncertain.		Conduct market demand study in relation to luxury suites.
Ancillary Revenue  (Ice rentals / camps / public skating revenue (% of gross income))	Year 1: \$250,000 (7.6%) Year 2: \$257,500 (7.4%) Year 3: \$265,225 (7.0%)	According to market participants, the average ice rental revenue ranges from \$100,000 - \$350,000 and is highly dependent upon the demand from youth and adult hockey leagues as well as the current ice availability in the market  The Nanaimo market has multiple other ice rink facilities in the market, and there is inconsistency with respect to local market ice demand from market participants.		Conduct diligence on market demand for ice time and ice rental fees in order to validate current assumptions.



**Risk analysis key:**  
 High Risk     Medium Risk     Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Full-time employee salary cost	<p>20 full-time employees</p> <p>Total salary of \$1,140,000 before bonuses, payroll taxes, and part-time staffing expenses.</p>	<p>According to market participants, the average number of full-time employees ranges from 18 – 25 people and costs range from \$800,000 - \$1,300,000 in gross salary costs</p> <p>Thus, the base number of full-time employees and the gross salary cost appears supportable.</p>		None noted.
Insurance expenses (excluding property insurance)	<p>Year 1: \$72,230</p> <p>Year 2: \$78,252</p> <p>Year 3: \$80,209</p>	<p>According to market participants, insurance costs typically average \$100,000 excluding property insurance costs</p> <p>The insurance expense assumptions are below the market average.</p>		To consider further market research on insurance costs.
Net operating income (% of gross income)	<p>Year 1: (\$46,237) (-1.4%)</p> <p>Year 2: (\$11,078) (-0.3%)</p> <p>Year 3: \$176,205 (4.6%)</p> <p>Average 10-Year NOI margin of 3.8%.</p>	<p>According to market participants, an average net operating income for a comparable arena would range from (\$500,000) to \$500,000</p> <p>The net operating income for the facility breaks even in Year 3 of operation and beyond Year 3 remains within the above range (it is also noted that property insurance and any applicable property taxes are excluded from the stated NOI outcomes)</p> <p>NOI outcomes are related to underlying assumptions associated with revenue and expense categories discussed above, some of which have associated risks and are subject to recommended additional diligence.</p>		Consider NOI outcomes under alternative assumption scenarios for individual components.






**Risk analysis key:**


 High Risk
  Medium Risk
  Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Dilligence Recommendations
<b>Financing requirements</b>				
Capital cost - facility	<p>The capital cost of the facility is assumed to be \$70m, based on a Class D Estimate provided by BTY in the Phase 2 Study, comprising:</p> <p>Hard construction costs of \$58m</p> <p>Soft costs of \$12m, which were excluded from the BTY Class D Estimate, but a general rule of thumb of 20% of the hard costs was suggested by BTY and applied by the City of Nanaimo.</p>	<p>BTY is a reputable quantity surveyor and the approach applied in developing the cost estimate appears reasonable</p> <p>Allowances reflect:</p> <p>A design contingency to cover modifications to the program, drawings and specifications during the design. BTY has suggested that this allowance be re-considered as the design proceeds, being ultimately reduced to zero at the tender stage</p> <p>An allowance of for changes occurring during the construction period of the project. This amount may be expended due to site conditions or if there are modifications to the drawings / specifications</p> <p>EY has not been provided with information that suggests these allowances are unreasonable</p>		<p>A Class D level estimate is appropriate at this stage of project development</p> <p>In order to maintain the budget parameters established in the BTY Report, BTY has strongly recommended that further cost estimates are prepared at major design stage milestones to track and monitor the cost of the proposed design as it evolves.</p>
Capital cost – Offsite costs	<p>Offsite Costs totalling \$10m have been provided by the City of Nanaimo, relating to the improvement of Front Street and sewer relocations.</p>	<p>EY has relied on City of Nanaimo information with respect to offsite costs and has not undertaken any analysis with respect to this assumption.</p>		<p>The City of Nanaimo will further develop, manage and monitor this construction scope and the associated costs.</p>

**Risk analysis key:**  
 High Risk     Medium Risk     Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Debt financing	<p>The assumed debt requirement is \$80m, reflecting funding of capital costs</p> <p>Funding source has been assumed as Municipal Financing Authority (MFA) debt via a 20 year at an interest rate of 3% per annum</p> <p>This results in an implied annual payment of \$5.4m, covering principal and interest payments.</p>	<p>The implied annual payment has been calculated using a template provided by the Municipal Financing Authority</p> <p>The 3% p.a. interest rate has been used for illustrative purposes, as indicated by the Municipal Financing Authority, though it is noted that the current 10 year MFA interest rate is 2.79% and therefore this assumption appears appropriate</p> <p>Assumed term assumption has been provided by the City of Nanaimo.</p>		Subject to interest rate movements until the point where financing arrangement is finalized with MFA.
Property insurance	The City of Nanaimo has provided a property insurance assumption of \$200,000 per annum.	EY has relied on City of Nanaimo information with respect to property insurance and has not undertaken any analysis with respect to this assumption.		City of Nanaimo to confirm property insurance costs.
Capital Reserve (capital maintenance costs)	The Business Plan assumed the capital reserve contribution was equal to the capital reserve fee income charged as part of the ticket surcharges.	Based on discussions with market participants, a capital reserve contribution of 0.5% of capital costs per annum is a reasonable assumption for stadium facilities.		This assumption should be validated by a qualified quantity surveyor.



**Risk analysis key:**  
 High Risk     Medium Risk     Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
<b>Financing Sources</b>				
Events Centre operations – Modified Ticket Surcharge	<p>Base assumptions have been discussed under "Admission ticket surcharges" above</p> <p>The City of Nanaimo has also considered a "modified" surcharge structure (Modified Ticket Surcharge), which involves a surcharge of the higher of the Base Case assumption or 9.5% of the ticket price</p> <p>This affects:</p> <ul style="list-style-type: none"> <li>Miscellaneous / Spectacular events (\$4.75 instead of \$3.50)</li> <li>Major concerts (\$6.20 instead of \$3.50)</li> <li>Minor concerts (\$4.30 instead of \$3.50).</li> </ul>	<p>According to market participants, admission ticket surcharges are typically dynamic and adjusted by event type and the average range for hockey games is \$0.50 - \$1.00 per ticket, while concert surcharges range from \$2.00 - \$3.50 or possibly more depending on unique circumstances</p> <p>Some facilities were noted where surcharges for certain events did exceed \$3.50 per ticket</p> <p>Market Participants provided the "accepted facility" fee for multipurpose venues is typically between \$2.00 and \$4.00. Any facility fee higher than \$4.00 could generate a negative reaction from promoters and consumers</p> <p>Rogers Place in Edmonton currently applies an approach involving a surcharge of 9.5%<sup>1</sup></p> <p>Market studies have yet to be conducted with respect to the viability of such a surcharge arrangement for Nanaimo</p>		<p>Market studies (both with respect to consumers' elasticity of demand, and event promoters acceptance) should be conducted to validate viability of the proposed 'modified' structure</p> <p>Such a structure would also be subject to negotiation with the operator.</p>

<sup>1</sup> [https://www.edmonton.ca/projects\\_plans/rogers\\_place/the-agreement.aspx](https://www.edmonton.ca/projects_plans/rogers_place/the-agreement.aspx)


**Risk analysis key:**

 High Risk     Medium Risk     Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Events Centre operations – Operating Surplus	See Summary Outcomes section below.	<p>Under Base scenario assumptions, outputs appear to indicate a likelihood of positive NOI</p> <p>Under the Reduced Events Case scenario assumptions, outputs appear to indicate a marginally negative NOI, or a positive NOI under the “modified” Reduced Events Case scenario</p> <p>These outputs are a function of inputs discussed above, and their associated risk profiles – these outcomes are therefore subject to change based on changes in underlying assumptions.</p>		Subject to additional diligence recommendations for underlying assumptions, as identified above.
Public Funding	<p>The City of Nanaimo has identified the following funding sources:</p> <ul style="list-style-type: none"> <li>Strategic Infrastructure Reserve Fund</li> <li>Hotel Tax</li> <li>General Revenue</li> <li>Community Works Fund</li> </ul> <p>The sum of the above sources is assumed to cover the Debt Financing and Property Insurance costs.</p>	<p>EY has relied on City of Nanaimo information with respect to the availability of public financing sources</p> <p>The City has indicated that, subject to the relevant approval processes, there is a high degree of confidence that these funds will be available for the project</p> <p>Information provided to EY indicates that there will be sufficient public funding to cover the Debt Financing and Property Insurance costs annually.</p>		Subject to the relevant approval process associated with direct public funding towards the project.

**Risk analysis key:**

 High Risk
  Medium Risk
  Low Risk

Component	Assumption	EY commentary	Risk Rating	Additional Diligence Recommendations
Revenue Stabilization Account	<p>The City of Nanaimo has proposed a mechanism whereby in the event there is a positive NOI, Ticket Surcharge revenue in excess of the Capital Reserve contribution will be directed towards a Revenue Stabilization Account</p> <p>Contributions to the Revenue Stabilization Account are assumed to be 'banked' for use at the discretion of the City of Nanaimo, including to fund future operating deficits (if applicable) or additional capital maintenance requirements over and above that provided for through the Capital Reserve.</p>	<p>Contributions to the Revenue Stabilization Account are a direct function of the quantum of Ticket Surcharge revenue and Net Operating Income, and therefore is subject to the risks and recommendations identified above.</p>		<p>Subject to additional diligence recommendations for underlying assumptions, as identified above</p> <p>This arrangement would also be subject to agreement with the eventual facility operator.</p>

## Key financial outcomes

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Based on the analysis of key Business Plan assumptions above, a number of scenarios were developed with the City of Nanaimo, in order to consider alternative net operating income outcomes from the Business Plan Financial Model. Scenarios considered include the following:

### 1. Base Case

Business Plan as developed by BBB Architects, with the exception of the Capital Reserve contribution, which reflects an annual cost of 0.5% of the capital cost of the facility.

### 2. Reduced Events Case

Assumptions as per the Base Case but with a reduction in ticketed event numbers by:

- 4 family shows (from 18 to 14) in Year 1, and 3 family shows (from 18 to 15) from year 2 onwards
- 2 minor sports tournaments per year (from 6 to 4 in Year 1 and from 9 to 7 in year 2 onwards)
- 2 concerts in year 1 (from 8 to 6), and 3 concerts from year 2 onwards (from 10 to 7)

As a result, total events are closer towards the middle of the reasonable range identified by market participants (105 in Year 1 increasing to 118 from Year 2 onwards, compared to 114 in Year 1 increasing to 127 from Year 2 onwards)

### 3. Modified Base Case

Base Case assumptions but applying the Modified Ticket Surcharge approach, involving:

- a surcharge of the higher of the Base Case assumption or 9.5% of the ticket price, affecting
  - Miscellaneous / Spectacular events (\$4.75 instead of \$3.50)
  - Major concerts (\$6.20 instead of \$3.50)
  - Minor concerts (\$4.30 instead of \$3.50)

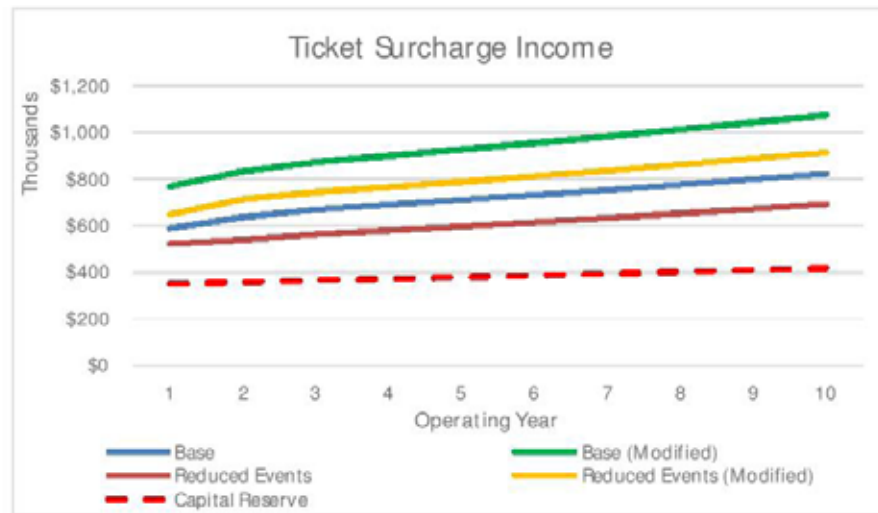
Assumed synergies associated with common management across the Convention Centre and Stadium, with an assumed saving of \$200,000 of staff costs (with this cost reduction being drawn from discussions with market participants)

### 4. Modified Reduced Events Case

Reduced Events Case described above, but applying the same modifications as the Modified Base Case.

The following charts illustrate key outcomes from the Business Plan Financial Model, based on the scenarios identified above:

Table 1 - Ticket Surcharge Income (excluding Convenience Fees)

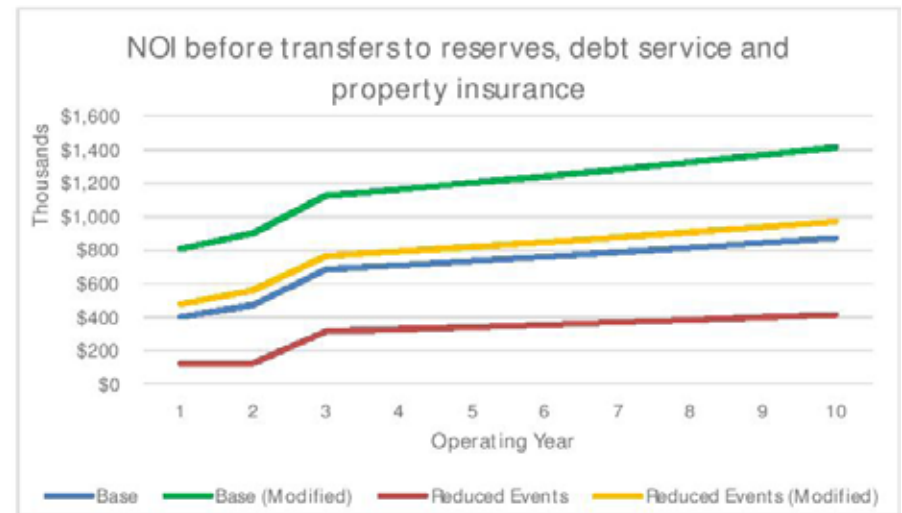


The above chart illustrates Ticket Surcharge Income, reflecting revenue relating to surcharges (excluding Convenience Fees) over and above the base ticket price applied to events at the facility

The outcomes indicate that Modified scenarios result in greater Ticket Surcharge Income from higher ticket priced ticketed events, relative to the Base assumptions

The Capital Reserve contribution (based on 0.5% of facility construction costs, as discussed in the Capital Reserve component of the Analysis section as well as scenario definitions above) is also illustrated since this will be drawn from Ticket Surcharge Income, with the excess ticket surcharge income above the Capital Reserve contribution allocation being directed towards the Revenue Stabilization Account (when NOI before transfers to reserves, debt service and property insurance is positive).

Table 2 - NOI before transfers to reserves, debt service and property insurance

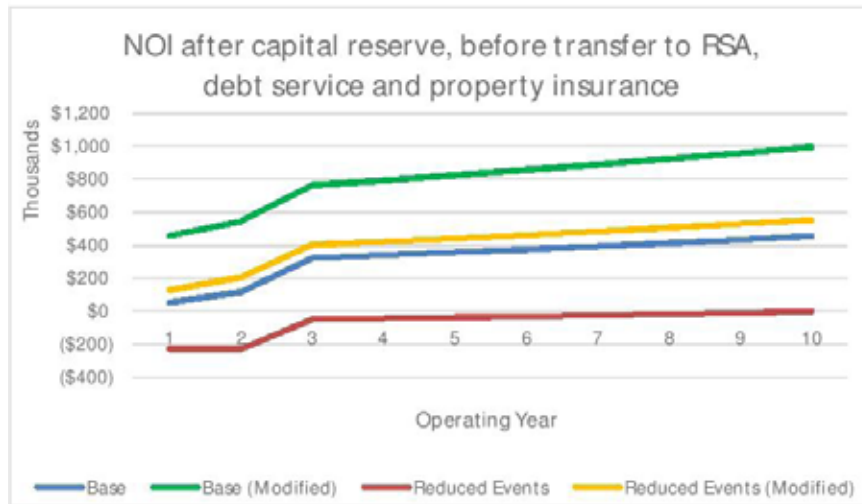


The above chart illustrates Net Operating Income, before transfers to reserves, debt service and property insurance

The outcomes indicate that all scenarios involve a positive NOI before transfers to reserves, debt service and property insurance

The increase in year 3 relates to the Business Plan assumption of an arena rental reimbursement to the Western Hockey League franchise only being payable in Years 1 and 2.

Table 3 - NOI after transfer to capital reserve, before transfer to RSA, debt service and property insurance

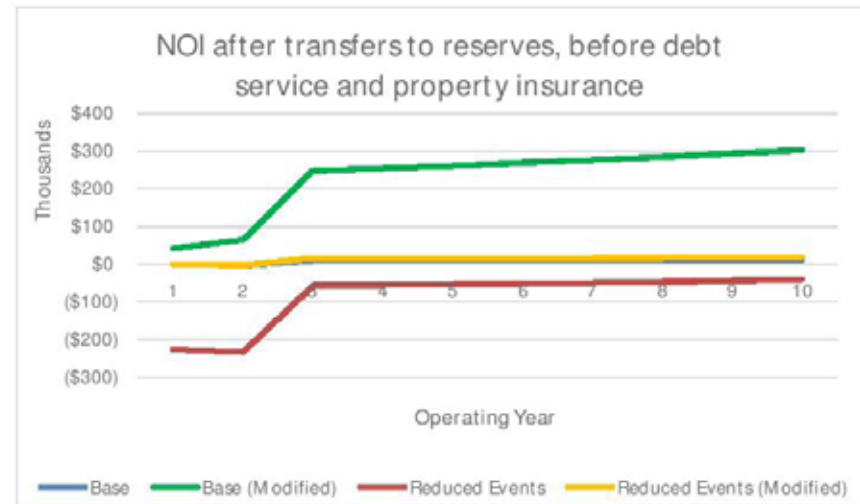


The above chart illustrates NOI after the Capital Reserve contribution (but before transfer to the Revenue Stabilization Account, debt service or property insurance)

The NOI outcome is negative under the Reduced Events scenario, and therefore there would be no transfer of funds to the Revenue Stabilization Account under this Scenario

In other scenarios, there is a positive NOI and there would be a transfer to the Revenue Stabilization Account in accordance with the mechanism described in the Analysis section above.

Table 4 - NOI after transfers to reserves, before debt service and property insurance



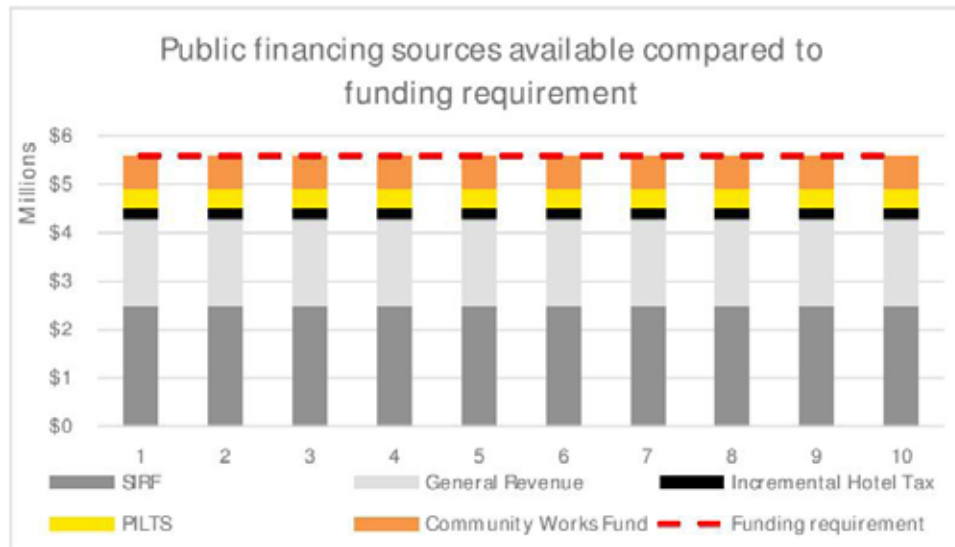
The above chart illustrates NOI after the Capital Reserve contribution and transfer to the Revenue Stabilization Account but before debt service or property insurance

This reflects no transfer to the Revenue Stabilization Account under the Reduced Events scenario and transfers under other scenarios

There remains a surplus under the Base (Modified) scenario since the transfer to the Revenue Stabilization Account is capped at Ticket Surcharge Income less the Capital Reserve contribution, and NOI before transfer to the Revenue Stabilization Account exceeds this capped amount.



Table 5 - Sources of public financing compared to funding requirement



The above chart indicates how the public sources of financing combine to address the funding requirement of the project (assumed for the purposes of the analysis to comprise annual debt financing and property insurance costs).

## Summary

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Based on the limited scope of work described above and the Information made available to EY, the following key assumption categories have been identified in the Analysis section for further consideration:

Key demand assumptions in the Business Plan, including:

- Event numbers and attendance

- Luxury seating and advertising

- Ancillary revenue (ice rink rentals, etc)

Ticket surcharges as proposed in the Business Plan

- “Modified” scenario assumptions, particularly Modified Ticket Surcharge to those in the Business Plan

Capital costs of the facility and associated off-site services

Approval of proposed public funding arrangements.

For each of the above, recommendations have been made with respect to additional approaches to validate assumptions.