

Report to/Rapport au :

Finance and Economic Development Committee  
Comité des finances et du développement économique

and Council / et au Conseil

November 27, 2012  
27 novembre 2012

Submitted by/Soumis par: Steve Kanellakos, Deputy City Manager/  
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BEACON HILL-CYRVILLE (11)

Ref N°: ACS2012-COS-PRC-0018

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**SUBJECT: PUBLIC PRIVATE PARTNERSHIP – SHEFFORD ROAD PARK**

**OBJET : PARTENARIAT PUBLIC-PRIVÉ – PARC DU CHEMIN SHEFFORD**

**REPORT RECOMMENDATIONS**

That the Finance and Economic Development Committee recommend that Council:

1. Approve that the City enter into a Public-Private Partnership (P3) with Ottawa Community Ice Partners (OCIP), the preferred proponent, for a four-pad ice complex at 813 Shefford Road as set out in this report.
2. Authorize the General Manager of Parks, Recreation and Cultural Services to finalize the negotiations and conclude and execute all necessary agreements on behalf of the City with OCIP in accordance with the proposal submitted by OCIP as amended through negotiations; the terms and conditions in the Request for Proposal; and the business terms set out in the attached Document 1.
3. Designate 813 Shefford Road as a Municipal Capital Facility (MCF) as permitted under section 110 of the *Municipal Act, 2001* and Ontario Regulation 603/06 and that this designation be implemented by way of a MCF Agreement between the City and OCIP and by the enactment of a by-law in accordance with the requirements of the *Municipal Act, 2001* and to declare that the Facility is for the purposes of the municipality and for public recreational use.
4. Exempt the facility from the City portion of Development Charges payable, except for the Public Transit service component.

5. **Authorize the General Manager of Parks, Recreation and Cultural Services to execute any necessary amending agreement to amend the terms of the existing Bell Sensplex West Project Agreement to allow for the following:**
  - (a) **the City's contribution to the Bell Sensplex West Operating Reserve Fund (ORF) will remain in the ORF and be released to the City at the end of the term in 2034.**
  - (b) **to provide OCIP with the City's consent to utilize funds currently held in the Bell Sensplex West Surplus Account to provide the working capital and start-up funding required for the new facility, in accordance with the Proforma approved by the City and as set out in this report.**
6. **Authorize the City Treasurer to execute any agreements required to have the City guarantee the OCIP loan associated with the construction period and long-term loan.**

### **RECOMMANDATIONS DU RAPPORT**

**Que le Comité des finances et du développement économique recommande au Conseil :**

1. **d'approuver le fait que la Ville conclue un partenariat public-privé avec le groupe Ottawa Community Ice Partners (OCIP), le promoteur privilégié, pour l'établissement d'un complexe de quatre patinoires au 813, chemin Shefford, tel que décrit dans le présent rapport.**
2. **d'autoriser le directeur général, Service des parcs, des loisirs et de la culture à finaliser les négociations, à conclure et à exécuter au nom de la Ville toutes les ententes nécessaires avec le groupe OCIP conformément à la proposition révisée et présentée par OCIP qui a été modifiée à la suite de négociations, aux modalités relatives à la Demande de proposition, et aux modalités d'affaires décrites dans le document 1 ci-joint.**
3. **de désigner le 813, chemin Shefford comme une immobilisation municipale (IM) tel que permis en vertu de l'article 110 de la *Loi sur les municipalités de 2001* et le règlement de l'Ontario 603/06 et que cette désignation soit mise en œuvre par une entente d'IM entre la Ville et OCIP et par l'adoption d'un règlement conformément à la *Loi sur les municipalités de 2001* et déclarer que l'immobilisation sert aux fins de la Ville et des loisirs publics.**
4. **d'exempter l'installation de la portion revenant à la Ville des redevances d'aménagement dues, sauf pour la partie relative au service de transport en commun.**
5. **d'autoriser le directeur général, Service des parcs, des loisirs et de la culture à exécuter toute entente de modification nécessaire dans le but de modifier les modalités de l'actuelle entente du projet du Bell Sensplex (Ouest) afin de :**

- (a) **permettre que la contribution de la Ville au fonds de réserve de fonctionnement (FRF) du Bell Sensplex demeure dans le FRF et soit allouée à la Ville à la fin du mandat en 2034.**
  - (b) **donner au groupe OCIP l'accord de la Ville d'utiliser certains fonds actuellement détenus dans le compte de fonds excédentaires du Bell Sensplex pour fournir les fonds de roulement et de démarrage requis pour les nouvelles installations, conformément au budget approuvé par la Ville et tel qu'il est indiqué dans le rapport.**
- 6. d'autoriser le trésorier de la Ville à exécuter toutes les ententes requises pour que la Ville garantisse le prêt à long terme du groupe OCIP et le prêt associé à la période de construction.**

### BACKGROUND

The purpose of this report is to seek Committee and Council approval for the City to enter into a Public-Private Partnership (P3) with Ottawa Community Ice Partners (OCIP) for a four-pad ice surface complex at 813 Shefford Road which is modeled on the current Bell Sensplex West P3 in Kanata. In addition, the report also seeks approval to amend several contractual provisions in the current Bell Sensplex West P3 Agreement to assist with the operations of the new Facility at 813 Shefford Road.

Shefford Park is located just east of the Beacon Hill neighbourhood and immediately south of the Robert O. Pickard Environmental Centre. The Park has an area of 11.02 hectares and features four soccer fields, three mini fields, three football fields, a beach volleyball area as well as Potvin Arena and related parking lots. Potvin Arena is currently a single pad facility, which was built in 1975 and significantly renovated in 1995 and in 2007. The building is 2,400 square meters in size and was constructed to operate twelve months of the year to serve a wide range of ice sport activities.

As directed by City Council on April 11, 2012, Parks, Recreation and Cultural Services (PRCS), in conjunction with the Supply Branch initiated stage one of a P3 procurement process by issuing a Request for Proposals (RFP) for the Design, Build, Finance, Ownership, Operation and Maintenance (DBFOM) of a multi-pad arena in Shefford Park. The RFP document described the City's expectations, guiding principles, goals and objectives for an agreement with a private sector partner. The City carried out an evaluation of the detailed proposals received and identified a Preferred Proponent to begin stage two of the procurement process: negotiations and the final agreement. On September 12, 2012 Council authorized the General Manager of PRCS to enter into negotiations with the preferred proponent, OCIP, for the supply of a new multi-pad arena facility in the Shefford Road Park.

In 2004, OCIP entered into a 30-year P3 (ending in 2034) with the City of Ottawa to design, build, finance, operate and maintain the Bell Sensplex West.

Today, after seven and a half years of operation, the Bell Sensplex West has developed a stable, successful business model, which after the first two years of business, has

consistently and significantly outperformed the financial benchmarks included in the Project Agreement between the City and OCIP. As a result, OCIP is now in a position to have a growing surplus and is in an ideal position to partner with the City for the development of another indoor ice facility at Shefford Park.

This report forms the next step in the procurement process in that it outlines the negotiated framework and principles for an agreement between the City and OCIP. It recommends that the partnership with OCIP be finalized and an agreement be executed between the parties based on the following framework.

## DISCUSSION

The proposal submitted by OCIP is for the construction of a Four-Plex to include four ice surfaces (three new and the current Potvin surface), food and beverage concessions, and complementary retail and office space.

The City's contribution to the project includes the use of existing Potvin Arena, use of land required to build the facility and a loan guarantee of \$26M plus interest over 30 years for the construction and permanent financing of the facility.

The new construction will be owned and operated by OCIP, a not-for-profit organization, represented by a board comprised of representatives from Senators Sports & Entertainment, Morley Hoppner Group Inc., Ottawa Senators Alumni as well as community of interest members.

Construction of the new facility is expected to cost \$26M and will be funded through private sector financing from a lender to be determined by OCIP. OCIP will make annual payments under the 30-year project agreement to service the loan associated with the construction period and the long-term debt financing loan will be guaranteed by the City. OCIP will subcontract with Capital Sports Management Inc. (CSMI) who will manage the day-to-day operations of the facility for the 30-year duration of the term. CSMI is a privately owned company that specializes in the design, development, financing and long-term management of arena facilities and is currently managing the operations at the Bell Sensplex West. CSMI will be responsible for all of the programming and marketing of activities at the new facility. At the end of the 30-year term, the facility will be purchased by the City for one dollar.

## Bell Sensplex West Project Agreements

In order to fulfill OCIP's mandate to reinvest into the community, minimize risk and ensure a successful business plan at the new proposed East end facility, OCIP has identified the need for two amendments to the current Bell Sensplex West Project Agreements.

## **1-Bell Sensplex West Surplus Account:**

- The current Agreements require that any surplus cash flow generated by the Bell Sensplex West be held in a surplus account. OCIP is seeking the City's consent to utilize the funds currently held in this surplus account to provide the working capital and start-up funding required for the new facility at Shefford Park. The Bell Sensplex West Project Agreements allows for the possibility of funds held in the surplus account to be released to OCIP to further its not-for-profit objectives, provided that certain conditions are satisfied. City staff has determined that OCIP has satisfied the required conditions and that sufficient funds would remain in the surplus account to ensure ongoing operations at the Bell Sensplex West to remain properly funded.
- \$1.5 million from the Bell Sensplex West Surplus Account would initially be contributed to the East Facility. \$1 million of those funds would be made available for start-up working capital and \$500,000 would be deposited in an operating reserve fund. Further contributions of \$500,000 would continue until such time as the East operating reserve fund and lifecycle reserve fund are fully funded (projected to occur at year four of term). It is the intent that the East Facility will repay the total advances received from West Facility, with such repayments being made as sufficient cash flow is available from the East Facility.

## **2- Bell Sensplex West Operating Reserve Fund (ORF):**

Under the Bell Sensplex West Project Agreements, the City has contributed \$1.0 million to the ORF, an account established and held by the City for the purposes of ensuring the ongoing operation of the Bell Sensplex West and as a security for the loan guarantee provided to the West by the City. The proposed change is to amend the Bell Sensplex West Project Agreements such that the City contribution will remain in the ORF and be released to the City at the end of the term in 2034. During the term, this \$1.0 million will remain as a City asset in the City-held ORF and any interest earned by the City on this balance will accrue to the City. Any requirement by OCIP to draw on funds from the ORF will first be funded from OCIP's portion of the ORF. OCIP will have an obligation to repay any amounts withdrawn from the ORF, with a priority to the repayment of any City funds. If the City were to require the repayment of the \$1 million currently being held in the ORF as is contemplated in the Bell Sensplex West Project Agreement, OCIP would not have the required surplus cash to enable the financial contribution to the East Facility to provide for the start-up working capital for the East Facility, as detailed above.

### **Financial Framework**

The City and OCIP will enter into a Municipal Capital Facility Agreement to exempt the Facility from the payment of property taxes and all Development Charges (DC's) except those relating to public transit. The transit DC's are estimated at \$462,500 and will be paid by the City from the Program Facilities Upgrades account.

The City will commit to purchase 2,227 hours of prime ice time each year during the term of the Agreement at a rate of \$222 per hour, and this rate will be escalated at 2 per

cent annually for the first five years of the partnering Agreement. Escalation rates will be reviewed by both parties and renegotiated every five years thereafter. This rate of \$222 per hour will represent an annual savings to the City of approximately \$32K. It should be noted that the \$222 rate is below the City's public sector comparator.

In order to mitigate the risk to the City of providing a guarantee for the construction loan and term loan, OCIP will establish an Operating Reserve and a Lifecycle Renewal Reserve. The Operating Reserve will be funded over time to a level sufficient to meet its obligations under the Agreement for one full year. Initially, the targeted balance in the Operating Reserve will be approximately \$500,000 in year one and will increase to an amount sufficient to meet OCIP's annual debt service obligation by year four, and will further increase over time in step with the increasing debt servicing obligations.

The Lifecycle Renewal Reserve of 1.3 per cent of construction costs will be funded by OCIP to ensure that all lifecycle renewal requirements over the 30-year lease period are fully funded. This will not only benefit OCIP and the users of the facility during the initial 30-year term, but it will result in the City taking ownership of a properly maintained, fully functional facility at the end of the 30 years. Any funds remaining in this reserve at the end of the term will transfer to the City, along with the facility.

OCIP will provide the City with annual, audited financial statements for both facilities to ensure the flow of funds respects the terms of the Agreement.

### Risk Distribution

This P3 requires the private sector partner to assume all risks related to the design and construction of the new facility and to assume the performance and revenue risk related to the management and operation of the new facility. The operator will be paid a base management fee of \$171K per year, which will escalate by 2 per cent per year. There will also be an incentive success fee of 12.5 per cent of net income before debt and operating and reserve fund obligations. The City will receive 50 per cent of any success fee that surpasses \$250,000 in any given year only when all conditions of the Agreement are met and the capital reserves are kept current. Any shortfall in meeting these financial commitments will result in the payment of the base management fee only. This is consistent with the model used in the Bell Sensplex West.

In order to obtain the financing required to undertake this project the City has been requested to provide a full guarantee of the construction loan and the long-term loan.

In addition, as detailed above, OCIP will contribute \$500,000 in year one of the project to the Operating Reserve from the surplus currently enjoyed by the Bell Sensplex West. The ORF is projected to be fully funded by year 4 of the East Facility.

The City will exempt the new construction from all development charges except those relating to public transit. The City will also enter into a Municipal Capital Facilities Agreement and request that the Municipal Property Assessment Corporation (MPAC) grant an exemption from the collection of property taxes for the term of the agreement. Both exemptions will help mitigate the overall risk to the project by reducing some of the

costs and further supporting the business case which is consistent with what Council approved in 2004 when it approved the Bell Sensplex West Project.

The location of this new facility also reinforces the business case for the project. Shefford Park currently houses multiple soccer fields and an extensive beach volleyball area and the synergy between these current uses and the new Four-Plex is expected to be positive.

The creation of a Lifecycle Renewal Reserve also mitigates any risk to the City and the funds from this reserve will ensure the timely completion of lifecycle renewal work. This in turn is related to the long term condition of the asset and the ability that the city will have to meet community demands.

### RURAL IMPLICATIONS

The facility will be available to all users from across the City, including rural residents.

### CONSULTATION

In developing their proposal, OCIP carried out consultations and discussions with user groups in the Eastern part of the city and all those who participated indicated a strong support for this new facility. A formal public meeting on this P3 will be held by OCIP once an agreement has been signed and prior to the commencement of construction.

### COMMENTS BY THE WARD COUNCILLOR(S)

The Councillor is aware of the report.

### LEGAL IMPLICATIONS

Parks, Recreation and Cultural Services staff, in conjunction with external and in-house legal counsel, have negotiated, subject to Committee and Council approval, a long-term P3 contractual relationship that is modeled on the contractual framework for the Bell Sensplex West. The proposed contractual framework provides for an appropriate sharing of risk and reward between the two parties and also has appropriate safeguards in favour of the City. Consequently, there are no legal impediments to approving the recommendations in the report.

### RISK MANAGEMENT IMPLICATIONS

There are no risk management implications.

### FINANCIAL IMPLICATIONS

The construction of this new facility is expected to cost \$26M and will be designed, built, financed, and operated by the private sector partner. In order to obtain the financing required for the construction of this facility, the City has been requested to provide a guarantee for the construction loan and for the long-term loan in the amount of up to \$26 million plus interest and any other associated costs and expenses.

The purchase of 2,227 hours of ice time at \$222/hr by the City will ensure that the City has not decreased its allocation of available subsidized ice time. This will be offset through the sale of this ice time to local organizations.

Since all operating expenses associated with the Potvin Arena will be transferred to the partner, total base budget savings of \$32,000 will be achieved as a result of this recommendation between departmental operating budgets from Parks, Buildings and Grounds and Parks, Recreation and Cultural Services. Savings of \$16,000 is to be achieved in 2014 and 2015 respectively.

Funds in the estimated amount of \$462,500 for the payment of development charges relating to public transit are available from capital project Program Facilities Upgrades.

#### ACCESSIBILITY IMPACTS

Negotiations reiterated the requirement for this facility to meet the City's accessibility standards. The RFP clearly stated and OCIP has agreed that they will make all reasonable efforts to comply with the City's Accessibility Design Guidelines as approved by City Council on November 14<sup>th</sup>, 2012.

#### ENVIRONMENTAL IMPLICATIONS

There are no environmental implications related to this project. Standard development conditions will apply.

#### TECHNOLOGY IMPLICATIONS

There are no technology implications associated with this report.

#### TERM OF COUNCIL PRIORITIES

HC2-Improve parks and recreation

SE2- Improve operational performance

C3 – Provide a compelling vibrant destination

#### SUPPORTING DOCUMENTATION

Document 1: Business Terms dated 27 November 2012

#### DISPOSITION

The Parks, Recreation and Cultural Services Department, in consultation with Legal Services and external legal counsel, and the Finance Department will finalize the necessary legal agreements and arrange for their execution to implement this P3 with OCIP. Implementation of the project will proceed immediately after agreements are executed. The anticipated completion date of the facility is September 2014.