



City of Cambridge Multi-Purpose Sports and Entertainment Feasibility Study





EXECUTIVE SUMMARY

The City of Cambridge recognizes the value of recreational services and celebrates the personal, social, economic and environmental benefits that they provide. Through the Community Services Department, the municipality owns and operates a dozen recreation facilities, including six (6) arenas that have a total of seven (7) ice pads. The municipality also owns and operates a number of facilities which accommodate a range of arts and cultural activities and events. Residents and visitors to Cambridge also have access to sports and entertainment facilities that are owned and operated by the private sector (e.g. the Cambridge Ice Park and the Cambridge Ice Centre) and various community organizations (e.g. the YMCA).

Most of the municipality's arenas are several decades old. The City does not have a multi-use recreation complex that includes ice pads, aquatic facilities, and other amenities. It also does not have a multi-purpose sports and entertainment centre that could house a major sports franchise (e.g. Ontario Hockey League (OHL), the American Hockey League (AHL) or the National Lacrosse League (NLL)) or that can hold large entertainment events. The new 15,000 sq. ft. performing arts complex being built in downtown Cambridge will have between 500 and 600 seats, and as such will have the capacity to accommodate small to mid-sized events.

PURPOSE OF THE MULTI-PURPOSE SPORTS AND ENTERTAINMENT FEASIBILITY STUDY

IBI Group was retained by the City of Cambridge to conduct a basic feasibility analysis in order to confirm if there is a business case to develop a major sports and entertainment centre in the City of Cambridge or if a smaller multi-use recreation complex would be more feasible/appropriate. IBI Group undertook the following tasks to gauge the current and potential future market demand for a new 6,000 seat centre:

- Identified opportunities to attract a primary tenant (i.e. a professional sports team/franchise);
- Reviewed the existing supply of sports and entertainment centres within proximity to the City of Cambridge (i.e. competition), as well as the recent usage/performance of these facilities; and
- Investigated opportunities to attract major entertainment events (e.g. as concerts and trade shows) as well as patrons (i.e. residents of Cambridge, residents of the larger region and tourists/visitors).

EXISTING SERVICE STANDARDS FOR ICE PADS

Through a partnership agreement, the City has access to 28 hours of ice time per week at the Cambridge Ice Park. This access is considered to be equal to 0.5 municipal ice pads. The *City of Cambridge Master Plan for Parks, Recreation and Open Space (2002 to 2022)* includes a guideline of providing one municipal (1) ice pad per 15,000 people. The Plan suggests that this guideline can be reduced where there are ice facilities provided by the private sector or other public agencies. With an estimated population of 130,000 in 2010, Cambridge residents currently enjoy the following service standards for ice, which are higher than the service standards found in many other municipalities:

- Municipal Ice Pads (i.e. 7.5 pads): One (1) ice pad per 17,333; and
- Municipal and Non-Municipal Ice Pads (i.e. 10 ice pads): One (1) ice pad per 13,000 people.

During the 2009/2010 season, some 3,697 people were registered with minor or recreational teams that use the City's ice facilities. This translates into a ratio of approximately 493 participants per ice pad. A number of Ontario municipalities suggest a service target of one (1) ice pad per 700 registered participants within their recreation master plans (e.g. The Town of Oakville, the City of Kingston, the Township of Centre Wellington and the Town of Caledon).

There may be high demand for prime time ice at the City's arenas. However, unlike in many other municipalities, shoulder times such as early weekday and weekend mornings and late evenings are not fully booked. Only 62% of the City's ice allocation at the Cambridge Ice Park was booked in 2009/2010.



ANTICIPATED FUTURE ICE PAD REQUIREMENTS

Continued growth of the 0 to 19 age category in Cambridge is expected over the next several decades. It is difficult to predict how population growth will impact participation in ice activities, as in the past five years registration in girls and boys hockey, figure skating and ringette in the City of Cambridge has not increased.

With the City's population anticipated to grow by 63,000 people between 2010 and 2036, three (3) to five (5) additional ice pads could be required to serve the local community.

Service standards, however, do not take into consideration the age, size, quality and location of facilities. As noted, the majority of the City's arenas are several decades old and only the Galt Garden Arena can accommodate more than 1,100 spectators.

MARKET DEMAND

There are currently a number of multi-purpose sports and entertainment centres located within 100 km of the City of Cambridge, including:

- The Aud, Kitchener: Fixed seating for 7,100 spectators. Home to the Kitchener Rangers (OHL);
- The John Labatt Centre, London: Fixed seating for 9,090 spectators. Home to the London Knights (OHL);
- The Sleeman Centre, Guelph: Fixed seating for 4,500 spectators. Home to the Guelph Storm (OHL) and the Guelph Hurricanes (Junior B);
- Copps Coliseum, Hamilton: Fixed seating for 17,383 spectators. Home to the Hamilton Bulldogs (AHL); and
- The Powerade Centre, Brampton: Fixed seating for 4,980. Home to the Brampton Battalion (OHL), Brampton Thunder (North West Hockey League) and the Brampton Excelsiors (Ontario Lacrosse League).

Various industry and facility reports show that due to poor global economic conditions, changes in consumer preferences, the growing choice of recreation and entertainment activities and lower volumes of tourism, there has been a decline in attendance and spending at sports and entertainment facilities in Ontario.

There appears to be minimal market demand for a 6,000 seat centre in the City of Cambridge to host sports and entertainment events.

Due to the locational/territorial requirements of major sports franchises (i.e. a minimum separation distance of 80 km to 120 km), it is unlikely that a new OHL, AHL or NLL team could be established in the City of Cambridge.

In the absence of a key tenant, there is no financially sustainable business case for the development of a new multi-purpose sports and entertainment centre in Cambridge.

ESTIMATED CAPITAL AND OPERATING COSTS FOR A 6,000 SEAT MULTI-USE SPORTS AND ENTERTAINMENT CENTRE

Over the past decade, a number of centres have been built in Canada including several within approximately 100 km or an hour drive of Cambridge (e.g. the Sleeman Centre located in Guelph, the John Labatt Centre in London and the Powerade Centre in Brampton). Capital costs for centres built within the past five years range from an estimated \$8,182 per seat to \$13,622 per seat. The majority of multi-purpose sports and entertainment centres are municipally owned and most municipalities received provincial and/or federal capital funding and/or private contributions (e.g. donations and naming rights) to assist with the construction costs.



IBI Group estimates that it will cost approximately \$56.0 million (2010 dollars, excluding land) to construct a new 6,000 seat multi-purpose sports and entertainment centre (i.e. approximately \$8,200 per seat plus additional costs associated with the second ice pad).

For the purpose of generating estimates of annual operating costs, annual revenues and return on investment, IBI Group assumed that if a new 6,000 centre was built in Cambridge it would have a main tenant.

Even with main tenants, many municipalities have struggled to generate enough revenue from ticket sales, facility rentals, advertising, concessions, etc., to cover annual operating costs as well as capital reserves and debt financing. Some have experienced significant problems with defaults on loans/partnership agreements and payments for naming rights, the loss of key tenants and competition with other venues/municipalities to attract major events. As such, the assumptions used by IBI Group to generate estimates of annual revenues (e.g. number of annual entertainment events, attendance at sports and non-sporting events, rental hours for prime and non-prime time ice, concessions revenue, etc.) are somewhat conservative, but reflect the recent experiences of facilities in Ontario (e.g. the K-Rock Centre in Kingston, the GM Centre in Oshawa, the Essar Centre in Sault Ste. Marie and the Sleeman Centre in Guelph) as well as the challenges Cambridge might face in attracting events and patrons due to the number of competing sports and entertainment venues.

IBI Group estimated that in year one the 6,000 seat multi-purpose sports and entertainment centre could generate \$2.4 million in revenues, but that operating costs (including capital reserve payments) could total \$2.6 million. This operating deficit does not include debt repayment.

As noted, the estimated construction cost of the 6,000 seat multi-purpose sports and entertainment centre is \$56 million to construct. Even with the \$12.5 million identified within the City of Cambridge's *2010 Ten Year Capital Budget* forecasts for the replacement of two of the municipality's aging arenas in 2019, the possibility of using development charge revenue and potential grants and partnerships, it is likely that the City would need to borrow some money to finance the development. Using the above-noted estimates of annual operating costs and revenues, IBI Group ran a 25-year proforma for a 6,000 seat centre under three hypothetical funding scenarios. The scenarios assumed varying proportions of the total capital costs would be covered by the City of Cambridge and variations in the amount of money that the City would need to borrow (i.e. debt finance):

- Scenario A: 100% of the capital costs to be paid for by the City, with 70% (i.e. \$39.5 million) to be financed;
- Scenario B: 89% of the capital costs to be paid for by the City, with 60% (i.e. \$33.5 million) to be financed; and
- Scenario C: 50% of the capital costs to be paid for by the City, with 21% (i.e. \$11.5 million) to be financed.

As shown in Figure A below, IBI Group estimates that over a 25-year operating period a new 6,000 seat multi-purpose sports and entertainment centre, with a main tenant, could incur a deficit of between \$19 million (net present value, Scenario C) and \$47.5 million (net present value, Scenario A).

Should the City of Cambridge raise all \$56 million dollars and avoid the need for debt financing, IBI Group estimates that the new multi-purpose sports and entertainment centre may generate a loss of only \$7.3 million (net present value) over a 25-year operating period.



Figure A. Financial Feasibility Analysis - 6,000 Seat Multi-Purpose Sports and Entertainment Centre

Funding Scenarios	Potential Sources of Development Funding (i.e. \$56.04 Million)		Estimates for Year 1 of Operations Excluding Debt Financing			Estimates Including Debt Financing	
			Revenues	Operating Costs	Profit/Deficit	Year 1 of Operations Profit/Deficit	25-Year Facility Return on Investment (NPV)
A. Funded by the City (100%)	Municipal Reserves	\$12,500,000					
	Development Charges	\$4,000,000					
	Grants	\$0	\$2,439,663	-\$2,587,742	-\$148,079	-\$3,415,685	-\$47,465,101
	Partner Funding	\$0					
	Financing	\$39,540,000					
B. City (89%) and Grants (11%)	Municipal Reserves	\$12,500,000					
	Development Charges	\$4,000,000					
	Grants	\$6,000,000	\$2,439,663	-\$2,587,742	-\$148,079	-\$2,945,842	-\$41,684,449
	Partner Funding	\$0					
	Financing	\$33,540,000					
C. Funded by the City (50%) and Private Partner (50%)	Municipal Reserves	\$12,500,000					
	Development Charges	\$4,000,000					
	Grants	\$0	\$2,439,663	-\$2,587,742	-\$148,079	-\$1,100,098	-\$18,975,554
	Partner Funding	\$28,020,000					
	Financing	\$11,520,000					

Key Assumptions:

- Capital cost for 6,000 seat rink assumed at \$8,200 per seat (w hich includes soft costs)
- Capital cost for second ice pad assumed to be \$190 per sq. ft. (plus 20% for soft costs)
- Total capital costs, excluding debt financing, estimated to be \$56,040,000
- Operating cost estimates include capital reserve contributions
- Interest rate of 5.5% p.a. used, along w ith annual escalation rate of 3%
- Financing assumed to be over a 25-year period (2 years for construction and 23 years of operation)
- Estimates of costs and revenues for Year 1 of Operations based on 2010 estimates and a 3% annual escalation
- Both ice pads w ill operate year round
- Only the portion of the facility that is required to address grow th-related needs in the City w ould be eligible for development charge funding

It should be stressed that the proformas prepared by IBI Group are based on high level order of magnitude cost estimates and various funding and revenue assumptions. A complete business case and detailed costing analysis will need to be undertaken by the City of Cambridge and/or a second party prior to selecting a preferred development option (i.e. major sports and entertainment centre or a community-based multi-use recreation complex) and pursuing a tenant agreement.

Ultimately, whether or not the City of Cambridge is able to pursue the development of a new centre is dependent on the availability of funding and whether or not:

- The municipality is willing to tolerate a large annual deficit and subsidize recreation and entertainment in the hope that the construction and operation of a new centre will result in significant positive economic impacts to the City (e.g. increased resident and tourist spending, new jobs, increased taxes, etc.); and
- Economic and market conditions change and revenues are significantly higher than what has been estimated in this analysis (e.g. more events, higher spending on concessions, and greater demand for advertising space).

In summary, even with a key tenant, unless the demand for sports and entertainment increases, along with spectator spending, there is not a business case for the development of a new multi-purpose sports and entertainment centre in Cambridge.



ESTIMATED CAPITAL AND OPERATING COSTS - 2,000 SEAT MULTI-USE RECREATION COMPLEX

An alternative to developing a 6,000 seat centre is for the City of Cambridge to develop a smaller multi-use recreation complex that would primarily accommodate the needs of local residents and groups, but that could also be used for some smaller spectator and entertainment events. IBI Group generated capital and operating cost estimates for two community complex options: 1) a 2,000 seat facility or 2) a 750 seat facility.

As per the study terms of reference, the option for both complexes to include a twin pad arena, a gymnasium, meeting spaces and indoor swimming pool was explored. Capital costs for 100,000 plus sq. ft. multi-use recreation complexes built in Ontario over the past five years have ranged from an estimated \$160 to over \$200 per sq. ft. Many municipalities have received capital funding assistance (e.g. Build Canada fund) and some have sold naming rights or undertaken community fundraising to cover a portion of the construction costs.

IBI Group estimates it will cost approximately \$29.3 million (2010 dollars, excluding land) to build a new 2,000 seat multi-use recreation complex and \$24.6 million (2010 dollars, excluding land) to build a new 750 seat complex.

Some municipalities have reported considerable cost savings and operational efficiencies with the consolidation of activities and amenities into one complex. However, given the high operating costs associated with ice and indoor swimming pools, community programming and the need for capital reserve contributions, user fee revenues rarely cover the total cost of operations. A net operating cost to the municipality (i.e. deficit) is common and normally tolerated for such public recreation facilities and services.

IBI Group ran financial proformas for the large and small complex options under two hypothetical funding scenarios, which assumed varying amounts of debt financing to be carried by the City:

- 2,000 seat complex: 100% funded by the City (Scenario A) or 75% financed by the City (Scenario B); and
- 750 seat complex: 100% funded by the City (Scenario A) or 70% financed by the City (Scenario B).

Very few community arenas have more than 1,000 fixed seats. Junior A and B and Senior A hockey games generally do not require seating for more than 500 spectators and there are limited opportunities to attract small to mid-sized entertainment events (e.g. concerts, conventions, trade shows) at multi-use recreation complexes.

IBI Group estimates that the net cost over a 25-year operating period for a new 2,000 seat complex would be between \$19.6 and \$27 million, assuming debt financing is required.

As shown in Figure B below, IBI Group estimates that with debt financing, over a 25-year operating period a new 750 seat multi-use recreation complex could incur a net cost of between \$15.7 (net present value, Scenario B) and \$21.9 million (net present value, Scenario A).

The City of Cambridge does not have a history of incurring debt. Should the City of Cambridge raise all \$24.6 million dollars to cover capital costs and avoid the need for debt financing, then over a 25-year operating period IBI Group estimates that the new 750 seat multi-use recreation complex would cost only \$13.7 million (net present value, Scenario B).



Figure B. Financial Feasibility Analysis - 750 Seat Multi-Use Recreation Complex

Funding Scenarios	Potential Sources of Development Funding (i.e. \$24.57 Million)		Estimates for Year 1 of Operations Excluding Debt Financing			Estimates Including Debt Financing	
			Revenues	Operating Costs	Profit/Deficit	Year 1 of Operations Profit/Deficit	25-Year Facility Return on Investment (NPV)
A. Funded Entirely by the City of Cambridge	Municipal Reserves	\$12,500,000					
	Development Charges	\$4,000,000					
	Grants	\$0	\$1,502,873	-\$2,205,440	-\$702,567	-\$1,369,476	-\$21,944,702
	Partner Funding	\$0					
	Financing (debt service)	\$8,070,000					
B. Funded by the City (70%) and Partner (30%)	Municipal Reserves	\$12,500,000					
	Development Charges	\$4,000,000					
	Grants	\$0	\$1,502,873	-\$2,205,440	-\$702,567	-\$861,857	-\$15,699,269
	Partner Funding	\$7,312,500					
	Financing (debt service)	\$757,500					

Key Assumptions:

- 105,000 sq. ft. facility with a twin pad arena (Main Pad: 750 seats, Second Pad: 250 seats), indoor swimming pool and community rooms
- Capital cost of \$195 per sq. ft. (plus 20% for soft costs)
- Total capital costs excluding debt financing, estimated to be \$24,570,000
- Operating cost estimates include capital reserve contributions
- Revenues and expenses are based on City of Cambridge 2010 Operating Budget and municipal case study research
- Interest rate used is 5.5% p.a. and annual escalation used is 3%
- Financing assumed to be over a 25-year period (2 years for construction and 23 years of operation)
- Estimates of costs and revenues for Year 1 of Operations based on 2010 estimates and a 3% annual escalation
- Only the portion of the facility that is required to address growth-related needs in the City would be eligible for development charge funding

CONCLUSIONS

Given the outcome of the financial analysis and the mandate of the *City of Cambridge Master Plan for Parks, Recreation and Open Space*, there is a stronger business case for the development of multi-use recreation complex in the City of Cambridge, particularly a 750 seat option, in that:

- The complex would primarily accommodate the needs of minor and recreational user groups and local residents;
- There is a higher tolerance for municipal funding (and annual net costs/deficits) for community-based recreation facilities and services, as opposed to entertainment which normally is provided by the private sector and paid entirely by users;
- A 750 seat complex would cost the municipality significantly less in terms of capital costs and debt financing;
- The decommissioning of older facilities and the consolidation of facilities/activities into one complex will likely result in operational savings; and
- A new complex could also be used to host some smaller spectator and entertainment events, conventions and meetings. These activities could generate some economic benefits to the community.

A new complex, with a twin pad arena and aquatic facilities, may not be required for several years given the current high standard for ice and the life expectancy of the City’s existing facilities.



NEXT STEPS

The feasibility study found that currently there is not a business case for a 6,000 seat multi-purpose sports and entertainment centre in the City of Cambridge. It is unlikely there will be a business case for a new centre in the short to medium-term (e.g. next five to ten years). However, the Cambridge Community Services Master Plan Update Committee should continue to investigate opportunities to attract and accommodate a major sports franchise, including an investor, as well as funding opportunities to share the capital construction costs. The municipality should also continue to monitor:

- The financial performance of other sports and entertainment centres and the impact they are having on the local economy;
- Community ice/arena requirements and the need for new ice pads; and
- Tax payer support for the development of either a new multi-purpose sport and entertainment centre or a smaller community complex.

Without a business case for a new 6,000 seat multi-purpose sports and entertainment centre or the current need for a multi-use recreation complex, it is premature to undertake a detailed site investigation. However, the City can begin to identify potential sites to accommodate a new facility, including properties currently owned by the municipality as well as lands owned by the private sector and other public agencies, and weigh the pros and cons of both downtown locations and greenfield locations.

It is important to note that the findings of this feasibility analysis are not intended to suggest that the City of Cambridge should not continue to plan for the refurbishment or replacement of its aging ice facilities in order to meet user expectations. The City of Cambridge is committed to continuing to explore the best approach to accommodating the ice requirements of its citizens (e.g. new multi-pad arena(s) or a multi-use facility).