DRAFT, 24 October 2023
Updated as new information provided

LANSDOWNE 2.0 FINANCIAL BACKGROUNDER

LANSDOWNE 2.0 IS EXPECTED TO COST 1/2 A BILLION DOLLARS

TOTAL PROJECT COSTS

- City staff and OSEG state that the total Lansdowne 2.0 costs is $419.1m.
- But $18.6m in parking garage costs are not included in the $419.1m.
- Accordingly, the **cost of Lansdowne 2.0 should be reported as $437.7m.**

CLASS C ESTIMATE

- OSEG's Lansdowne 2.0 costing estimates are done to a Class C level, meaning that project development is about 70% complete and considered at the "Preliminary Design" stage.
- It should come as no surprise if **project costs balloon to $500 million or more**, as this proposal progresses to a Class A cost estimate.

INTEREST RATE ASSUMPTIONS ON THE DEBT

- The City has calculated debt payments based on a 4.25% interest rate with a 40 year term, which leaves little room for error.
    - In 2022, the City assumed interest rates of 4%, when the Bank of Canada policy rate was 1%.
    - In 2023, the City now assumes interest rates of 4.25%, when the Bank of Canada policy rate has already climbed to 5%.
    - The staff report notes that an increase of 50 bps (+0.5%) in interest rates would increase borrowing costs, and the burden on taxpayers, by $1.3m annually.
    - Bank of Canada rates normally affect short term lending, and have less impact on long term bonds. Nonetheless, a 400 basis points increase (i.e from 1% to 5%) should translate into more than a 25 points increase (i.e. from 4% to just 4.25%) in any prudent planning framework.

TAXPAYERS WILL BE RESPONSIBLE FOR UP TO $15.2M PER YEAR … PLUS A FURTHER $71M

HOW CITY STAFF AND OSEG PROPOSE TO PAY FOR LANSDOWNE 2.0

- City staff and OSEG assert that the cost of Lansdowne 2.0 to taxpayers is $5m/year.
- In total, taxpayers would be responsible for:
  - Up to $71.3m in one-time payments.
  - $312.7m in debt, with annual debt servicing of $16.4m (excluding the additional parking garage costs noted above).
  - While also continuing to pay down Lansdowne 1.0 debt.

ONE-TIME PAYMENTS

- There are three one-time payments for Lansdowne totalling $71.3m, that taxpayers will incur only if the project goes ahead and which represent resources that could be spent on other city priorities.
  - **Debenture premium of $33m**, which is refinancing the original Lansdowne loan at a lower interest rate and which could be spent on other capital projects.
  - **Capital envelope spending of $18.3m**, which could be spent on other capital projects.
  - **Federal/provincial government grants of $20m**, or if those were not to materialize, the City may have to look to reserves of $20m to address this financing gap.

ANNUAL DEBT SERVICING

- Debt servicing of **$16.4m** is financed through different sources that can be grouped into three categories:

DEDICATED AND RELIABLE REVENUE SOURCES	
○ Ticket surcharge	$0.7m
○ OSEG rent	$0.5m
	$1.2m

DEDICATED BUT LESS RELIABLE REVENUE SOURCES	
○ Waterfall distributions	$6.3m
○ Hotel accommodation tax	$0.5m
	$6.8m

GENERAL TAX REVENUES	
○ 75% of incremental taxes on Lansdowne properties	$3.4m
○ General revenues	$5.0m
	$8.4m

- Taxpayers are responsible for financing the general tax revenues and any shortfalls in the dedicated revenue sources; accordingly the debt service cost to taxpayers is a:

    - **Minimum annual payment of $8.4m**, in a year with $6.3m in waterfall payments to the city and $0.5m from a hotel on site.

    - **Maximum annual payment of $15.2m**, in a year with no waterfall distributions to the city and no hotel on site.

PROPERTY TAX UPLIFT IS TAX DIVERSION

- City staff and OSEG classify $3.4m/year in “Property Tax Uplift”, i.e. 75% of the property taxes paid by the future Lansdowne residents/commercial, as funding that would be available for debt servicing.

- **While “property tax uplift” was used in Lansdowne 1.0, it is simply a “tax diversion”** of the property taxes payable on certain properties.

    - City staff argue that the Hemson study (2021) showed that new builds inside-the-greenbelt (ITG) create a surplus for city finances, providing more in taxes than they require in services.

- The Hemson analysis shows that ITG residents are paying more than their fair share for city services; *NOT* that the City can do without 75% of the property taxes on any new development ITG.

- By the City staff's logic, any ITG resident who added an extension to their home should only have to pay 25% of the property taxes on the incremental value.

- "Property tax uplift" is more correctly characterized as "tax diversion" or "earmarking general revenues".

- The only other jurisdiction that has tried a property tax uplift scheme is Calgary, and they abandoned it after a pilot project, concluding that general revenues is the appropriate source of financing for future investment programs.

- The **$3.4m/year** that the city claims as "property tax uplift" is really general revenues that pays for city-wide and residence-specific services.

HOTEL ACCOMMODATION TAXES

- The City staff's debt financing model includes $500,000 in annual payments from a hotel accommodation tax levied on a hotel situated on the Lansdowne site.

- This is described as a potential 111-room boutique hotel; which would appear to displace a significant number of housing units, or some combination of retail/commercial and residential space.

LANSDOWNE 2.0 FINANCIAL PLAN RELIES ON OVER $1 BILLION IN RETAIL LEASING OPERATING PROFITS

EXPECTED RETAIL PROFITS

- The Lansdowne Partnership has four business lines, which project the following total operating profits and losses out to 2066:

    - RedBLACKS: $150.7m
    - 67's: -$4.5m
    - Stadium: -$164.8m
    - Retail: $1,083.3m

- The financial success of the Partnership is based to a very large degree on the success of retail leasing at Lansdowne – which the proposal expects to generate $1.083 billion in profits over the next four decades.

- City staff and OSEG have not provided sufficient information supporting why Retail is expected to be so profitable, when there is currently little foot traffic at Lansdowne on non-game days.

- EY has warned that "OSEG's assumptions are considered optimistic, overlooking real-world leasing complexities".

- The Redblacks are also projected to generate $150.7m in profits over the next four decades, or roughly $3.75m/year, when they have reached a high of only $2m in their strongest year financially to date. Further, no analysis has been provided of the financial risk if the Redblacks were to leave after a commitment that ends in 2032.

- Transparency on how OSEG came up with these assumptions is required for Council to be able to make an informed decision on whether financial projections are realistic.

TIMING OF PAYMENTS TO THE CITY

- Total waterfall payments to the City are estimated at $358.6m.

    - Three quarters of waterfall payments come after 2047.

    - The City will not get any waterfall payments before 2027, and minimal payments before 2037, which EY identifies as an additional project risk for the City.

THE CITY'S "COST OF DOING NOTHING" PRESENTS A FALSE CHOICE. IF OSEG DEFAULTS, THE CITY WOULD HAVE OPTIONS

BUSINESS AS USUAL

- Presenting the issue as doing a deal with OSEG or doing nothing is a false choice. It is an example of the "sunk cost fallacy" which often happens with big projects. In other words, the inclination of the City to avoid changing course because they are so invested in it, even if changing course is the right answer.

- City staff state that the "cost of doing nothing" could be up to $400m over the next 40 years.

- This $400m "cost of doing nothing" assumes a scenario in which OSEG defaults on the partnership, the City does not take any mitigating efforts to address the causes of the losses, and that the City continues on a "business as usual" approach. In other words, the City literally does nothing, which is not realistic.

- If Council decides this deal isn't in the public interest, Council does have other options, including renovation rather than demolition and rebuild.

- If Council commits to this spend now, and OSEG defaults later when rosy projections aren't met, the City will again have options. But in that scenario, the City will then also be burdened with more significant debt servicing requirements from Lansdowne 2.0.

MAINTAINING THE EXISTING NORTH SIDE STANDS AND ARENA

- The north stands and arena are currently characterized by the City as "functionally obsolete", and by OSEG as "end of life". This is despite these facilities being assessed around the time of the original 2012 partnership agreement as "in generally good condition" and "structurally adequate". They are not "end of life".

- A 2020 Morrison Hershfield report estimated the cost of repairing and maintaining the existing north stands and arena at $40m over 40 years.

- Accordingly, maintaining the current facilities is a real option, particularly in light of increased cost estimates.

ANNUAL PARTNERSHIP LOSSES

- The Lansdowne Partnership has been losing about $10m/year on average since 2012.

- A 2020 City staff report noted that if OSEG defaults, the City would incur costs of $4.5m to $12.5m in 2021, and corresponding costs into the future.

- These expected annual costs appear to be simply extensions of previous year losses, and assume that the City has no other options for making some of the most valuable real estate in the city financially sustainable.

- Meaningful public consultation could be used as an input into a market assessment of what might draw more visitors to the site on a daily basis.

THE CITY WILL TAKE $6M FOR AFFORDABLE HOUSING, AND USE IT TO PAY FOR A NEW SPORTS STADIUM

CITY VIOLATING ITS OWN POLICY ON PUBLIC LAND AND AFFORDABLE HOUSING

- When the city sells off public land to private developers, or in this case sells "air rights" to build on public land, 25% of the sale proceeds are put into a fund for building affordable housing.

- For Lansdowne 2.0, it is expected that the sale of air rights will earn the City $39m, of which ~$10m should go to affordable housing.

- But for Lansdowne 2.0, the city has reduced this allocation to 10%, so the amount for affordable housing is only $3.9m.

- Not only is the city breaking its own policy, but it is effectively using money targeted to affordable housing and using it to build a stadium.

THE CITY WILL USE RESERVES TO PROVIDE AN $11M SUBSIDY FOR PARKING

TAXPAYERS COULD SUBSIDIZE THE DEVELOPER OR RESIDENTS IN BUILDING 140 PARKING SPOTS

- The City costs the Lansdowne proposal at $419.1m, but then adds a further $18.6m for an additional 140 parking spots underground.

- These costs were not included in the 2022 proposal because, at the time, they were cost-neutral – i.e., fully covered by selling/renting those residential parking spots.

- But with escalating construction costs, these parking spots are no longer considered cost-neutral, as revenue will be less than expenses.

- Accordingly, the City will borrow $18.6m to build parking, with annual debt servicing of $1m.

- The City will build these spots but the associated parking revenue is only expected to cover 40% (or $400K) of annual debt servicing cost for their construction.
- The remaining 60% (or $600K) of the annual debt service cost for parking is to be paid from City reserves - this amount is additional to the total debt service costs of $16.4 discussed earlier.
- Taxpayers would therefore be subsidizing the cost of these parking spots for tower residents