



**Calgary Sports and  
Entertainment Corporation**

## **Review of Financial Implications of CalgaryNEXT**

**West Village - CalgaryNEXT -  
Phase One Analysis**

**Submitted June 27, 2016**

**CALGARYNEXT**  
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## **Review of Financial Implications of CalgaryNEXT**

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## EXECUTIVE SUMMARY

In August 2015, Calgary Sports and Entertainment Corporation (“CSEC”), unveiled a bold and exciting vision called CalgaryNEXT that would transform the west end of downtown Calgary and provide a place for all citizens to live, work and play. CSEC’s cost for CalgaryNext was \$890 million, which was costed using an approach in line with other large public infrastructure projects in Alberta.

In response to this proposal, the Deputy City Manager for the City of Calgary presented “West Village-CalgaryNEXT – Phase One Analysis” to City Council on April 25, 2016 (the “Report”) which provided an overview of the cost of CalgaryNEXT, which they estimated to cost between \$1.753 billion and \$1.827 billion. CSEC disputes this cost estimate.

The total cost to construct CalgaryNEXT is \$912 million, comprised of the original \$890 million cost of construction plus CalgaryNEXT’s proportionate share of land (\$9 million) and infrastructure (\$13 million).

The more appropriate cost of CalgaryNEXT and West Village combined, before financing, is \$1.132 billion as set out below:

Cost Source	City Report	CSEC Value
Buildings	\$890	\$890
Infrastructure	327	112
Land	80	80
Remediation	140	50
Total Cost Before Financing	\$1,437	\$1,132
Financing Costs	391	214
Total Cost With Financing	\$1,828	\$1,346

Cost Source	CalgaryNEXT	West Village	Total
Buildings	\$890	\$890	\$890
Infrastructure	13	99	112
Land	9	71	80
Remediation	0	50	50
Total Cost Before Financing	\$912	\$220	\$1,132
Financing Costs	161	53	214
Total Cost With Financing	\$1,073	\$273	\$1,346

## Building Costs

The cost of the buildings remains at \$890 million and has been verified by three independent contractors who work in Alberta and is agreed upon by both the City and CSEC.

## Infrastructure Costs

While the Report allocated the cost of both mandatory and optional infrastructure for the entire West Village of \$327 million to CalgaryNEXT, CSEC would argue that the base case infrastructure investment required to create the conditions for West Village development is \$112 million, not \$327 million.

West Village Infrastructure	\$112,000,000
Optional Enhancements	
- Underpass on 18th Street	80,000,000
- Bow River Pedestrian Bridge	30,000,000
- Other West Village Development	105,000,000
Total Infrastructure per City Report	<u>\$327,000,000</u>

Additionally, the footprint of the CalgaryNEXT project is only 15 acres or approximately 11% of the West Village and as such, it is reasonable to conclude that, at a maximum, 11% or \$13 million of the infrastructure costs could be borne by CalgaryNEXT.

## Land

The Report noted the cost of land to be \$80 million and again, allocated the entire amount to the CalgaryNEXT project. However, as noted above, the footprint of the CalgaryNEXT project is 11% of the West Village and as such, at a maximum, that 11% or \$9 million of the land costs could be allocated to CalgaryNEXT.

## Remediation

The Report estimated that if the entire West Village was remediated upfront, the cost would be between \$85 million and \$140 million. Whether we proceed with CalgaryNEXT or not, remediation costs will be incurred if the City plans to develop West Village. The allocation of all remediation costs to CalgaryNEXT is in contrast to, and would actually undermine, the City's position for a "polluter pays" approach to brownfield clean-up.

According to the work that has been completed by our environmental consulting team, using data provided by the City's environmental studies, we believe the cost to remediate the site is approximately \$50 million. None of the remediation costs should be included in the cost of CalgaryNEXT but rather borne by the polluters or others (Provincial Government) as outlined in the City Report.

## Financing

The Report included financing costs of between \$371 million to \$391 million relating to financing for funding of \$1.15 billion. While fiscally prudent to consider financing costs, the costing approach in the Report demonstrates a clear departure from the normal approach for Alberta public projects such as the new Calgary public library, which had no financing costs included.

We believe the financing costs will likely be approximately \$214 million, not the \$371 million to \$391 million outlined in the Report. We assert this budget line should not be included in the CalgaryNEXT project cost estimates. Alternatively, if we were to assign financing costs we assert the CalgaryNEXT project should not bear the burden of the future interest payments that will be incurred over the next 20 years related to:

- ◆ interest associated with the construction fieldhouse. The City is going to build a fieldhouse irrespective of CalgaryNEXT and will need to fund the construction;
- ◆ interest associated with the remediation of West Village for the reasons outlined above; and
- ◆ interest associated with infrastructure investments for the reasons outlined above.

### **Residual Value of West Village Lands**

While the Report determined that the costs of remediation, infrastructure and land for West Village should all be attached to the CalgaryNEXT project, the analysis did not acknowledge the revenue that would be forthcoming from selling the remediated, ready to develop land surrounding the project. Remediation and development of the West Village is an investment in Calgary’s city centre that will unlock considerable value. While the West Village includes approximately 130 acres of prime, underutilized land, only 46 acres have been identified as fully developable, with the remaining 84 acres containing right of ways and green space for parks.

Of the 46 acres, approximately 15 acres would be required to develop CalgaryNEXT, leaving approximately 31 acres that can be developed. Once the land has been remediated, the infrastructure has been put in place, and the CalgaryNEXT facilities have been constructed, it is estimated that the value of the land would be approximately \$10 million per acre. Therefore, the estimated revenue on the 31 developable acres is estimated conservatively at \$310 million. Given what we have seen for land near to other large sports projects there may be considerable upside in the value of the land.

### **Community Revitalization Levy (“CRL”)**

We were very encouraged that the Report estimated the amount of future property taxes that could reasonably be expected to be generated by the development of CalgaryNEXT (that would form the basis for the CRL funding portion of the development) to be in the range of \$345 million to \$435 million. While the City’s estimated range was less than we had modeled, it was certainly well in excess of the \$240 million we had identified to form part of the overall funding formula. Furthermore, even at the conservative estimate of \$435 million, the CRL is large enough to cover the base costs totaling approximately \$402 million including remediation of \$50 million, infrastructure costs of \$112 million and a contribution to CalgaryNEXT of \$240 million.

### **Conclusion**

The CalgaryNEXT project has the potential to be a positive project for the City of Calgary. The value is driven from using CalgaryNEXT as a catalyst to clean up and develop the West Village, therefore driving increased property values, development, and ultimately taxes. Using a simple, undiscounted cash flow model, and the same assumptions used in the Report for development and CRL revenues, the development of West Village, including CalgaryNEXT, results in a net cost of \$151 million. The City will own a \$890 million state of the art, multi-use sports facility that meets the standard for NHL and CFL events as well as international sporting and cultural events.

## CalgaryNEXT

Source	City	CSEC	Total
Building Cost	(\$440)	(\$450)	(\$890)
Remediation Cost	(50)	0	(50)
Infrastructure Cost	(112)	0	(112)
Land Costs	(80)	0	(80)
<b>Total Costs</b>	<b>(\$682)</b>	<b>(\$450)</b>	<b>(\$1,132)</b>
Sale of Cleaned Up Land*	\$310	\$0	\$310
CRL West Village	435	0	435
CRL McMahon Stadium Land	435	0	435
Polluter Pay/Government Support	435	0	435
<b>Total Revenue</b>	<b>\$745</b>	<b>\$0</b>	<b>\$745</b>
Net Cash Flow (Outflow)	\$63	(\$450)	(\$387)
Interest**	(214)	0	(214)
<b>Net Project Cash Outflow</b>	<b>(\$151)</b>	<b>(\$450)</b>	<b>(\$601)</b>

\* Assumed 31 acres of developable land value of \$10M per acre.

\*\* Interest is calculated at 3%, repaid over 20 years for a total of \$932M (\$682M plus the \$250M in user fee).

## INTRODUCTION

As laid out in the Report, a number of costs that seem to apply to the West Village as a whole are attributed entirely to CalgaryNEXT; the major variances between the costs in the Report and CSEC's cost are:

- ◆ site remediation costs;
- ◆ West Village infrastructure required to support development;
- ◆ land costs; and
- ◆ financing costs.

While we believe that CalgaryNEXT will be an important part of the West Village, if the West Village is to be developed, many of the costs included in the Report will be borne by the City irrespective of CalgaryNEXT. In addition, the estimated cost for remediation and infrastructure are significantly less than those carried in the Report.

We continue to believe that the cost of the CalgaryNEXT facilities is \$890 million, a figure that was supported by three independent contractors with operations in Alberta. Including a portion of the land costs (\$9 million) and infrastructure costs (\$13 million) associated with the entire West Village Development, the total cost for CalgaryNEXT is \$912 million.

Cost Source	City Report	Adjustments	Restated Values
Buildings	\$890	\$0	\$890
Infrastructure	327	(215)	112
Land	80	0	80
Remediation	140	(90)	50
Total Cost Before Financing	\$1,437	(\$305)	\$1,132
Financing Costs	391	(177)	214
Total Cost With Financing	\$1,828	(\$482)	\$1,346

Cost Source	CalgaryNEXT	West Village	Total
Buildings	\$890	\$0	\$890
Infrastructure	13	99	112
Land	9	71	80
Remediation	0	50	50
Total Cost Before Financing	\$912	\$220	\$1,132
Financing Costs	161	53	214
Total Cost With Financing	\$1,073	\$273	\$1,346

## SITE REMEDIATION

The Report estimated that if the entire West Village was remediated upfront, the cost would be between \$85 million and \$140 million. Remediation was explicitly not included in the original CSEC project cost as, based on other Alberta infrastructure projects, remediation costs associated with area redevelopment are allocated to the area redevelopment budget covered through the CRL and are not attributed to an individual project.

Whether we proceed with CalgaryNEXT or not, remediation costs will be incurred if the City plans to develop West Village. The allocation of all remediation costs to CalgaryNEXT is in contrast to, and would actually undermine, the City's position for a "polluter pays" approach to brownfield clean-up.

According to the work that has been completed by our environmental consulting team, we believe the cost to remediate the site is approximately \$50 million. None of the remediation costs should be included in the cost of CalgaryNEXT.

## INFRASTRUCTURE COSTS

The cost of infrastructure to enable development in the West Village plus the surrounding CRL area as noted in the Report is \$327 million with the entire cost allocated to CalgaryNEXT. If the City plans to redevelop the West Village, then infrastructure costs would be incurred with or without CalgaryNEXT. In addition, the work completed by our infrastructure consultants indicate that there are no incremental infrastructure costs associated with the West Village development scenario that includes CalgaryNEXT. In fact, the West Village infrastructure investment needed with CalgaryNEXT would be slightly less than the costs if we were to follow the vision laid out in the City's Area Redevelopment Plan for the West Village ("ARP").

The \$327 million infrastructure cost includes all infrastructure, mandatory and optional, associated with the West Village ARP. Within this infrastructure estimate of \$327 million, there are a number of optional upgrades included that should only be included if the CRL proves sufficient. These optional enhancements include: \$80 million for the 18th street underpass, \$30 million for the Bow River Pedestrian Bridge and \$105 million for other West Village development as described below:

West Village Infrastructure	\$112,000,000
Optional Enhancements	
- Underpass on 18th Street	80,000,000
- Bow River Pedestrian Bridge	30,000,000
- Other West Village Development	105,000,000
Total Infrastructure per City Report	<u>\$327,000,000</u>

Therefore, the base case infrastructure investment required to create the conditions for West Village development is \$112 million, not \$327 million.

In the original CalgaryNEXT project cost of \$890 million put forward by CSEC, a \$5 million budget line was included for infrastructure based on a site frontage levy approach similar to that used in the East Village. This figure of \$5 million assumed, like the East Village redevelopment, infrastructure costs would be borne by the CRL and only a levy proportionate to site frontage (not square footage) would be applied to encourage high density housing. We assert that CalgaryNEXT be treated, from a cost perspective, like other public capital development projects in Alberta, including East Village redevelopment, whereby infrastructure costs for area redevelopment are assigned to the area redevelopment budget covered by CRL. Alternatively, if we follow the costing methodology applied in the Report, at a maximum, CalgaryNEXT should be assigned a proportionate share of base case infrastructure costs. The footprint of the CalgaryNEXT project is 15 acres or approximately 11%; one might argue that 11% or \$13 million of the infrastructure costs could be borne by CalgaryNEXT.

## LAND COSTS

The Report included \$80 million for land costs of City land and acquisitions. We will need to better understand how this amount has been arrived at and whether it refers to all land in West Village or just the parcel on which CalgaryNEXT is proposed.

The past practice of other public infrastructure projects is public land is provided at no cost to City of Calgary projects; CalgaryNEXT, as a public piece of infrastructure, should not be treated differently. Alternatively, if we follow the costing methodology applied in the Report, at a maximum, CalgaryNEXT should be assigned a proportionate share of base case land costs. As noted above, the footprint of the CalgaryNEXT project is 15 acres or approximately 11%; one might argue that 11% or \$9 million of the land costs could be borne by CalgaryNEXT.

## FINANCING COSTS

The Report included financing costs of between \$371 million to \$391 million relating to financing for funding of \$1.15 billion:

- ◆ the fieldhouse – \$200 million;
- ◆ the CRL contribution to CalgaryNEXT – \$240 million;
- ◆ the user fee – \$250 million;
- ◆ the infrastructure – \$327 million; and
- ◆ the remediation costs – between \$85 million and \$140 million.

In most public capital projects in Alberta, the decision as to how projects are financed is a separate determination from the evaluation of the cost of the project.

While it is fiscally prudent to consider financing costs, the costing approach in the Report demonstrates a clear departure from the normal approach for Alberta public projects such as the new Calgary public library, which had no financing costs included. Therefore, while we acknowledge the financing costs will likely

be approximately \$214 million, not the \$371 million to \$391 million outlined in the Report, we assert this budget line should not be included in the CalgaryNEXT project cost estimates. Alternatively, if we were to assign financing costs we assert the CalgaryNEXT project should not bear the burden of the future interest payments that will be incurred over the next 20 years related to:

- ◆ interest associated with the construction fieldhouse. The City is going to build a fieldhouse irrespective of CalgaryNEXT and will need to fund the construction;
- ◆ interest associated with the remediation of West Village for the reasons outlined above; and
- ◆ interest associated with infrastructure investments for the reasons outlined above.

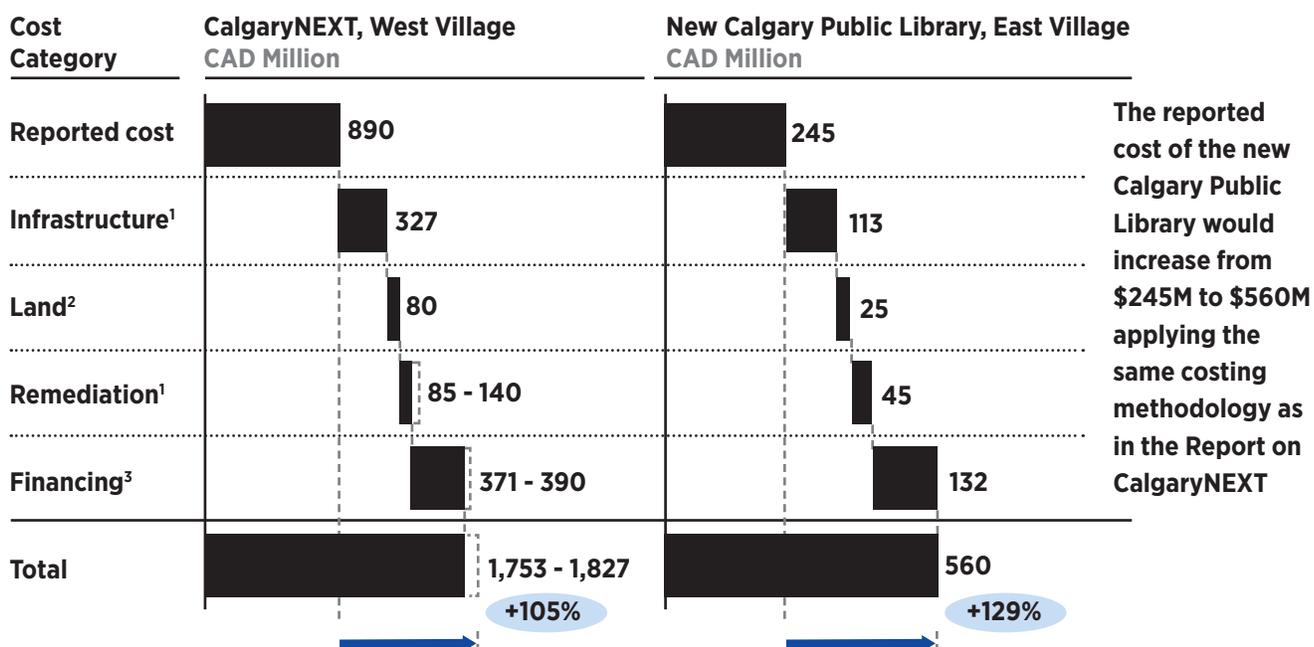
If we were to include financing as a cost of CalgaryNEXT and West Village, it would be approximately \$214 million based on the financing required for:

Description	Amount to be Financed	Interest	CalgaryNEXT	West Village	Total
User Fee	\$250	\$82	\$82	\$0	\$82
CRL	240	79	79	0	79
Infrastructure	112	37	0	37	37
Remediation	50	16	0	16	16
<b>Total Financing</b>	<b>\$652</b>	<b>\$214</b>	<b>\$161</b>	<b>\$53</b>	<b>\$214</b>

## REPORT COSTING METHODOLOGY

As outlined above, we assert the costing methodology used in the Report is flawed and is inconsistent with other public infrastructure projects in Calgary. To illustrate the challenges with the project costing methodology used in the Report, if we were to use this same methodology and apply it to capital projects underway in Alberta, the reported project cost would increase exponentially. As a case in point, the new Calgary public library reported project cost was \$245 million. If, like CalgaryNEXT, we assign to the project the East Village infrastructure and remediation costs, the value of the public land on which the library is being built and the financing costs, the project cost for the new library jumps 130% to \$560 million as illustrated below.

**Side by side comparison of CalgaryNEXT and the new Calgary Public Library in East Village using the same costing methodology in The Report**



1 Assumes all infrastructure and remediation costs within the community are applied to an individual project;  
 2 Land value as per Calgary property assessment is \$16.4M in 2016; we added a contingency of 50% for inflation;  
 3 Financing calculated using the Alberta Financing Authority loan calculator on a blended amortized loan over 20 years;

Source: Deputy City Manager’s Report to Council, April 2016; Community Revitalization Plan April, 2007; CMLC 2016 Business Plan; City of Calgary archives; The City of Edmonton projects and developments webpage

## RESIDUAL VALUE OF WEST VILLAGE LANDS

While the Report determined that the costs of remediation, infrastructure and land for West Village should all be attached to the CalgaryNEXT project, the analysis did not acknowledge the revenue that would be forthcoming from selling the remediated, ready to develop land surrounding the project. Remediation and development of the West Village is an investment in Calgary’s city centre that will unlock considerable value. While the West Village includes approximately 130 acres of prime, underutilized land, only 46 acres have been identified as fully developable, with the remaining 84 acres containing right of ways and green space for parks.

Of the 46 acres, approximately 15 acres would be required to develop CalgaryNEXT, leaving approximately 31 acres that can be developed. Once the land has been remediated and the infrastructure has been put in place, it is estimated that the value of the land would be approximately \$10 million per acre. Therefore, the estimated revenue on the 31 developable acres is estimated conservatively at \$310 million. Given what we have seen for land near to other large sports projects there may be considerable upside in the value of the land.

## COMMUNITY REVITALIZATION LEVY

We were very encouraged that the Report estimated the amount of future property taxes that could reasonably be expected to be generated by the development of CalgaryNEXT (that would form the basis for the CRL funding portion of the development) to be in the range of \$345 million to \$435 million. While the City’s estimated range was less than we had modeled, it was certainly well in excess of the \$240 million we had identified to form part of the overall funding formula. Furthermore, even at the conservative estimate of \$435 million, the CRL is large enough to cover the base costs totaling approximately \$402 million including remediation of \$50 million, infrastructure costs of \$112 million and a contribution to CalgaryNEXT of \$240 million.

Creating an environment where private developers are prepared to construct hotels, high density housing, retail, restaurant and commercial properties will be a significant public benefit for many years to come in the form of increased property taxes. If CalgaryNEXT is the catalyst that leads to the development of West Village, the investment in the project in the form of partial funding via the CRL will endure to all citizens of Calgary for generations.

Not mentioned in the Report but clearly an additional benefit to the City and Province would be the redevelopment of the McMahon lands where the Calgary Stampeders currently operate. The estimated future property taxes that would be created from the development of the inner city lands located at McMahon is significant (hundreds of millions of dollars).

While the conservative CRL estimate of \$435M is sufficient to cover base costs, as we will demonstrate (please see detailed CRL report for further details), this estimate is highly conservative with significant potential for an upside in the hundreds of millions of dollars.

## SOURCE AND USE OF CASH

The Report effectively suggested the cost of CalgaryNEXT would be in the range of \$1.7 billion to \$1.8 billion. The fact is the City allocated significant West Village costs to CalgaryNEXT and also overstated West Village costs. Based upon revised information, we believe the total cost for CalgaryNEXT and West Village combined is \$1.1 billion before financing and \$1.3 billion after financing.

Cost Source	City Report	CSEC Value
Buildings	\$890	\$890
Infrastructure	327	112
Land	80	80
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Total Cost Before Financing	\$1,437	\$1,132
Financing Costs	391	214
Total Cost With Financing	\$1,828	\$1,346

The CalgaryNEXT project has the potential to be a positive project for the City of Calgary. The value is driven from using CalgaryNEXT as a catalyst to clean up and develop the West Village, therefore driving increased property values, development, and ultimately taxes. Using a simple, undiscounted cash flow model, and the same assumptions used in the Report for development and CRL revenues, the development of West Village, including CalgaryNEXT, results in a net cost of \$151 million. The City will own a \$890 million state of the art, multi-use sports facility that meets the standard for NHL and CFL events as well as international sporting and cultural events.

## CalgaryNEXT

Source	City	CSEC	Total
Building Cost	(\$440)	(\$450)	(\$890)
Remediation Cost	(50)	0	(50)
Infrastructure Cost	(112)	0	(112)
Land Costs	(80)	0	(80)
<b>Total Costs</b>	<b>(\$682)</b>	<b>(\$450)</b>	<b>(\$1,132)</b>
Sale of Cleaned Up Land*	\$310	\$0	\$310
CRL West Village	435	0	435
CRL McMahon Stadium Land	0	0	0
Polluter Pay/Government Support	0	0	0
<b>Total Revenue</b>	<b>\$745</b>	<b>\$0</b>	<b>\$745</b>
Net Cash Flow (Outflow)	\$63	(\$450)	(\$387)
Interest**	(214)	0	(214)
<b>Net Project Cash Outflow</b>	<b>(\$151)</b>	<b>(\$450)</b>	<b>(\$601)</b>

\* Assumed 31 acres of developable land value of \$10M per acre.

\*\* Interest is calculated at 3%, repaid over 20 years for a total of \$932M (\$682M plus the \$250M in user fee).

It is worth noting that of the cost base of \$1.1 billion, the expected City (public) contribution is \$682 million plus the financing cost of \$214 million for a total of approximately \$896 million, a significantly lower amount than the \$1.303 billion to \$1.377 billion cost to the public outlined in the Report.

Given that the estimated \$1.1 billion of costs will not all be available when it is needed, the City will need to finance a portion of their \$682 million contribution and CSEC would also request support to finance the user fee given the lower cost of capital afforded to the City. While some of this outlay can be covered by land revenue, CRL and other City sources, we estimated that \$852 million will need to be financed at a financing cost of \$214 million.

Against a total cost base of \$1.1 billion, the City will generate, at a conservative estimate, \$745 million in revenues generated from the CRL (\$435 million) and land sales (approximately \$310 million). This estimate is conservative as we believe there is significant upside potential including:

- ◆ Significant upside potential for CRL estimated in the hundreds of millions;
- ◆ The potential for the City to secure a contribution for remediation from the polluter or from the Federal and Provincial Government; and
- ◆ With McMahon stadium freed up by the relocation of the University of Calgary Dinos and the Calgary Stampeders to CalgaryNEXT, there is significant tax generation potential associated with the development of this prime land adjacent to the University of Calgary.

The City would invest \$682 million upfront plus interest over 20 years totaling \$896 million to generate \$745 million in revenue, whilst cleaning up the contaminated land in West Village, creating a vibrant mixed use neighbourhood in the downtown core and would own CalgaryNEXT, a state of the art multi-use facility.