Policy, Priorities and Budgeting Committee
Comité des politiques, des priorités et des budgets

Agenda 9
Ordre du jour 9

Thursday, May 11, 2000 - 9:15 a.m.
Le jeudi 11 mai 2000 - 9 h 15

Victoria Hall, First Level
Bytown Pavilion, City Hall

Salle Victoria, niveau 1
Pavillon Bytown, hôtel de ville

City of
Ville d' Ottawa

Confirmation of Minutes
Ratification des procès-verbaux

Minutes 8 (April 27, 2000)
In-Camera Minutes 7 (April 27, 2000)

Procès-verbal 8 (Le 27 avril 2000)
Procès-verbal 7 huis clos (Le 27 avril 2000)

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Councillor/Conseillère Diane Deans, Chairperson/Présidente

Councillor/Conseiller Jim Bickford, Vice-Chairperson/Vice-président

Councillor/Conseillère Inez Berg

Councillor/Conseiller Richard Cannings

Councillor/Conseiller Ron Kolbus

Councillor/Conseiller Brian Mackey

LZF

City of / Ville d' Ottawa

May 5, 2000

ACS2000-CO-CMG-0007
(File: ACS1300)

Office of the Chief Administrative Officer

Ward/Quartier
City Wide

Action/Exécution

- Policy, Priorities and Budgeting Committee / Comité des politiques, des priorités et des budgets
- City Council / Conseil municipal

1. Triple "A" Baseball - Amendment to Operations and Maintenance Agreement

Baseball triple A - Modification à l'entente d'exploitation et d'entretien

Recommendation

That the City of Ottawa approve the revised terms of the Operations and Maintenance Agreement dated August 13, 1992 among the City of Ottawa, Ottawa Triple "A" Management Limited and Howard Darwin, as described in this report, subject to a signed Memorandum of Understanding among the parties.

May 5, 2000 (2:31p)

John Burke
Chief Administrative Officer

JB:ds

Contact: John Burke - 244-5402

Financial Comment

The financial implications of the lease re-negotiation are outlined in the attached report.

The proposal recovers the cost of the debt which was taken on by the City to finance Mr. Darwin's share of the construction costs of Jetform Stadium. Depending on the level of percentage rent achieved, the City may incur a cost differential between the interest rate the City pays on the existing debenture and the interest rate presently being recommended on the promissory note from the new owners. This cost should be viewed as acceptable given the objective of wanting to encourage the rejuvenation of Triple A baseball in Ottawa.

At December 31, 2000, the City will have an asset in the form of a secured promissory note from the new owners valued at $2,823,835 which will offset the debt on the Darwin portion of Triple A debt being brought to the new City of Ottawa.

The City's budget for the year 2000 had anticipated a recovery from Mr. Darwin of $501,807.50 against this year's cost of the debenture payment.

The difference between the rent actually paid by the new owner this year (estimated at the minimum rent of $108,000 in 2000) will be recoverable from future year's minimum and percentage rent and will be set up as an account receivable in the books of the City..

This transaction requires Transition Board approval.

Mona Monkman

May 5, 2000 (2:12p)

Mona Monkman
City Treasurer

MM:tsc

Executive Report

Background

In 1992, the City entered into an agreement with Ottawa Triple "A" Management Limited and Mr. Howard Darwin regarding the operations and financial obligations of the multi-purpose recreational complex to be built at 300 Coventry Road. That complex is now called Jetform Stadium.

That agreement (referred to as the Operations and Maintenance Agreement) called for a contribution of $4 million from Ottawa Triple "A" Management Limited towards the construction of the baseball stadium complex. Payments of approximately $500,000 per year were to be made for a period of 15 years towards this $4 million commitment, with interest.

The City of Ottawa funded the initial construction costs of the stadium through various means, one component of which was from proceeds of a debenture issued in 1992 for $4 million for the "Darwin" commitment noted above.

Since 1996, Triple "A" Management Limited has experienced difficulty in satisfying the financial obligations under the agreement. A continued decline in attendance at Jetform Park has precipitated these financial difficulties.

On April 5, 2000 a letter was sent by Mr. Howard Darwin to the City's Chief Administrative Officer requesting that terms of the financial obligations as outlined in Clause 14 of the Operations and Maintenance Agreement be revised.

Mr. Darwin's letter indicated that he was no longer in a position to finance losses at Jetform and he was in the process of marketing the team to a potential purchaser who is experienced in baseball and is prepared to spend the time, energy and dollars required to turn the situation around.

Since the receipt of that letter, City staff have held discussions with Mr. Darwin, the prospective new owner and their advisors in order to respond to the request.

As a result of these discussions, City staff are now in a position of recommending to Council revised terms of the agreement.

Reasons Behind Recommendation

City staff had two objectives during these discussions. These were:

- Keeping Triple A Baseball in Ottawa based on a viable financial foundation.
- Maximizing the financial recovery for the City on the "Darwin" commitment to stadium construction.

The recommended revised terms for the agreement substantially meet these objectives.

The Operations and Maintenance Agreement will be revised such that there is a lease arrangement with the new owners of the Triple A baseball franchise coupled with a promissory note repayable to the City regarding the financial commitments.

Benefits of the Revised terms of the Agreement

The positive aspects of the lease re-negotiation can be summarized as follows:

- The proposal recovers the cost of the debt which was taken on by the City to finance Mr. Darwin's share of the construction costs of Jetform Stadium.
- New ownership brings with it the opportunity to rejuvenate Triple A baseball in Ottawa as a entertainment venue. New ownership and new marketing plans give rise to the opportunity to increase attendance at games.
- The revised terms will ensure a Triple A franchise operating in Ottawa for the next 4 years and encourages the new owner to continue operating in Ottawa for at least the balance of the proposed 10 year term. The next four years will be the test as to whether

the public is willing to support Triple A baseball in Ottawa, given a new management and ownership structure.

- Financial commitments will be evidenced by a promissory note which is secured by both the assets of the new operating company and the personal guarantee of the new owner. The City becomes a secure creditor with a first ranking charge over all the assets of the new company.

- The dual objectives of keeping baseball in Ottawa and maximizing financial return are achievable under these revised terms.

Revised Terms of the Agreement:

The proposed revised terms which will be included in the Memorandum of Understanding are as follows:

1. A new owner will initially own 75% of a new company which will operate the Ottawa Triple “A” Lynx club.

2. The City is to recover the present financial commitment of $3,693,167 from the new company in two ways.
   $916,167 presently owed in arrears by Mr. Darwin for the 1998 and 1999 commitments will be repaid in full upon finalization of the agreements.
   The outstanding amount of the principal on the debenture of $2,777,000 will be repaid over time through the payment of a minimum annual rental payment of $108,000 per year and percentage rent based on attendance.

3. The percentage rent will be equal to a percentage of annual net ticket sales, as follows:
   10% on net ticket sales between Cdn. $1,000,000 and $1,500,000; plus
   15% on net ticket sales between Cdn. $1,500,000 and $2,500,000; plus
   20% on net ticket sales in excess of Cdn. $2,500.000

4. To the extent that percentage rent revenues do not materialize to a level sufficient to cover the amount of the debt, the new owner will be responsible for paying the difference when the lease ends or is terminated. This is the promissory note component of the new arrangement.

5. If the team is moved at any time during the 10 year term, it will trigger full payment of the promissory note.

6. The promissory note will carry interest at 5.5% and will be secured by the assets of the new company which operates the Ottawa Lynx Baseball club, and the unsecured personal guarantee of the new owner.

7. The revised lease payment formula starts in the year 2000.

8. The term of the agreement which was previously to end in 2007 will be extended for 2 years to 2009.

9. The agreement wording will ensure that the team will not move for any reason during the next 4 years.

10. >In order to continue to encourage the continued operation of a Triple "A" baseball franchise in Ottawa for the entire 10 year period of the lease term, the City will agree to a reduction in the principal balance of the promissory note at certain points in time. The note will be reduced by $100,000 in each of 2004, 2006 and 2009 ("note reduction"

11. The City will receive $17,000 to offset its costs incurred in the renegotiation of this agreement.

Financial Implications:

Overall financial implications of this proposal:

The minimum rent, percentage rent and promissory note ensure that the City's debt incurred to finance Mr. Darwin's share of construction costs will be recovered.

The City could carry an additional cost for the difference in interest rates between the existing debenture interest (present value of $438,000) and the rate paid on the note, as well as the cost of the note payable reduction for 3 years ($300,000). The extent to which this potential cost is mitigated will depend on the level of percentage rent achieved. In addition, if there is no Triple "A" baseball in Ottawa, the City could lose existing revenue sources from other agreements related to the operation of the ball park which total approximately $100,000 per year.

If the new Company is successful in increasing attendance, the City will also receive additional parking and ticket surcharges beyond the levels presently achieved and for an extra two years beyond the terms originally contemplated. For example, in 1999, at historic low attendance levels, the City received $34,000 in surcharge revenues. At 1995 attendance levels, the City was receiving surcharge revenues in the $100,000 range.

Financial implications if a deal is not re-negotiated

If the City does not agree to re-negotiate the "lease", the City would have to look at the implications of operating the Jetform Stadium without a Triple A team.

Staff have reviewed possible uses of the Stadium and are of the opinion that generally the Stadium could be used for community uses but in a less intensive manner than is currently the case.

The resulting financial impacts are that the City would need to maintain and operate the stadium with little opportunity for significant revenue sources.

Under that scenario, the City would need to fund stadium operating costs which are presently funded by the Triple A franchise owner. These expenses are in the $100,000 per year range, or $1 million over the next ten years.

<u>Variability of Projected Stadium Revenues and their impact on the amounts recovered by the City</u>

Under the proposed lease re-negotiation, whether or not the City is able to recover revenues in excess of the amounts owed on the debenture and in excess of the "note reduction" will be dependent on the attendance levels achieved over the next few years.

A review of the past history of attendance levels indicates that while possible, it is unlikely that revenues in excess of amounts required to repay the outstanding debt will be generated.

Annual paid admissions were as high as 685,000 in 1993 and declining to a low of 185,000 in 1999.

Our calculations show that at the 500,000 annual attendance level (1995 levels), the percentage rent formula would not be sufficient for the new owner to avoid repaying a balance on the note at the end of the lease term. Beyond rents achieve, the new owner would still owe $672,000 at the end of the term.

However, at the 600,000 annual attendance level, sufficient revenues would be achieved to repay the entire balance of the note payable less the "note reduction".

Full attendance at the Stadium during the term of the lease would generate revenues in excess of amounts required to repay the note payable, and could cover the full interest cost differential to the City.

All of these scenarios assume a $5 dollar average ticket price. The variability in ticket and parking prices will also impact revenue levels.

<u>Review by Ernst & Young:</u>

The firm of Ernst & Young was retained by the City to assist in the review of the financial aspects of the proposed lease renegotiation.

Ernst & Young assisted with the due diligence review, assisted in reviewing options and performed a review of the City's own financial assessment of the transaction. Their report will be distributed separately.