Minute No. 509
Report - Standing Policy Committee on Property and Development - June 8, 2004

Item No. 39 1430 Maroons Road, Winnipeg Arena
File F-5 and FI-2.4(31)

COUNCIL DECISION:

Council concurred in the recommendation of the Standing Policy Committee on Property and Development, as amended by Executive Policy Committee, and adopted the following:

1. That the Director of Planning, Property and Development be authorized to secure the agreement of Winnipeg Enterprises Corporation to terminate the Arena Lease and deliver vacant possession of the Winnipeg Arena to the City of Winnipeg effective upon a date mutually acceptable to the Director and Winnipeg Enterprises Corporation but, in any event, not later than June 1, 2005, and in the interim to wind down and cease operation of the Winnipeg Arena as a going concern.

2. That the City assume all remaining and prospective debt and liability of Winnipeg Enterprises Corporation upon termination of the Arena Lease.

3. That the subject property located at 1430 Maroons Road, as shown outlined on Misc. Plan 11971/1, be declared surplus to the City's needs upon termination of the Arena Lease.

4. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing

Report - Standing Policy Committee on Property and Development - June 8, 2004

DECISION MAKING HISTORY:

Moved by Councillor Pagtakhan,

That the recommendation of the Standing Policy Committee on Property and Development be adopted by consent.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 16, 2004, the Executive Policy Committee concurred in the recommendation of the Standing Policy Committee on Property and Development, amended as follows, namely:

- Incorporate Recommendation No. 2 from the administrative report dated June 1, 2004, namely:

  "2. That the City assume all remaining and prospective debt and liability of Winnipeg Enterprises Corporation upon termination of the Arena Lease.

  with the balance of the recommendations being renumbered accordingly,

and submitted the matter to Council.

STANDING COMMITTEE RECOMMENDATION:

On June 8, 2004, the Standing Policy Committee on Property and Development concurred in the administrative recommendation with the following amendment, namely,

- That Recommendation No. 2 be deleted in its entirety and the balance of the recommendations re-numbered accordingly,

and submitted the matter to the Executive Policy Committee and Council.

Re: 1430 Maroons Road, Winnipeg Arena Property
Proposed Cancellation of Lease with Winnipeg Enterprises Corporation and Proposal to Declare the Subject Property as Surplus to the City's Needs
Daniel McIntyre Ward
City Centre Community

For submission to: The Standing Policy Committee on Property and Development

Original report signed by: Director of Planning, Property and Development

Report date: June 1, 2004

Recommendation(s):

1. That the Director of Planning, Property and Development (the "Director") secure the agreement of Winnipeg Enterprises Corporation ("WEC") to terminate the Arena Lease and deliver vacant possession of the Winnipeg Arena to The City of Winnipeg effective upon a date mutually acceptable to the Director and WEC but, in any event, not later than June 1, 2005 and, in the interim, to wind down and cease operation of the Winnipeg Arena as a going concern.

2. That the City assume all remaining and prospective debt and liability of WEC upon termination of the Arena Lease.

3. That the Subject Property, located at 1430 Maroons Road, shown outlined on the attached Misc. Plan 11971/1, be declared surplus to the City's needs upon termination of the Arena Lease contemplated in recommendation #1 herein.

4. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing.

REPORT SUMMARY

Key Issues:

The Subject Property is under lease to WEC until December 31, 2017 (the "Arena Lease").

In May 2001, as part of its commitment to participate in the funding of the "MTS Centre" (a new multi-purpose sports and entertainment complex in downtown Winnipeg), the City agreed to demolish the existing Winnipeg Arena contemporaneous with the opening of the MTS Centre, scheduled for November 2004.

On December 13, 2002, the Chief Administrative Officer approved the establishment of the Winnipeg Enterprises Administrative Steering Committee to provide administrative support relative to WEC and new lease arrangements with the Winnipeg Football Club ("the WFC").

On May 29, 2003, the Board of Directors of WEC agreed to allow the City to administer and facilitate a Request For Proposals ("RFP") regarding alternative uses for the existing Winnipeg Arena, with WEC being kept apprised of the process on a continuing basis. Such RFP was to include an option for bidders to retain the Winnipeg Arena building for uses deemed to be not in competition with those of the MTS Centre. This RFP was issued in December 2003.

The RFP includes a provision that in the event the preferred bidder for the Subject Property wishes to retain the Winnipeg Arena building, acceptance by the City will be subject to the City securing agreement with the proposed use of the Winnipeg Arena building from the owners of the MTS Centre.

In May 2004, WEC advised the City that the Moose has committed to vacate the Winnipeg Arena by May 31, 2005, or 30 days following the last Moose game to be conducted in the Winnipeg Arena, whichever occurs first.

The City has a right to cancel the Arena Lease with WEC upon 30 days prior notice, in writing. Such cancellation would require the City to take over the operation of the Winnipeg Arena as a going concern. The City, under its commitment to the MTS Centre is unable to take over operation of the Winnipeg Arena as a going concern.

Implications of the Recommendation(s):

General implications:

- [X] None
- [ ] For the organization overall and/or for other departments
- [ ] For the community and/or organizations external to the City of Winnipeg
- [ ] Involves a multi-year contract

Comment(s):

Policy implications:

- [X] No
- [ ] Yes

Comment(s):

Environmental implications:

- [X] No
- [ ] Yes

Comment(s):

The Real Estate Division has not carried out an Environmental Site Assessment of the Subject Property.

Should Council declare the Subject Property to be surplus to the City's needs, when the property is marketed, it will be sold subject to the City's standard terms and conditions of sale, which include provisions permitting an approved Purchaser to conduct its own Environmental Site Assessment(s).

The City's standard terms and conditions of sale include provisions to protect the City's interests in the event that environmental contamination is discovered.

Human resources implications:

[X] No
[ ] Yes

Comment(s):

Financial implications:

[ ] Within approved current and/or capital budget
[X] Current and/or capital budget adjustment required

Comment(s):

The cancellation of the Winnipeg Arena lease will result in the City of Winnipeg assuming certain Winnipeg Enterprises Corporation debt obligations creating a funding shortfall of approximately $200,000 per annum to service the debt. In addition, WEC operating expenditures of $400,000 will need to be absorbed by the City.

REASON FOR THE REPORT:

In order to initiate the process of redevelopment of the Winnipeg Arena site, Council approval is required to cancel the Arena Lease. Council approval is also necessary in order to declare the Subject Property surplus to the City's needs.

HISTORY:

The Subject Property was leased to WEC pursuant to an Agreement dated September 27, 1954, for a term of twenty years from May 1, 1954. The Agreement was subsequently amended by Agreements dated May 1, 1957, May 16, 1958, February 10, 1965, December 29, 1966, August 1, 1967, March 11, 1969, March 9, 1983, and February 4, 1998, at which time the Term of the Lease was extended to December 31, 2017. This lease is referred to in this report as the "Arena Lease".

The Arena Lease identifies WEC's obligation 'to operate the Winnipeg Arena for the purpose of promoting and encouraging the development of hockey and other sports in the City of Winnipeg, and for the purpose of exhibitions, meetings, performances and other public gatherings'.
In 2001, the City, The Government of Manitoba and TN Arena Limited Partnership entered into an agreement which stated that the Winnipeg Arena be demolished contemporaneous with the opening of the MTS Centre.

On December 13, 2002, the Chief Administrative Officer approved the establishment of the Winnipeg Enterprises Administrative Steering Committee to provide administrative support relative to WEC and new lease arrangements with the Winnipeg Football Club ("the WFC").

On May 29, 2003**,** The Board of Directors of WEC agreed to allow the City to administer and facilitate an RFP regarding alternative uses for the existing Winnipeg Arena, with WEC being kept apprised of the process on a continuing basis. Such RFP was to include an option for bidders to retain the Winnipeg Arena building for uses deemed to be not in competition with those in the MTS Centre.

In December 2003, the Property, Planning & Development Department issued RFP 507 – 2003 for the stated purpose.

In May 2004, WEC advised the City that the Moose has committed to vacate the Winnipeg Arena by May 31, 2005, or 30 days following the last Moose game to be conducted in the Winnipeg Arena, whichever occurs first.

DISCUSSION:

There are two essential prerequisites that must be satisfied before disposition of the Subject Property can occur, namely:

1. The Arena Lease must be cancelled, and
2. The Subject Property must be declared surplus.

The Arena Lease provides for the City's right to terminate the Arena Lease with WEC upon thirty (30) days prior notice in writing. The cancellation provision, however, as set out in the lease, requires the City to take over the Winnipeg Arena as a going concern; specifically, upon receiving notice, WEC is required to "transfer, set over and convey to the City or its nominee the said arena and all assets, funds, contracts and undertakings of the Corporation as a going concern".

While this provision defines a method of termination of the lease, the Department, in discussions with WEC, has determined that the requirement for the City to assume the ongoing operation of the Winnipeg Arena is problematic. As a result of these discussions, it was agreed a better alternative would be to cancel the Arena Lease following wind down of operation of the Winnipeg Arena. Coincident with the cancellation of the Arena Lease, the City will assume all outstanding obligations and liabilities of WEC.

Upon cancellation of the Arena Lease, the City will assume an estimated $4.5 million in WEC bank debt. The annual cost to service this debt based on current demand loan terms will amount to approximately $745,000, which will be offset by an estimated $545,000 in amusement tax revenue accruing to the City as per a draft memo of understanding between the City, WEC and WFC. The net financial impact to the City will be $200,000 in annual principal and interest repayments. One option to address this funding shortfall would be to renegotiate the terms of the outstanding loans such that the annual debt servicing costs equal anticipated amusement taxes to be recovered from the WFC. Another option would be to seek an additional appropriation to finance this shortfall.

The last revenue-generating event to be held at the Arena is anticipated to be in November 2004, followed by a "wind-down" period of approximately six months. During this period, estimates indicate up to $400,000 in WEC operating expenditures will need to be financed by the City. In all likelihood, this will require an additional appropriation.

The financial impact of the cancellation of the Arena Lease and winding down of WEC's operations is predicated on the assumption that the transfer of Canad Inns Stadium, including the Blue and Gold Room and Jumbotron, to the WFC will have already taken place and on certain assumptions regarding the disposal of the Arena. A separate report will be forwarded relative to a proposed agreement between the City and the WFC regarding the assignment of the Stadium lease. The disposal of the Arena will be the subject of a separate report to the Standing Policy Committee on Property and Development. A more detailed analysis of the City's financial obligations resulting from WEC ceasing to operate as a going concern will not be available until the Stadium is transferred and Arena sold or demolished.

In order to proceed with redevelopment of the Winnipeg Arena site, the Department recommends that Council declare the property as surplus to the City's needs, upon termination of the Arena Lease.

IN PREPARING THIS REPORT, THERE WAS CONSULTATION WITH AND CONCURRENCE BY:

Corporate Finance
Legal Services

This report submitted by:

Planning, Property and Development Department
Division: Real Estate
Prepared by: Leala Katz/Barry Lucyk
PPD File #: 8383

Document name: O:\Reports Directive\Real Estate\Sales\(bl)wpgarenaleasecancel-May 312004.doc

Financial Impact Statement

Date: May 31, 2004

Project Name:

1430 Maroons Road, Winnipeg Arena Property. Proposed Cancellation of Lease with Winnipeg Enterprises Corporation and Proposal to Declare the Subject Property as Surplus to the City's Needs

First Year of Program 2005

	2005	2006	2007	2008	2009
Capital					
Capital Expenditures Required	$ -	$ -	$ -	$ -	$ -
Less: Existing Budgeted Costs	-	-	-	-	-
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal	$ -	$ -	$ -	$ -	$ -
External	-	-	-	-	-
Grants (Identify)	-	-	-	-	-
Reserves, Equity, Surplus, Other	-	-	-	-	-
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 1,145,000	$ 745,000	$ 745,000	$ 745,000	$ 745,000
Less: Incremental Revenue/Recovery	545,000	545,000	545,000	545,000	545,000
Net Cost/(Benefit)	$ 600,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Less: Existing Budget Amounts	-	-	-	-	-
Net Budget Adjustment Required	$ 600,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000

Additional Comments:

Based on certain assumptions regarding both the assignment of the Stadium lease to the Winnipeg Football Club (WFC)and the disposal of the Winnipeg Arena, the winding down of Winnipeg Enterprises Corporation's (WEC) operations and cancellation of the Arena Lease will result in annual shortfall of approximately $200,000, net of amusement taxes, required to service the debt to be assumed by the City of Winnipeg (City). While recognizing that the debt to be assumed by the City will decrease over time, net debt servicing charges are assumed to be constant in this analysis due to uncertaintly surrounding the amount of amusement taxes to be collected over the same timeframe. In addition, approximately $400,000 in Winnipeg Arena operating costs during the wind down period will have to be financed by the City in 2005.

"Original signed by"
Mike McGinn, CA
Manager of Finance


EMPRESS ST
MAROONS RD
1793881
1793831
767582
CACTUS JACK'S PL
RAPELJE AV
BYLAW 17290
OLD SYSTEM
5944
1793824
1754836
586102
548619
1677233
516577
484694
1793831
371509
1793831
461564
1793831
458964
784640
516577
TITLE PLOT
WINNIPEG ARENA SITE
Date: 2003-AUG-11
District: ASBA
File: Not Available
Scale: 1:1250
METRIC
NOTE:
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CITY OF WINNIPEG
PLANNING, PROPERTY AND DEVELOPMENT DEPT.
LAND INFORMATION & MAPPING SERVICES
MISC. PLAN NO. 11971/1