St. John's Sports Entertainment

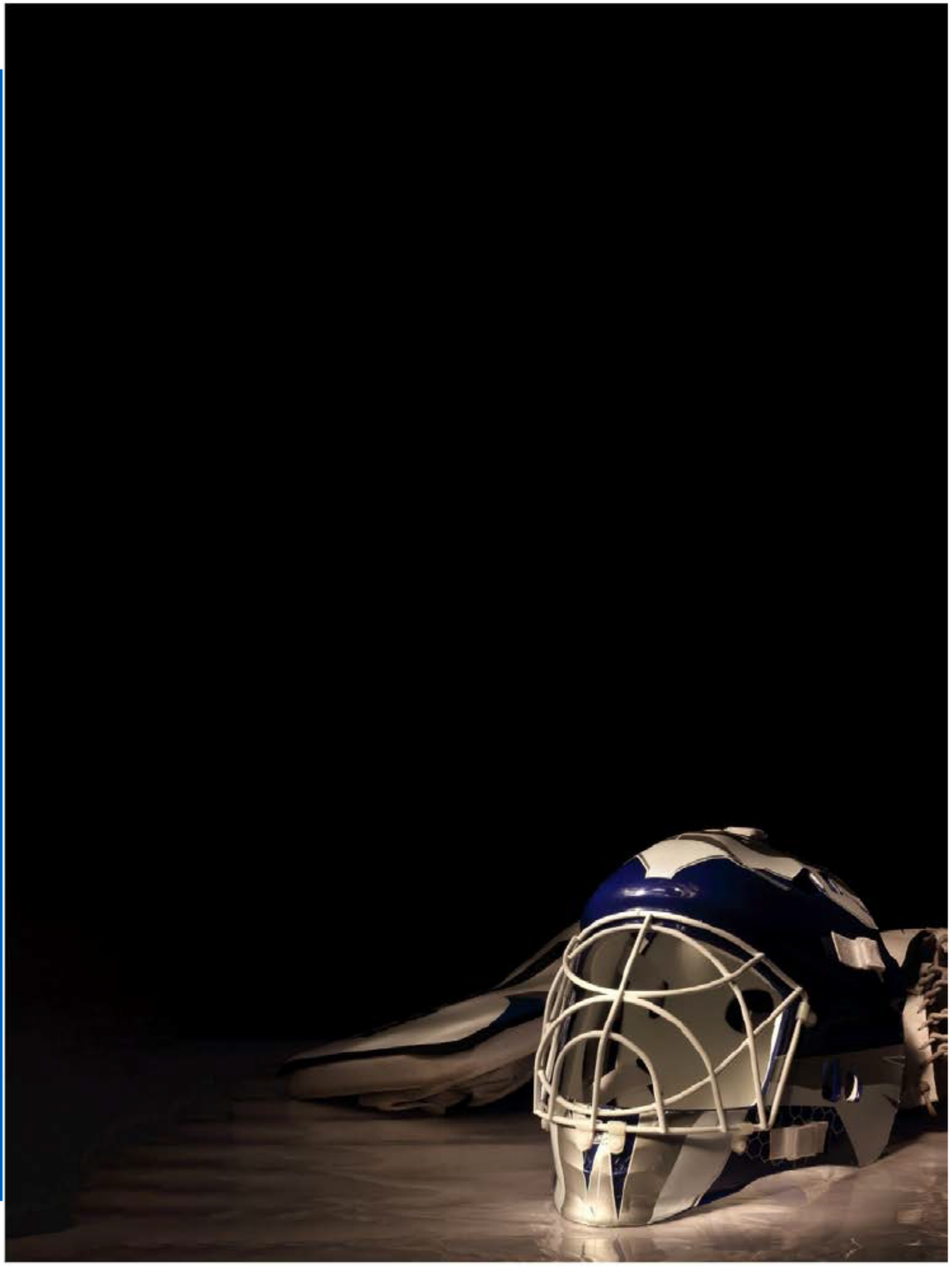
Mile One Centre Sale Implication Review

Final Report

January 14, 2021

FOR DISCUSSION PURPOSE ONLY

Let's do this.



Disclaimer

This report has been prepared by KPMG LLP ("KPMG") for St. John's Sports and Entertainment Ltd. (SJSEL) pursuant to the terms of our engagement agreement with Client dated October 15, 2020 (the "Engagement Agreement"). KPMG neither warrants nor represents that the information contained in this report is accurate, complete, sufficient or appropriate for use by any person or entity other than Client or for any purpose other than set out in the Engagement Agreement. This report may not be relied upon by any person or entity other than Client, and KPMG hereby expressly disclaims any and all responsibility or liability to any person or entity other than Client in connection with their use of this report.

We had access to information up to January 14, 2021 in order to arrive at our observations but, should additional documentation or other information become available which impacts upon the observations reached in our report, we will reserve the right, if we consider it necessary, to amend our report accordingly. This report and the observations and recommendations expressed herein are valid only in the context of the whole report. Selected observations and recommendations should not be examined outside of the context of the report in its entirety.

Our observations and full report are confidential and are intended for the use of SJSEL. Our review was limited to, and our recommendations are based on, the procedures conducted. The scope of our engagement was, by design, limited and therefore the observations and recommendations should be considered in the context of the procedures performed. In this capacity, we are not acting as external auditors nor value for money auditors and, accordingly, our work does not constitute an audit, examination, value for money, attestation, or specified procedures engagement in the nature of that conducted by external auditors on financial statements or other information and does not result in the expression of an opinion.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, SJSEL. KPMG has not and will not perform management functions or make management decisions for SJSEL.

KPMG has no present or contemplated interest in SJSEL, nor are we an insider or associate of SJSEL. Accordingly, we believe we are independent of the SJSEL and are acting objectively.

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Project Overview

Project Drivers

St. John's Sports & Entertainment has publicly received an offer to buy the Mile One Centre. SJSEL has retained KPMG to conduct a review of the sale implications of the Mile One Centre to the City of St. John's.

Introduction

St. John's Sports & Entertainment Ltd. (SJSEL) is a non-profit corporation that operates Mile One Centre and the St. John's Convention Centre on behalf of the City of St. John's ("the City"). In 2018, the SJSEL retained KPMG to undertake a jurisdictional review of Canadian municipal arenas and convention centres. Since the completion of the 2018 review, the owner of the professional hockey franchise playing at Mile One (Deacon Investments) has publicly offered to buy the Mile One Centre. We understand that SJSEL requires a report detailing the implications of selling the Mile One Centre sale including such matters as: building systems and interconnection with the Convention Centre, event tourism, prior agreements, asset valuation methods, labour relations and operational risks.

Project Objectives

The overall objective of the engagement was to review and report on the sale implications of selling the Mile One Centre to the City of St. John's. The following work was completed to assess the implications:

- Review of the Canadian marketplace to determine the number of privately held comparable arenas and their experience
- Analysis of the building systems implications
- Review of labour relations implications
- Review of past agreements to identify any potential restrictions
- Analysis of the impact on the City's tourism and event strategy
- Overview of valuation methods to determine an accurate selling price

Mile One Centre

Facility Description

The Mile One facility is an aging, mid-sized arena venue. The facility is a focal point of downtown St. John's. The facility was built as an NHL-sized ice surface, with capabilities to also host concerts and events with use of modular seating and fixtures included as part of the original construction. Some of the building's attributes have created challenges for SJSEL in recent years. These attributes include: narrow corridor and concourse widths and a limited supply of public restrooms.

With the 2017 addition of the Edge as an 'anchor tenant', the ice surface is regularly converted to a basketball court. There are resulting scheduling considerations to allow sufficient conversion time, which impacts the facility's capacity in terms of event nights. For example, converting Mile One from an ice hockey to a concert configuration requires approximately 80 total labour hours. Converting from a concert to a basketball configuration requires approximately 70 total labour hours. Converting from an ice hockey to a basketball configuration requires approximately 100 total labour hours. The conversions are completed overnight and typically finished in 8 hours or less.

See below for a table of capacities for various types of events:

Mile One seating configurations	
Arena surface area (sq ft, boards in)	17,000
Arena surface area (sq ft, boards out)	31,476
Capacity (no. of attendees):	
Hockey	5,800
Basketball (Edge)	4,800
Theatre concert	1,900
Full concert	5,600
Trade show capacity (no. of booths)	
Ice surface	96
Full floor	184

In addition to regular seating, Mile One has 36 private suites, 35 of which are available for corporate sponsorship. In 2018, the suites received some modernizing updates.

The number of total event nights at Mile One, including tenant and special events such as concerts and trade shows, has been 63 (2017), 72 (2018), and 94 (2019) over the past three years.* Some notable events hosted at Mile One in recent years include: Elton John, Sting, Alan Jackson, Tom Petty, the Tim Horton's Brier, James Taylor, Tim McGraw, Toby Keith and the Canadian Junos (2002 and 2010).

*Source – Mile One Website Event Listing

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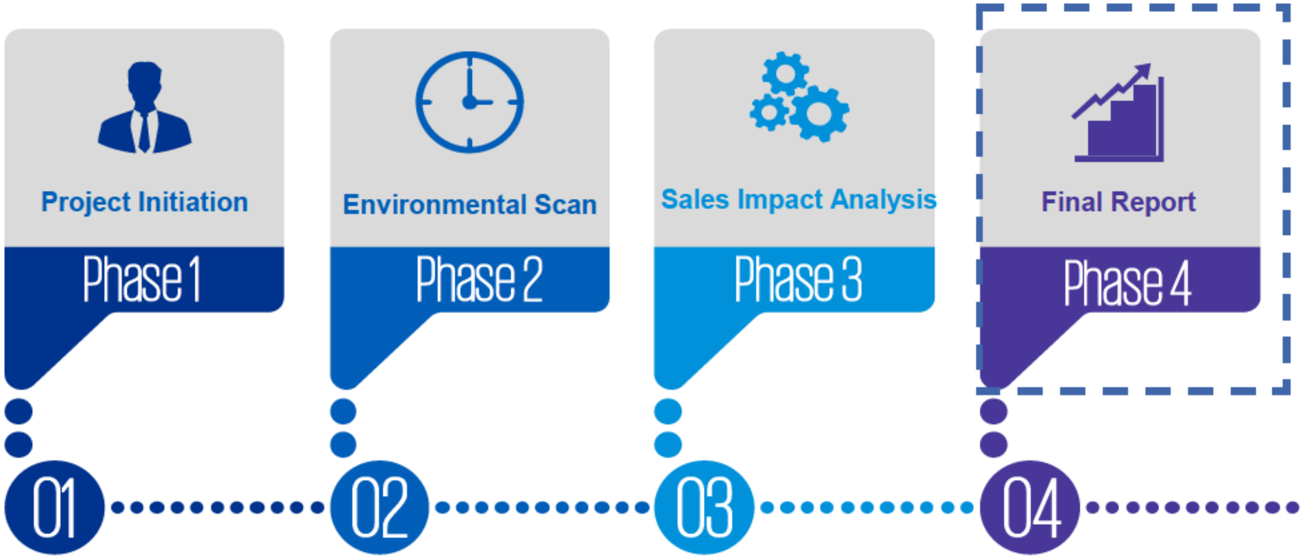
Work Plan

This engagement commenced on October 16, 2020, and was completed when the final report was presented to the Project Team on January 12, 2021. The diagram below depicts the key phases as outlined in the Engagement Letter.



Project Initiation

1. Met with independent Director as designated by SJSEL Board and Project Team to clarify expectations, refine lines of inquiry, identify information available for review, and develop a subsequent work plan for the engagement.

Environmental Scan

2. Benchmarked Mile One against the national comparators on facility size, ownership structure, operating model, age, operational history and future expectations.

Sales Impact Analysis

3. Explored the sales implications on building systems, labour relations, existing historical agreements, tourism and event strategy, and financial and valuation methodology.

Final Report

4. Consolidated the work into a final report and prepare high-level implementation plan for sale.

Environmental Scan

St. John's Sports Entertainment

Sale Implication Review

Environmental Scan

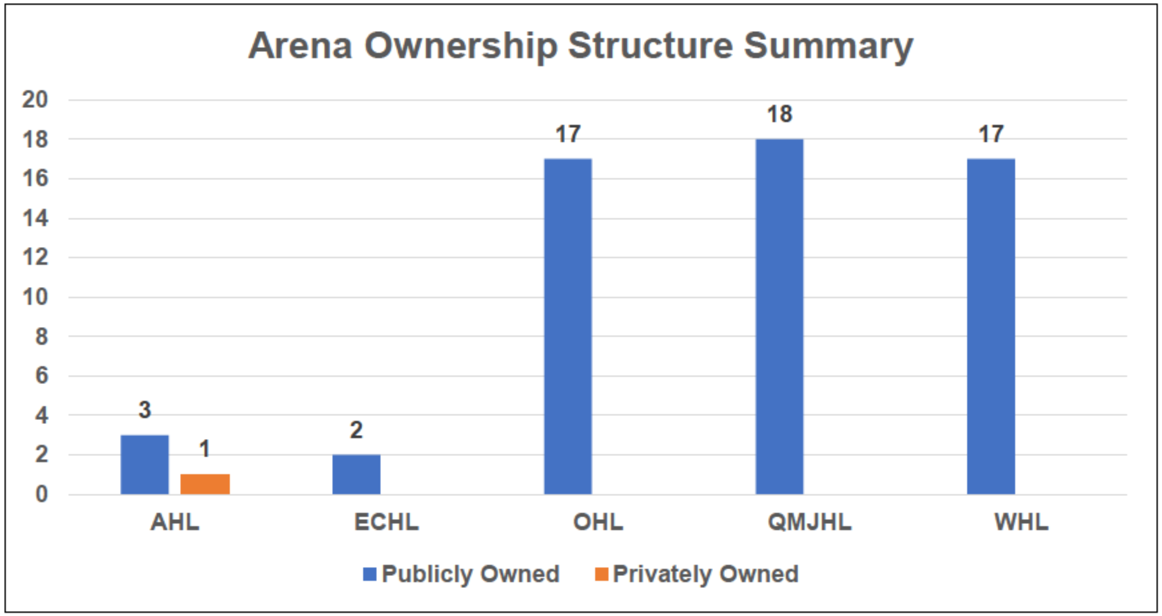
Overview

KPMG performed a benchmark analysis of large venue arenas in Canada to identify their owner/operating model as well as age, operational history and future expectations. When reviewing the ownership model, pubic owners were considered to be cities, municipalities, universities and any related subsidiaries.

The comparators were selected based on the level of professional hockey league, size of the facility and overall purpose. Facilities located outside of Canada were excluded.

Environmental Scan Results

In total, 58 Canadian arenas were included in the review based on the leagues noted in the table below. The analysis revealed that one team is a tenant in a privately owned arena. For this arena, the respective owner has maintained possession of the property since its development and is also the team owner. Additionally, there are four cases of Public-Private Partnerships (3P) where the City maintains ownership of an arena developed with a private partner. In this model, the private partner is responsible for operating and maintaining the arena.



Environmental Scan

Public –Private Partnerships

Public-private partnerships are defined as a long-term performance-based approach for procuring public infrastructure where the private sector assumes a major share of the responsibility in term of risk and financing for the delivery and the performance of the infrastructure.

An example of such a partnership is the development of the Budweiser Gardens in London, Ontario. The arena was developed in partnership with the City of London and the London Civic Centre Corporation, a privately owned corporation of EllisDon and Global Spectrum.

Environmental Scan Results

The environmental scan identified one example of a privately owned and operated arena in Canada (based on comparator criteria). In the identified example, the arena has remained privately owned since its inception. Further details are listed below:

Privately Owned & Operated Arenas				
League	**Team**	**Arena**	**Age**	**Owner**
AHL	Winnipeg Moose	Bell MTS Place	16	True North Sports & Entertainment

Similarly, there are few examples of public-private partnerships for arenas across Canada. The environmental scan noted the following four examples:

Public-Private Partnerships					
League	**Team**	**Arena**	**Age**	**Owner**	**Partner**
ECHL	Brampton Beast	CAA Centre	22	City of Brampton	Realstar, Inc
WHL	Kelowna Rockets	Prospera Place	21	City of Kelowna	GSL Group
WHL	Victoria Royals	Save-On-Foods Memorial Centre	15	City of Victoria	GSL Group
OHL	London Knights	Budweiser Gardens	18	City of London	London Civic Centre Corporation

KPMG

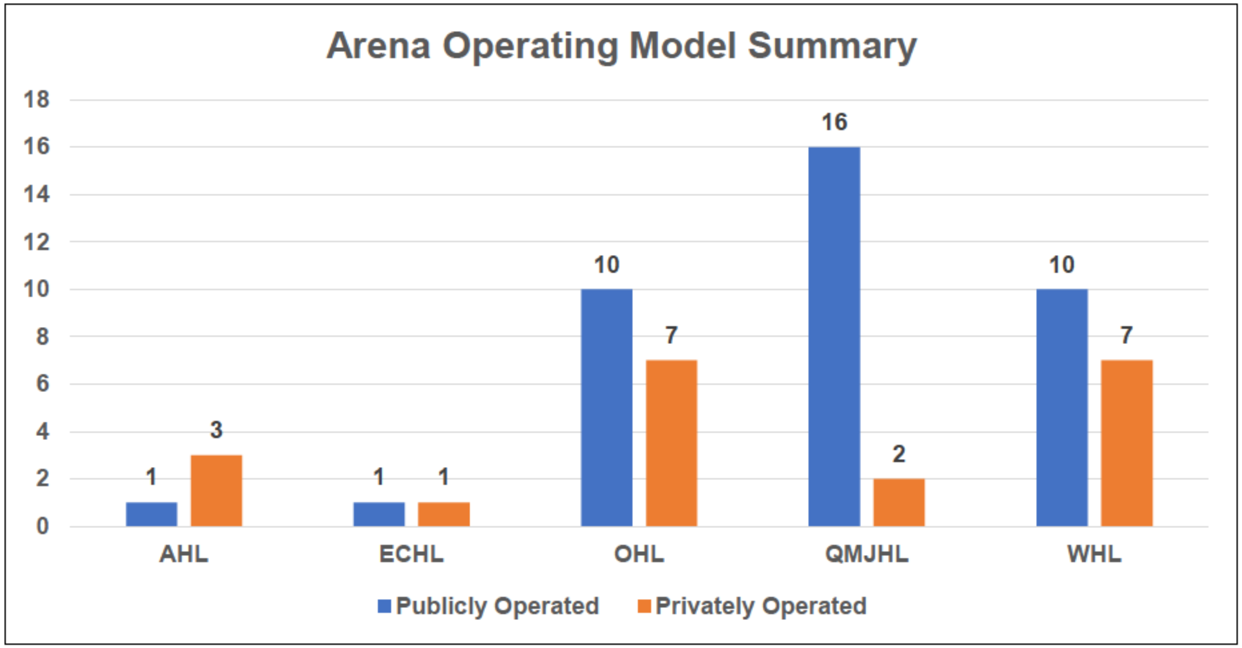
Environmental Scan

Operating Model

Of the 58 Canadian arenas surveyed, it was noted that 20 arenas are operated by private companies and the remaining 38 facilities are operated by a public entity (e.g. cities, universities, etc.).

Environmental Scan Results

Of the 58 Canadian arenas reviewed, it was noted that 20 arenas (34%) are operated by private companies and the remaining 38 facilities are operated by a public entity (e.g. cities, universities, etc.). The 20 arenas operated by private companies are mainly made up of arenas in the OHL (7) and WHL(7). Additionally, 27 of the arenas reviewed (47%) share the facility with another tenant (e.g. NHL, NBA G-League, NBL, CEBL, U Sports). Importantly, the Bell MTS Centre in Winnipeg is home to both an American Hockey League franchise and a National Hockey League franchise (Winnipeg Jets) and might not be directly comparable.



The table on the following page provides additional details regarding the arenas that were noted to be privately operated.

Environmental Scan – Operating Model

The table on the following page provides additional details regarding the arenas that were noted to be privately operated:

Private Arena Operators					
League	**Team**	**Arena**	**Capacity**	**Age**	**Operator**
AHL	Laval Rocket	Place Bell	10,000	3	Evenko
AHL	Toronto Marlies	Coca-Cola Coliseum	8,300	99	Maple Leaf Sports & Entertainment
AHL	Winnipeg Moose	Bell MTS Place	15,321	16	True North Sports & Entertainment
ECHL	Brampton Beast	CAA Centre	5,000	22	Realstar, Inc
OHL	Windsor Spitfires	WFCU Centre	6,450	12	Comcast Spector
OHL	Hamilton Bulldogs	First Ontario Centre	17,383	35	Core Entertainment (Comcast Spectacor)
OHL	London Knights	Budweiser Gardens	9,036	18	London Civic Centre Corporation
OHL	Ottawa 67's	TD Place Arena	9,500	53	Ottawa Sports & Entertainment Group
OHL	Kingston Frontenacs	Leon's Centre	5,614	12	SMG Canada
OHL	Niagara IceDogs	Meridian Centre	5,580	6	SMG Canada
OHL	Oshawa Generals	Tribute Communities Centre	6,125	14	Spectra Venue Management
QMJHL	Quebec Remparts	Videotron Centre	18,259	5	Quebecor Media
QMJHL	Moncton Wildcats	Avenir Centre	8,800	4	SMG Canada
WHL	Calgary Hitmen	Scotiabank Saddledome	19,289	37	Calgary Sports and Entertainment
WHL	Kelowna Rockets	Prospera Place	6,286	21	GSL Group
WHL	Victoria Royals	Save-on-Foods Memorial Centre	7,006	15	GSL Group
WHL	Moose Jaw Warriors	Mosaic Place	4,714	9	Spectra Venue Management
WHL	Edmonton Oil Kings	Rogers Place	18,347	4	Oilers Entertainment Group
WHL	Medicine Hat Tigers	Co-Op Place	7,100	5	SMG Canada
WHL	Vancouver Giants	Langley Events Centre	5,276	11	Ten Feet Sports & Entertainment

Building System Implications

St. John's Sports Entertainment

Sale Implication Review

Building System Implications

KPMG depended upon data provided by SJSEL in their capital asset plan and does not attest to the accuracy of the forecast.

Ice Rink Refrigeration and Arena Useful Life

The arena uses an indirect refrigeration system where a liquid refrigerant (ammonia) absorbs heat from a secondary liquid (glycol) which then pulls heat out of the rink floor as the glycol is pumped through pipes embedded evenly throughout the floor. Indirect systems have become the preferred choice of refrigeration methods, allowing for safer control of potentially harmful refrigerants. In indirect systems, refrigerants such as ammonia, which is toxic, are contained within a rink's mechanical room. Lately there have been incidents of personal injury due to ammonia leakage. However with proper maintenance, periodic inspections and monitoring and use of qualified personnel to operate the system, these systems are considered by regulatory authorities to be safe. Key components of ammonia systems usually have a life cycle of 30 years[1], particularly condensers and compressors. With regular maintenance and life cycle adherence, the system can last indefinitely. Upgrading of older ammonia systems can be performed to achieve energy conservation and improved ice surfaces.

No recent building condition assessment have been performed to identify lifecycle issues and required maintenance and upgrades. Overall, the Mile One arena is approaching end of life; the industry standard is approximately 34 years. Given the weather in St. John's and the type of construction, Mile One may need to be substantially renovated/refurnished ahead of this timeline.

1. St. John's Convention Centre ("SJCC") Domestic Hot Water and Heating

The hot water storage tanks and boilers are contained in the Mile One mechanical room, servicing the needs of both the arena and the convention centre. The hot water produced in Mile One is transported to the SJCC through pipes within the pedway. The hot water is used for domestic heating within the SJCC, as well as heating for several closed loop glycol systems which service the rooftop air handling units. There is no current capability to provide domestic hot water or heat within SJCC.

2. SJCC Electrical Supply

Electrical power is delivered from the electrical utility to a switching station located in the SJCC. From this switching station, power is provided to the convention centre as well as the arena via cables which are located within the pedway. Any electrical maintenance at Mile One requires coordination with the SJCC.

3. Pedway

Mile One provides heated water for SJCC via pipes located within the pedway. Also within the pedway are cables bringing electrical power from SJCC to Mile One.

1. Source – Comparative Study of Refrigeration for Ice Rinks, Government of Canada

Building System Implications

KPMG depended upon data provided by SJSEL in their capital asset plan and does not attest to the accuracy of the forecast.

Capital Expenditures

The capital expenditure budget[2] averages $800,000 per year with an exception in 2023 where a budgeted seat replacement of $2,000,000 increases capital requirements to $2,200,000 in total. In terms of building systems, the major item in the immediate future is replacement of ice plant condensers for $250,000 in 2021 and the replacement of one of the three compressors at an estimated cost of $40,000 in 2022.

Issues with Building Systems Arising from Sale

1. **Electrical Distribution** – there are two potential solutions to isolate the provision of electrical power. The least expensive method is to install metering in the SJCC switching room for power provided to Mile One. A second more expensive method is to provide power directly to Mile One and decommission the power connections emanating from SJCC.

2. **Domestic Hot Water and Heating** - SJCC requires hot water utility for heating the glycol systems that service the air conditioning & air handling units, space heating, domestic hot water etc. This hot water is provided from the boilers at Mile One through piping via the pedway infrastructure. In order to terminate the reliance on Mile One, boilers would need to be installed in a SJCC boiler/ mechanical room. It is our understanding that a new mechanical room would need to be constructed to house new boiler(s) and auxiliary equipment. New connections and decommissioning of the former method would also need to be performed. A feasibility study and costing by an engineering firm with HVAC expertise should be performed to evaluate this approach which would result in a significant engineering and infrastructure upgrade.

3. **Pedway** – the pedway is currently used to carry the electrical cables and pipes between the two facilities. Depending on the method employed to deal with the electrical, hot water and heating described above, ownership of the pedway would need to be clarified and an easement provided for use of the pedway.

4. **Regular Maintenance and Inspections** – to ensure health and safety associated with the operation of an ammonia system, regular maintenance and inspections must be performed by qualified personnel on the Mile One ice plant regardless of ownership.

5. **Personnel** – the operation of the refrigeration system and provision of domestic hot water and heating must be performed by the appropriate certified personnel. Since one of the solutions involves boilers in both locations, some duplication of personnel will result.

[2] Source - Capital Asset Plan 2020-2024

Labour Relations Implications

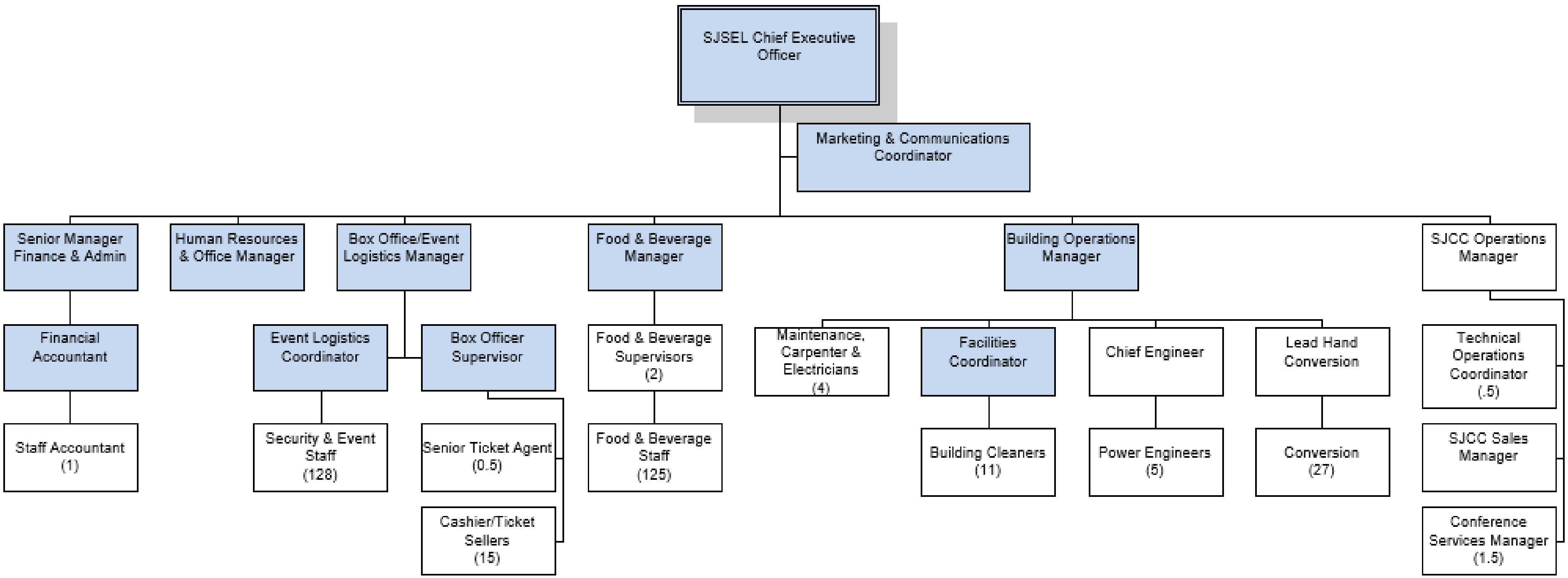
St. John's Sports Entertainment

Sale Implication Review

Labour Relations Implications

Organizational Structure for SJSEL (October 2020)

It is our understanding, in October 2020, the City of St. John's requested SJSEL review their current organizational structure to find permanent savings. The result of this restructuring was the elimination of 3 non-union positions, as well as, two unionized positions. In addition, three full time non-union positions and two unionized positions have been furloughed as a result of the COVID-19 pandemic and expected to return to full capacity in September 2021. The blue highlighted positions in the chart below indicate full-time non-union positions:



Labour Relations Implications

Successor rights would likely apply to any change in ownership at Mile One provided the fundamental use of the building is unchanged.

Successor Rights

Successor rights in Newfoundland and Labrador are within the jurisdiction of the Labour Relations Board pursuant to the provisions of the Labour Relations Act, RSNL 1990, c. L-1, as amended. Specifically section 94 of the Act provides that the Board may declare that successor rights have been acquired where there is a sale, merger or acquisition.

For successor rights to apply one has to have a unionized workplace. If that workplace is sold, merged or otherwise acquired and then continues to operate essentially the same type of business, the "new" employer will inherit the union and the unionized workplace, and become a party to the collective agreement then in place.

Mile One/SJSEL is unionized. All employees with the exception of those recognized in the collective agreement as management or being excluded from the bargaining unit, are to be members of the union. In 2000, Mile One/SJSEL and its union's status was the subject of a lengthy hearing before the Board. In that case the City acknowledged that Mile One/SJSEL would be a successor employer and it's workers would be members of CUPE, but allowed for a separate local. Accordingly, successor rights will need to be considered in the sale of the Mile One Centre.

Pension Liabilities

Full time Mile One Employees, both union and non-union, are members of the City of St. John's pension plan. When contemplating the sale of Mile One, the City and the purchaser must consider the effect of the transaction on the rights and interests of pension members. The parties may be required to negotiate specific terms in the agreement of purchase and sale addressing the pensions of affected employees. The City will have the responsibility to ensure employees' pensions are protected in the event of the sale of the Mile One Centre.

Labour Relations Implications

By becoming a successor employer the new owner would become a party to the existing collective agreement with recall rights and amalgamation, regionalization and merger protection.

Implications of Current Collective Bargaining Agreement:

As noted above, by becoming a successor employer the new owner would become a party to the existing collective agreement. The current *CUPE Local 5459 Collective Agreement, in effect until June 30, 2022* also contains the following articles the City should consider relevant to the sale of Mile One:

Article	Reference	Statement	Implication to Sale of Mile One
Article 13.03	Recall Rights	*"No new employees are to be hired until those who are laid off and have the necessary qualifications have been given the opportunity for recall."*	A new owner can not avoid successor rights by laying off the current employees and hiring new ones, as recall rights would likely apply. Such action on the part of a new owner could possibly also result in a complaint to the Labour Relations Board.
Article 28:01	Amalgamation Regionalization & Merger Protection	*"Employees credited with seniority rights, service credits re. vacation, sick leave, benefits shall be recognized by new employer. All work presently performed by CUPE members shall continue to be performed by CUPE members with new employer. Condition of employment and wage rate of new employer shall be equal to the provisions of current agreement. No employee should suffer loss of employment as a result of the merger."*	A new owner could not fundamentally change the provisions of the current collective bargaining agreement that results in any undue harm to current unionized employees. The benefits, wage rates, seniority, vacation, etc. negotiated by any successor employer would be required to be comparable or better than the current collective agreements dictates.

Due to the impacts of the COVID-19 pandemic on the live events and meetings, conferences and trade show industries, SJSEL's part time unionized workforce is temporarily furloughed.

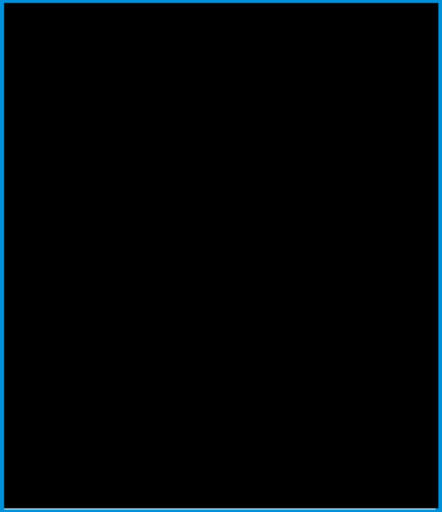
Labour Relations Implications

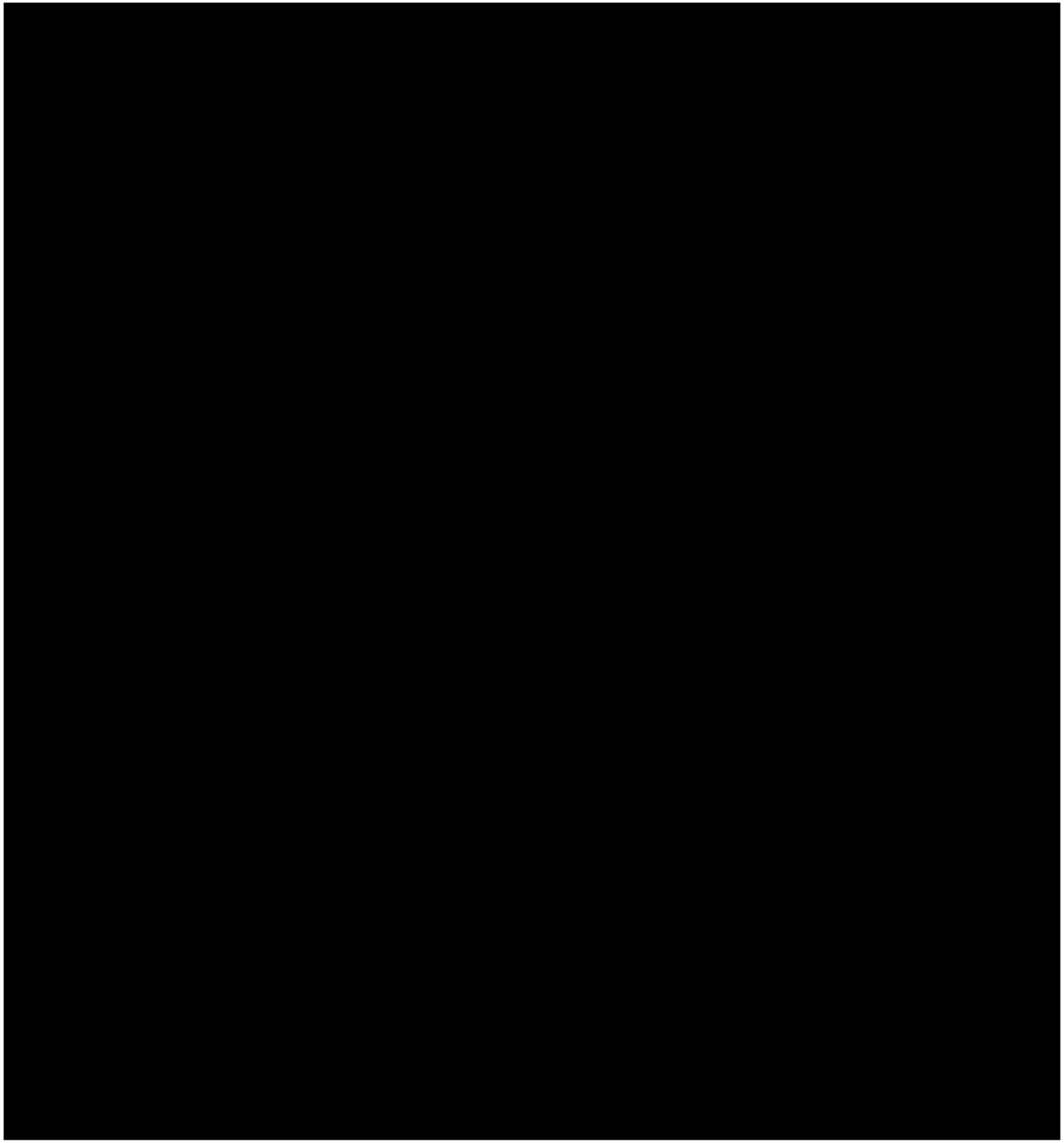
[redacted]

[redacted]

KPMG

Labour Relations Implications





Historic Agreement Implications

St. John's Sports Entertainment

Sale Implication Review

Historic Agreement Implications

KPMG reviewed historical agreements applicable to Mile One based on the notification of existence of agreements and provision of agreements by City of St. John's. Any implications contained in outstanding agreements not made available to KPMG by the City of St. John's have not been included in this review, and KPMG cannot be held liable for any omissions resulting from agreements not provided to KPMG by the City. [redacted]

The following table contains a list of current and historical agreements with conditions the City should consider in the sale of the Mile One Centre: [redacted]

Agreement	Date	[redacted]
Canada / Newfoundland Agreement on Economic Renewal (ERA) Civic and Convention Centre Construction Funding Agreement	May 1999	[redacted]
Atlantic Canada Opportunities Agency (ACOA) Pedestrian Link Construction Funding Agreement	April 29, 2002	[redacted]
Master Software and Services Agreement (MSA) Paciolan Inc. and SJSEL	October 1, 2011- June 30, 2022	[redacted]
Memorandum of Understanding SJCC Expansion Project – City of St. John's and Destination St. John's	October 22, 2013	[redacted]

Historic Agreement Implications

These additional current and historical agreements listed below were examined by KPMG [redacted]

Agreement	Date
License Agreement - Molson Canada and Cable Atlantic Inc. whereby Molson assigns naming rights for Mile One to Cable Atlantic	Signed August 1, 1999; in effect June 1, 2000 – June 1, 2010
Arena Naming Agreement – Civic Centre Corporation and Molson Canada	January 1, 2000 – December 31, 2010
Registered Deed of Conveyance and Indenture for St. John's Civic Centre Spectator Facility Site Boundary and Land – City of St. John's and SJSEL	June 12, 2002
Bill of Sale Indenture for Non-Fixed Assets for Mile One Stadium and St. John's Convention Centre – City of St. John's and SJSEL	June 12, 2002
Platinum Partner Agreement – Roebothan, McKay, Marshall (RMM), SJSEL, Molson Canada	January 1, 2004
Advantage Personnel Cleaning Contract – SJSEL and Advantage	September 15, 2014 – September 16, 2016
Advantage Personnel Cleaning Contract Extension – SJSEL and Advantage	September 30, 2018 – August 31 , 2019
Memorandum of Understanding – ASE, Deacon, SJSEL, City, Simon, Sabbagh	March 2018
Food Services Management Agreement – Centerplate and SJSEL	March 17, 2018
Lease Agreement – SJSEL, ASE, Deacon	November 14, 2018
Addendum No. 1 LED Power Ring – Atlantic Sports Enterprises Ltd., Deacon Investments Ltd., SJSEL, City of St. John's, Irwin Simon, Robert Sabbagh	November 14, 2018

[redacted]

Tourism & Event Strategy Analysis

St. John's Sports Entertainment

Sale Implication Review

Tourism & Event Strategy

Mandate

A key finding from the KPMG 2019 Jurisdictional Review for St. John's Sports and Entertainment, commissioned by the City of St. John's, was the importance of a clear mandate to define success at both the Mile One Centre and the St. John's Conference Centre (SJCC).

Since the 2019 report, we understand the SJSEL Board has identified the mandate of SJSEL is to: ***operate exceptional facilities that provide value to citizens, business, and visitors, by attracting events and activities that generate economic benefit and enhance community vibrancy.***

The SJSEL Board has identified the key objective for Mile One is to act as an economic engine for St. John's with a focus on the economic spin offs and community building in the areas of sport, arts and cultural programming. It was through this lens that KPMG evaluated the potential impact of the sale of Mile One on the tourism and event strategy of St. John's. Lacking any recent economic development studies or assessments to ascertain Mile One's direct impact on the local economy and tourism industry, our assessment is based on our knowledge of the industry overall and findings from previous studies completed on Mile One, as well as literature on the value of similar large venue sports and entertainment centres to local communities.

Economic Impacts

The 2006 Economic Impacts of Mile One Centre and St. John's Conference Centre (SJCC) Report prepared by Wade Locke Economic Consulting and Associates suggests that events at Mile One Centre designed for entertaining local audiences, such as hockey and basketball, **generate minimal incremental economic impacts for the local economy**.

This is consistent with economic literature on arena and entertainment facilities that indicates much of the economic activity generated by sporting events is considered recirculated where minimal new or incremental economic activity is produced[3]. It is estimated that 50-80% of economic activity as a result of key tenant events comes from the local community[3]. With a finite amount of disposable income, St. John's residents who choose to spend their money on Growlers hockey or Edge basketball do so at the expense of not spending that amount of disposable income elsewhere in the community.

Accordingly, for events dependent upon local audiences, there is likely no change in the economic impact should the ownership/operating model change for the Mile One Centre.

[3] Moncton's Proposed Downtown Centre: Anchoring a Vibrant Downtown by David Campbell, Jupia Consultants Inc.

Tourism & Event Strategy

Tourism and Large Event Strategy

In contrast, events that attract audiences from outside the City generate incremental revenues for hoteliers, restaurants, public transportation, etc. As noted in the Wade Locke 2006 Economic Impact report, attendees at large provincial or national sporting/cultural events from outside the local community represent new money for the local economy with their expenditures on accommodations, food and entertainment.

Upon review of the event listing on the Mile One website, KPMG noted that, excluding tenant sporting events, there were eighteen special events in 2018, and seventeen special events in 2019 hosted at the facility, which would generate the incremental economic and tourism activity identified as a priority in the City's Roadmap 2021, as well as, in the board-approved mandate for Mile One. The full list of special events considered for their incremental economic activity generation is included in Appendix D.

The City should consider the implications of the sale of Mile One Centre on its ability to attract large sporting and cultural events. The City's ownership and the connected proximity of the Mile One Centre and SJCC provides a synergy and operating model that enables the attraction of the large trade shows and expositions. Maintaining the required business relationship for two different ownership groups and their respective facilities (the City's SJCC and the private Mile One Centre) to co-host events is a risk. Any breakdown in the relationship would limit the City's ability to attract large sporting and cultural events which would have an economic impact on the City. This risk could potentially be mitigated through the establishment of non-compete partnership arrangements between the City and private ownership of Mile One, however, any significant breakdown in the relationship between the two entities could provide additional challenges in the management of the tourism and large event strategy between the two venues.

Alternatively, there is the potential for a private owner/operator to have a positive economic impact. A private owner/operator of the Mile One Centre would have the ability to take risk that is not afforded to the publicly funded SJSEL. This could increase the local community's ability to attract large scale provincially and nationally significant sporting events and concerts provided the private/owner operator has the financial resources to support these events.

KPMG

Tourism & Event Strategy

Based on KPMG's understanding of the marketplace and the experience of other comparable sports and entertainment facilities, there are several advantages and challenges to the City's tourism and event strategy from the sale of Mile One to a private operation that the City should consider. KPMG has outlined these considerations in the following table:

Advantages	Challenges
Private operator would be able to take more financial risk to incentivize provincially and nationally significant events, concerts, etc. to St. John's, generating greater economic and tourism benefits when compared to the current, publicly funded operator	Loss of control of major downtown asset used to attract and drive economic growth and tourism strategies could result in difficulties with incentivizing and attracting provincially and nationally significant events, concerts, etc. to St. John's
The profit motivation may drive an increased focus on revenue generation through the attraction of additional events and the reduction of operating costs	Reliant on a private owner of Mile One to work together and jointly host events with the SJCC. Potential risk of having to compete with private operator to attract same business
Opportunity exists to negotiate a new collective agreement specific to Mile One which may provide increased operating flexibility, lower costs and make previously unprofitable shows viable	Change of use risks and loss of civic pride – change in ownership would increase the risk of removing Mile One as a public gathering space
Private operators are typically able to negotiate a lower capital construction cost for asset renovation; this could potentially speed up the renovation of Mile One into a more popular destination for entertainment promoters	Potential impacts to current tenants and lease negotiations
	The financial capacity of a private owner to undertake the responsibilities of event management e.g. insurance, security, event deposits

Valuation Methodologies

St. John's Sports Entertainment

Sale Implication Review

Cost Approach

In order to value Mile One for potential sale, there are a three approaches:

a. Cost Approach

b. Direct Comparison Approach

c. Income (Direct Capitalization) Approach

In order to value Mile One for potential sale, there are a number of valuation methodologies that the City could potentially apply. KPMG has outlined the procedure for calculating the valuation and identified limitations (where applicable) for each of the following methodologies:

a. the Cost Approach

b. the Direct Comparison Approach

c. the Income (Direct Capitalization) Approach

Each of these methodologies could be utilized by the City to appraise the value of the Mile One asset in preparation for sale.

Cost Approach

The procedure for valuing the Mile Once Centre using the cost approach consists of estimating the current market value of the land, plus costs of construction (including the entrepreneurial incentive), less depreciation from all sources.

The valuation of the land component is reconciled through the application of the Direct Comparison Approach. This is likely to be a straight-forward calculation since arenas are typically improved upon lands having standard land use controls (e.g. employment/industrial). The cost of construction (and depreciation) will be estimated through an industry-recognized cost estimator based on the replacement cost of the structure improved upon the subject lands itself (inclusive of all multipliers). This will ensure the most accurate findings and conclusions in the application of this methodology.

The cost approach is particularly pertinent when appraising special-purpose facilities.

Limitations of the Cost Approach

The cost approach is most appropriate for brand new facilities. Its applicability for older structures is less appropriate because depreciation is difficult to quantify for older properties given the number of factors that require consideration. Estimating depreciation allows for subjectivity (i.e. compromises reliability). This represents a limitation that all appraisers must overcome.

Direct Comparison Approach

Direct Comparison Approach

The Direct Comparison Approach for valuing the Mile Once Centre uses the direct comparison of recent arm's-length transactions for similar properties in the open market.

The valuator would research transactional data across the nation, and would identify and analyze the most comparable sales of comparable assets within similarly-sized markets. This ensures that the City can identify and analyze the most relevant and reliable findings.

The elements of comparison (for adjustment) utilized in the Direct Comparison methodology include: real property rights conveyed, financing terms, conditions of sale, expenditures made immediately after purchase, market conditions, location, physical characteristics, economic characteristics, land use/zoning, and non-realty value components. All adjustments are substantiated using market data to ensure accuracy/reliability throughout the reconciliation process.

Limitations of the Direct Comparison Approach

The Direct Comparison Approach is highly contingent upon the availability and relevance of market data. Due to the scarcity of the Mile One asset, it is anticipated that there will be few transactions of "similar properties" within close proximity. Therefore, the search will have to be broadened by asset (e.g. incorporate sportsplexes / entertainment facilities) and geography which would result in a greater gross adjustment. This represents a significant limitation for the valuation of the Mile One Centre.

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Income Approach (Direct Capitalization)

Income Approach (Direct Capitalization)

The Income Approach methodology consists of converting the projected current net operating income ("NOI") into an estimate of current market value through the use of an overall capitalization rate ("OCR"). In this procedure, all historical and projected revenues (including Agreements to Lease) and expenses are benchmarked against market rates for each component of the property [ice pad(s), restaurant(s), office, etc.] to arrive at a supportable stabilized net operating income.

A minimum of three years of detailed historical annual statements are required, as well as, monthly statements to date for the year of 2020, and one year of forecasted revenue. Additionally, all lease agreements relating to the subject property must be analyzed in detail in order to ascertain the security of the cashflow (tenancy and term). This includes both league revenue (hockey / basketball) and ice rental revenue and agreements associated with all components.

When there is a scarcity of information, the appraiser must benchmark historical figures (revenue, vacancy, operating expenses) against their own internal confidential database and statements posted by publicly-traded companies in the same industry (e.g. Canlan Ice Sports has publicly-available operating statements outlining revenue per pad, operating expense ratios, etc.)

In the identification of an overall capitalization rate, the appraiser identifies recently achieved rates for like assets. The OCR converts the stabilized NOI to a final estimate of Current Market Value through the following formula:

Net Operating Income (NOI)	÷	Overall Capitalization Rate (OCR)	=	Current Market Value (Estimate)

In the event that there is an absence of comparable transactions to identify an OCR, the appraiser may have to extend their search to identify recently achieved rates for assets with similar risk profiles (e.g. sports complex, entertainment facility, etc.), as well as price-to-earnings ratios for publicly-traded companies in the same industry.

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Impact of COVID-19

COVID-19 has caused uncertainty across Canada's commercial real estate market. In order to overcome the impact of the pandemic, the following should be completed (subject to availability):

- Review monthly operating statements for the Mile One Centre to ascertain the impact-to-date. A detailed review will allow utilization of a "Before and After" approach to obtain a comprehensive understanding of the impact-to-date on the subject property.
- Research recent trends in the performance of publicly-traded companies with holdings / operations in the same sector (revenues, price-to-earnings ratios, etc.). Although not a directly competing single asset, trends in pertinent figures for publicly-traded companies having similar holdings will allow a better understanding of market sentiment surrounding the prospective outlook for the industry
- Conduct paired sales analysis to ascertain the impact on current market value.
- Identify leasing trends for similar properties within the immediate and general vicinity. Given that it is an extremely niche asset, there may be a scarcity of data availability since March 2020. However, market data should be sought out across a broad geographic area.

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Final Reconciliation

Summary:

The final reconciliation depends on the applicability and relevance of the approaches, methods, and techniques used to arrive at the value conclusion(s). These criteria are integral to an appraiser in forming a meaningful, defensible opinion of current market value. However, it is anticipated that data will be limited; therefore, all three methodologies should be applied in the appraisal.

The final reconciliation will be predicated upon the availability, quantity, reliability, and relevance of data under each approach. Overall, the weighting of methodologies will be applied based on i) the age/condition of the existing structure; and ii) the availability and reliability of market data through the application of the Direct Comparison and Income Approaches. Upon reconciling a final estimate of current market value using the three methodologies, the appraiser will finally identify and deduct any outstanding capital expenditures associated with the existing improvements.

Despite the aforementioned, these assets typically trade for their income-producing potential (Income Approach), rather than for owner occupancy (Direct Comparison Approach). Therefore, subject to availability of market data, the Income Approach is more pertinent in arriving at a final estimate of current market value for the Mile One Centre.

Specific Items Not Considered:

i) The potential existence of a land lease encumbrance. This could have a significant impact on value, as the payments are built into the cashflow and offer a different risk profile (i.e. represent property rights for a defined holding period).

ii) Highest and Best Use Analysis – The application of these methodologies assumes that the Highest and Best Use (HBU) of the property is for a continuation of the existing use. If, upon further analysis, the HBU is for re-development or modification of use/improvements, the application of the methodologies discussed herein is subject to change.

Long Term Financial Implications

St. John's Sports Entertainment

Sale Implication Review

Long Term Financial Implications

SJSEL has incurred a deficit for the past four years. Results for 2019 show the smallest deficit for the four year time period ($67,000).

SJSEL financial results include both the Mile One Centre and the SJCC.

In order to understand the long term implications of the sale of Mile One Centre, the following four financial areas were reviewed.

1. Current financial operating model
2. Mile One capital construction
3. City of St. John's subsidy to SJSEL
4. Ancillary matters
   - Naming rights
   - Cost avoidance on capital upgrades

The implications of these four issues represent the key matters that need to be understood prior to the sale of the Mile One Centre.

The table below summarizes the operating results of SJSEL for the four-year period ended December 31, 2019 before capital grants or special capital transfers from the City of St. John's. After removing amortization of tangible capital assets from expenses, SJSEL has incurred a deficit for the past four years. Results for 2019 show the smallest deficit for the four year time period ($67,000). SJSEL financial results include both the Mile One Centre and the SJCC.

SJSEL Income Statement Summary						
Years ended December 31	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
$ (000's)	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**	**Audited**
Revenues	8,441	5,034	6,323	7,201	6,708	7,545
Less: Operating Expenses*	(9,312)	(7,201)	(8,580)	(9,282)	(9,606)	(10,517)
Subtotal	(871)	(2,167)	(2,257)	(2,081)	(2,898)	(2,972)
City of St. John's operating grant	1,000	1,400	2,070	1,990	2,151	2,904
Surplus (Deficit)	**129**	**(767)**	**(187)**	**(91)**	**(747)**	**(68)**

*Expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets
Source: SJSEL audited annual financial statements

Current Financial Operating Model

The financial success of Mile One is largely dependent on the success of its two anchor tenants, the Growlers and the Edge

SJSEL has not finalized a signed lease with the two anchor tenants of Mile One Centre

Revenues earned by Mile One are a function of event nights and attendance. In addition to ticket sales, revenues are earned through food and beverage sales at events as well as artist and team catering. However, revenue from all three streams are heavily inter-related. Food and beverage revenue is tied directly to the number of events and attendance at those events. Event attendance positively impacts non-ticket revenue for SJSEL.

According to SJSEL's 2019 audited annual financial statements for Mile One Centre, budgeted revenues entertainment and events makes up $4,463,411, or 89% of total revenues. This includes tickets and admission revenue, credit card charges and fees and food & beverage revenue. There is also sales and marketing revenue in the amount of $504,254 generated from corporate partnerships, advertising and cleaning of corporate suites. Technical service and building maintenance accounted for $27,221 in revenue.

The financial success of Mile One is largely dependent on the success of its two anchor tenants, the Growlers and the Edge. A lease between SJSEL, the City, Atlantic Sports Enterprises Ltd. ("Atlantic") and Deacon Investments Ltd. ("Deacon") for 2019 and subsequent years has not been executed. However it is KPMG's understanding that all parties are currently operating under the terms and conditions contained in the 2019 unsigned lease.

Per the 2019 unsigned lease agreement:

- 10-year term to coincide with a naming rights agreement;

[redacted]

In addition to revenue generated from ticketed events, SJSEL generates revenue from ice surface rentals. Ice is rented for $229 per hour, including HST. Revenue from ice rentals was budgeted at $180,000 and $190,000 for 2017 and 2018, respectively. The actual revenue earned from ice rentals was $178,807 and $175,276 in 2014 and 2015, respectively. Based upon an annual budget of $190,000 at $229 per hour, revenues from ice rentals account for less than 2% of SJSEL's total revenue. Accordingly, the Mile One Centre is not a recreation facility focused on ice rental revenue.

Outstanding Construction Debt

The total cost of construction of Mile One and the original Convention Centre in 2001 was $48,878,312.

There is approximately $2.3m of outstanding debt owing on Mile One Centre.

The cost of construction of Mile One and the original Convention Centre, as well as the sources of financing, have been included in the table below:

Financing for Mile One and Convention Centre Construction

Source	Balance at date of issue	Repaid with	Balance as at December 31, 2019
Bond - issued by City	7,000,000	Accommodation Tax	-
ACOA	4,000,000	Non-repayable	N/A
Additional amounts paid by City during construction	1,283,859	Accommodation Tax	-
Provincial funding	19,006,737	Non-repayable	N/A
Bond - issued by City	16,500,000	General funds of the City	2,268,661
Proceeds of St. John's Memorial Stadium sale	1,087,716	Non-repayable	N/A
Total	**48,878,312**		**2,268,661**

Source: 2019 City of St. John's Financial Statements

The total cost of construction of Mile One and the original Convention Centre was $48,878,312. There were multiple sources of financing. The City agreed to pay $24,783,859 of the total cost of construction and commissioning. $7,000,000 of that amount was financed through a bond issued by the City. The principal and interest of that bond was fully repaid in 2020 using the Accommodation Tax collected by the City. A further $1,283,859 paid by the City during construction of Mile One and the original Convention Centre was fully repaid from amounts collected through the Accommodation Tax. A second bond issued by the City for $16,500,000 will be fully repaid in 2022. The balance of construction financing was obtained through funding from the Atlantic Canada Opportunities Agency ($4,000,000), funding from the Province of Newfoundland and Labrador ($19,006,737), and from proceeds from the sale of St. John's Memorial Stadium.

Capital & Operating Subsidies

SJSEL is the recipient of an annual operating and capital grant from the City, and during the year 2019 received $3,704,396. SJSEL is dependent on these grants to fund on-going operations.

SJSEL's annual operating shortfall for both the Mile One Centre and the Convention Centre is covered by the City of St. John's through an annual operating grant and capital grant. There is an annual $300,000 capital grant collected by the City through the Accommodation Tax. The operating subsidy is determined through annual zero-based budgeting, which commences in October each year.

When amortization of tangible capital assets is removed from expenses, and before special capital transfers from the City of St. John's (related to the SJCC expansion), SJSEL has experienced unbudgeted operating deficits ranging between $67k (2019) and $747k (2018) in the four-year period ending December 31, 2019. If the capital grant is considered, then SJSEL has recorded surpluses in the past four years ranging from $33k in 2015 to $732k in 2019.

Nonetheless, SJSEL is dependent on these grants to fund on-going operations.

The subsidy of Mile One by the City of St. John's for the four-year period ending December 31, 2019 is included in the table below:

Summary of grants from City of St. John's					
Years ended December 31	**2016**	**2017**	**2018**	**2019**	**Average**
$ (000's)	**Audited**	**Audited**	**Audited**	**Audited**	
City of St. John's operating grant	2,070	1,990	2,151	2,904	2,279
Excess of expenditures over revenues*	(2,258)	(2,081)	(2,898)	(2,972)	(2,552)
Net operating income* and grants from the City of St. John's	(188)	(91)	(747)	(67)	(273)
City of St. John's capital reserve funding	300	800	800	800	675
City of St. John's capital transfer	68,402	75	-	-	17,119

*Net operating income excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements

Capital & Operating Subsidies

SJSEL is the recipient of an annual operating grant from the City and during the year 2019 received $2.97 million (2018 - $2.89 million).

On a proportional basis, Mile One Centre was allocated $2.29 million (2018 - $1.6 million) or 79% of the operating subsidy (2018 -75%).

The audited annual financial statements of SJSEL do not disaggregate the operating subsidy from the City of St. John's by facility. In order to approximate the share for each of the SJSEL Facilities, KPMG pro-rated the subsidy by the proportion of the overall operating deficit contributed by each facility in that year, for illustrative purposes.

Accordingly, Mile One is responsible for the majority of the overall SJSEL operating deficit. Since 2016, Mile One's proportion of the total operating deficit has averaged 79%. In 2019, the operating deficit for Mile One was $2.3 million or 79% of the total operating deficit for SJSEL.

The capital transfer was allocated on an equal basis (50% for each facility).

The subsidy of Mile One by the City of St. John's for the four-year period ended December 31, 2017 is included in the table below:

Table 5.9 Subsidization of Mile One Centre by the City of St. John's

Years ended December 31 $ (000's)	2016 Audited	2017 Audited	2018 Audited	2019 Audited
Total Operating Deficit for SJSEL	2,258	2,081	2,898	2,972
Operating Deficit for Mile One Centre	1,675	1,804	2,183	2,341
Operating deficit % (proportion of total SJSEL operating deficit)	74%	87%	75%	79%
Operating subsidy allocated to Mile One	1,532	1,731	1,613	2,294
Capital transfer allocated to Mile One(*)	400	400	400	400

*Assumes 50% of capital reserve funding from the City of St. John's is allocated to each SJSEL Facility

Source: SJSEL audited annual financial statements

Financial Observations

What are the long-term financial implications if the Mile One Centre is sold?

1. Financial Operating Model

The current unsigned lease agreement with Atlantic and Deacon largely provides for revenue sources that are typically owned by the arena operator and not a tenant.

The sale, therefore, of the Mile One Centre would have limited impact on the SJSEL revenue stream.

2. Outstanding Construction Debt

The total cost of construction of Mile One Centre was $48,878,312. Two debentures were issued by the City to finance the construction of the Mile One Centre. One debenture in the amount of $7 million was fully repaid in 2020. The second debenture of $16.5 million has approximately $2.3 million of outstanding debt owing. It is scheduled for full repayment in 2022.

The sale of Mile One Centre will need to consider how to treat the outstanding debt of $2.3 million between the parties.

3. Capital & Operating Subsidies

SJSEL's annual operating shortfall for both the Mile One Centre and the Convention Centre is covered by the City of St. John's through an annual operating grant and capital grant. Mile One Centre contributes the majority of the overall SJSEL operating deficit. Since 2016, Mile One's proportion of the total operating deficit has averaged 79% or $2 million. In 2019, the operating deficit for Mile One was $2.3 million or 79% of the total operating deficit for SJSEL.

Notwithstanding the negotiated terms of sale, the sale of the Mile One Centre has the potential to remove approximately $2 million in subsidy from the City's obligations.

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Financial Observations

What are the long-term financial implications if the Mile One Centre is sold

4. Ancillary Matters

a. **Naming rights:** the naming agreement with Molson Canada and Cable Atlantic Inc. ended in 2010. There has been no renewal of the agreement or securing of a new naming rights agreement. [redacted]

Any potential sale of the Mile One Centre should consider the financial implications of naming rights for the asset.

a. **Capital Cost Avoidance:** the Mile One Centre is an aging, mid-sized arena venue. After almost 20 years of operations, the facility will require significant retrofits to its building systems, infrastructure, and ice plant typical for an arena facility of its age and size. This retrofit could cost in excess of $1 million. Best practice would indicate the completion of a full Building Condition Assessment is required to determine the true extend of these unfunded liabilities.

The sale of the Mile One Centre would remove these unfunded liabilities from the City of St. John's.

Summary of Findings

St. John's Sports Entertainment

Sale Implication Review

Summary of Findings

Building Systems

Labour Relations

The primary objective of the Mile One Centre Sale Implication Review was to conduct a review and report on the potential implications of selling the Mile One Centre to the City of St. John's. Through this assessment, KPMG completed a review of the Canadian marketplace to determine the number of privately held arenas, high level analysis of the existing building systems, a review of possible labour implications, and an analysis of the impact on the City's tourism and large event strategy. Our report also provided an examination of historical documents to identify any possible restrictions on the sale and an overview of valuation methodology and procedures that the City could undertake to determine an accurate selling price. The Mile One Centre Sale Implication Review provides a contextual overview to assist the City in assessing whether it should proceed with the sale of the Mile One Centre.

The following overall observations were noted as a result of our review:

1. **Building Systems Implications:** *What does the interconnected nature of Mile One and the Convention Centre mean for the future operation of both assets?*

   The Mile One Centre and the SJCC building systems are interconnected. The boilers contained in the Mile One Centre produce the hot water used for domestic heating within the SJCC and is transported through the pedway. Additionally, electrical power for the Mile One Centre is provided from a switching station located in the SJCC and delivered to the Mile One via the pedway. For operations and ownership of the Mile One Centre to be severed from the SJCC, various building systems contingencies will have to be established. The City will require a feasibility study and full costing by an engineering firm to evaluate the required infrastructure upgrades and full financial impact to the City.

2. **Labour Relations Implications**: *What is the impact on the existing staff model? Can the anticipated cost savings from the sale of Mile One be realized?*

   Successor rights would apply to any change in ownership at Mile One provided the fundamental use of the building is unchanged. Generally successor rights dictate that the "new" employer will inherit the union and the unionized workplace, and become a party to the collective agreement currently in place. A new owner could not avoid successor rights by laying off the current employees and hiring new ones, as recall rights would apply. Subsequently, a new owner could not unilaterally change the provisions of the current collective bargaining agreement resulting in any undue harm to current unionized employees.

Summary of Findings

Labour Relations

Historic Agreements

Tourism & Large Events

2. Labour Relations Implications (continued)

[redacted]

3. Historic Agreements: *Are there historic agreements that place possible restrictions on the sale of Mile One that will need to be considered?*

[redacted]

4. Tourism and Large Events: *What are the implication for the City's tourism and large event strategy?*

The City should consider the implications of the sale of Mile One Centre on its ability to attract large sporting and cultural events. The City's ownership and the connected proximity of the Mile One Centre and the Conference Centre provides a synergy and operating model that enables the attraction of large trade shows and expositions. Maintaining the required business relationship for two different ownership groups and their respective facilities (the City's SJCC and the private Mile One Centre) to co-host events is a risk. Any breakdown in the relationship would limit the City's ability to attract large sporting and cultural events which would have an economic impact on the City. This risk could be mitigated through the establishment of non-compete partnership arrangements between the City and private ownership of Mile One.

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Summary of Findings

Tourism & Large Events

Valuation

4. **Tourism and Large Events**: *What are the implication for the City's tourism and large event strategy?*

   Alternatively, there is the potential for a private owner/operator to have a positive economic impact. A private owner/operator of the Mile One Centre would have the ability to take risk that is not afforded to the publicly funded SJSEL. This could increase the local community's ability to attract large scale provincially and nationally significant sporting events and concerts provided the private/owner operator has the financial resources to support these events.

5. **Valuation**: How would the City value the Mile One for sale?

   Three valuation methodologies were explored for the sale of Mile One Centre: the Cost Approach; the Director Comparison Approach; and the Income (Direct Capitalization) Approach. The final reconciliation will depend on the applicability and relevance of the approaches, methods, and techniques used to arrive at the value conclusion(s). These criteria are integral to an appraiser in forming a meaningful, defensible opinion of current market value . However, it is anticipated that data will be limited; therefore, all three methodologies should be applied in the appraisal. Overall, the weighting of methodologies will be applied based on i) the age/condition of the existing structure; and ii) the availability and reliability of market data through the application of the Direct Comparison and Income Approaches. Upon reconciling a final estimate of current market value using the three methodologies, the appraiser will lastly identify and deduct any outstanding capital expenditures associated with the existing improvements.

   Despite the aforementioned, these assets typically trade for their income-producing potential (Income Approach), rather than for owner occupancy (Direct Comparison Approach). Therefore, subject to availability of market data, the Income Approach could be seen as more pertinent in arriving at a final estimate of current market value for the Mile One Centre.

Summary of Findings

Financial

6. **Financial**: *What are the long term financial implications for the City if Mile One is sold?*

   a. The current unsigned lease agreement with Atlantic and Deacon largely provides for revenue sources that are typically owned by the arena operator and not a tenant. The sale, therefore, of the Mile One Centre would have limited impact on the SJSEL revenue stream.

   b. The total cost of construction of Mile One Centre and the original Convention Centre was $48,878,312. The final debenture to finance the construction is scheduled to be repaid in 2022. Currently, there is approximately $2.3 million of outstanding debt owing. Any sale of Mile One Centre will need to consider how to treat the outstanding debt of $2.3 million between the parties.

   c. SJSEL's annual operating shortfall for both the Mile One Centre and the Convention Centre is covered by the City of St. John's through an annual operating grant. Mile One Centre contributes the majority of the overall SJSEL operating deficit. In 2019, the operating deficit for Mile One was $2.3 million or 79% of the total operating deficit for SJSEL. Notwithstanding the negotiated terms of sale, the sale of the Mile One Centre has the potential to remove approximately $2 million in subsidy from the City's obligations.

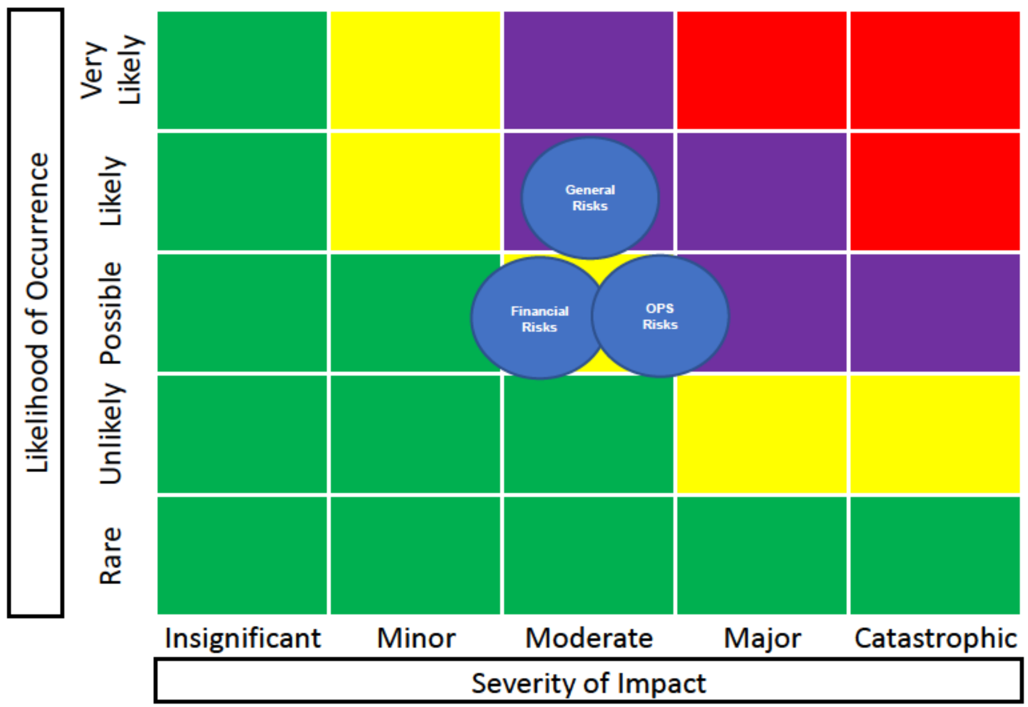
   [redacted]

   e. The Mile One Centre is an aging, mid-sized arena venue. After almost 20 years of operations, the facility will require significant retrofits to its building systems, infrastructure and ice plant typical for an arena facility of its age and size. For example, the replacement of ice plants for similar facilities in Canada has cost $1 million to $3.5 million. The sale of the Mile One Centre would remove these unfunded liabilities from the City of St. John's.

Summary of Findings

Risk Analysis

As part of our analysis, risk to the City of St. John's was evaluated using a risk taxonomy that outlines general, operational, and financial risks and their potential consequences, their likelihood of occurrence, and severity of impact to determine an overall risk rating for each category as outlined in the table below:



The full risk taxonomy and subsequent ratings can be found in Appendix A on page 51.

Next Steps

St. John's Sports Entertainment

Sale Implication Review

Next Steps

Building Condition Assessment	Building Systems Implications	Historical Agreements	Labour Relations	Valuation	Procurement
No recent building condition assessment have been performed to identify lifecycle issues and required maintenance and upgrades. Overall, the Mile One Centre is approaching end of life; the industry standard is approximately 34 years. Given the weather in St. John's and the type of construction, Mile One may need to be substantially renovated/refurnished ahead of this timeline. **The City should consider completing a full building condition assessment to determine remaining useful life of critical infrastructure.**	The Mile One Centre and the SJCC building systems are interconnected. The boilers contained in the Mile One Centre produce the hot water used for domestic heating within the SJCC. Additionally, electrical power for the Mile One Centre is provided from a switching station located in the SJCC.. **The City will require a feasibility study and full costing by an engineering firm to evaluate the required infrastructure upgrades and full financial impact to the City.**	[redacted]	[redacted] Additionally, full time Mile One Employees, both union and non-union, are members of the City of St. John's pension plan. **The City will have the responsibility to ensure employees' pensions are protected in the event of the sale of the Mile One Centre.**	Three valuation methodologies were explored for the sale of Mile One Centre: the Cost Approach; the Director Comparison Approach; and the Income (Direct Capitalization) Approach. The final reconciliation will depend on the applicability and relevance of the approaches, methods, and techniques used to arrive at the value conclusion(s). **A third party valuation of the Mile One Centre should be obtained if the City wishes to pursue the sale of the asset.**	**In the interest of transparency and due process, the City should consider issuing an Expression of Interest (EOI) to seek interested parties and pre-qualify potential purchasers for Mile One.** It is recommended that conditions of pre-qualification for bidders in the EOI include: previous experience operating venues of similar size and scope, including prior experience with preventative maintenance and capital improvements, and proof of financial sustainability to deal with unplanned events, business downturns, and natural disasters.

Appendix A: Risk Taxonomy

St. John's Sports Entertainment

Sale Implication Review

General Project Risks

Risk Name Description	Potential Consequences	A Likelihood of Occurrence	B Severity of Impact	A*B Overall Level of Risk
Alignment of Mandate: Risk that the arena and convention centre do not integrate	• Negative perception of SJSEL in the community resulting in unwanted media attention • Adverse political reaction to oppose potential changes • Decrease in economic impact from arena operations	3: Possible	4: Major	Significant 11-16
Governance: Risk that a lack of public oversight of the financing and operations could negatively impact the performance of the arena	• Lack of transparency into arena operations and performance • Adverse political reaction to declining performance	2: Unlikely	3: Moderate	Low 1-6
Public Support: Risk of limited public support for changes to the ownership and/or operating model	• Change in political sensitivities • Negatively impacting sale negotiations • Employee turnover	4: Likely	3: Moderate	Low 1-6
Market Conditions: Risk of unfavourable fluctuation in foreign exchange rates, inflation, innovative or untested technologies, limited availability of products and/or specialized services	• Increased operating costs • Changes in product/service offering • Declining asset value • Loss of revenue	3: Possible	4: Major	Significant 11-16
Relationship Management: Risk of the City being unable to effectively manage relationships with potential owners and/or operators	• Additional costs • Relationship damage • Negative perception of SJSE in the community • Negative political reaction • Negative media perception/reporting	4: Likely	3: Moderate	Significant 11-16
Overall Assessment – General Project Risks		**3.2: Likely**	**3.4: Moderate**	**Significant 11-16**

Financial Risks

Risk Name Description	Potential Consequences	A Likelihood of Occurrence	B Severity of Impact	A*B Overall Level of Risk
Financial Capacity of New Arena Owners: Depth of funding available to deal with unplanned events, business downturns, natural disasters	• Inability to meet funding requirements • Cancelled events • Reducing or eliminating required maintenance • Adverse stakeholder/ political reaction • Contractual default and claims • Negative media perception/reporting • Lack of financial capacity or covenant to stage major events	3: Possible	4: Major	**Significant 11-16**
Financial Allocation: Risk that the allocation of costs between Mile One Arena and the Conference centre creates additional complexity in financial capacity and reporting	• Strained relationship between ownerships • Possible disputes/legal action • Adverse impact on operations	4: Likely	2: Minor	**Significant 11-16**
Risk Transfer: Risk that the allocation and assumption of risks by the various parties does not result in mutual benefits	• Additional liability placed on the City due to incomplete transfer of appropriate risks • Risk that new arena Owner is unable to fulfill obligations	2: Unlikely	4: Major	Moderate 7-10
Residual Value: Risk that fluctuating property values, facility functionality, maintenance and disposal costs could negatively affect residual value of the asset	• Loss of expected value • Adverse impact on future options • Negative political reaction	2: Unlikely	2: Minor	Low 1-6
Overall Assessment – Financial Risks		**2.8: Possible**	**3: Moderate**	**Moderate 7-10**

Operational Risks

Risk Name Description	Potential Consequences	A Likelihood of Occurrence	B Severity of Impact	A*B Overall Level of Risk
Sustainment: Risk that a new owner and/or operator may not be able to maintain the functionality of the facilities	• Equipment failures • Higher utility and O&M costs • Possible injury to O&M personnel • Discomfort or inconvenience to facility occupants • Negative impact to customer relationships	3: Possible	3: Moderate	Moderate 7-10
Inadequate Change Management: Risk that changes to the organization structure, personnel and business processes negatively impact operations for both the City and new owner	• Negative impact to staffing levels (e.g. reduction of staff or over utilization of staff) • Stretching of in-house resources • Negative political reaction • Negative media perception/reporting	3: Possible	3: Moderate	Moderate 7-10
Operational Effectiveness: Risk of declining value proposition to clients including pricing, products, services offered, innovation	• Loss of revenue • Adverse impact on existing clients • Declining attendance • Lack of sponsors • Focus on hockey to the detriment of other activities • Elimination of government restrictions/ constraints will not result in improved effectiveness	3: Possible	2: Minor	Low 1-6
Interruption to Operations: Risk that a new owner and/or operator will lack the ability to resume client operations in a timely, cost-effective manner.	• Negative community perception • Negative political reaction • Negative media perception/reporting • Loss of "transparency" in Community • Negative impact to customer relationships	3: Possible	3: Moderate	Moderate 7-10

Operational Risks (continued)

Risk Name Description	Potential Consequences	A Likelihood of Occurrence	B Severity of Impact	A*B Overall Level of Risk
Team Capacity, Expertise & Stability: Risk that a new owner/operator may lack the ability to devote required resources with appropriate capacity, capability and continuity	• Poor decisions • Loss of corporate memory • Increased costs • Negative impact on customer relationships	2: Unlikely	3: Moderate	Low 1-6
Overall Assessment – Operational Risks		**3: Possible**	**3: Moderate**	**Moderate 7-10**

Appendix B: Municipal Case Studies

St. John's Sports Entertainment

Sale Implication Review

Municipal Case Studies

The case studies are examples of two Canadian municipalities who entered into various agreements with private sector partners to varying degrees of success.

City of Guelph Sleeman Centre

The Sleeman Centre in downtown Guelph, Ontario was completed in 2000. The building was originally named the Guelph Sports and Entertainment Centre. At the time of construction, the City of Guelph had entered into an agreement with Nustadia Recreation Inc. ("Nustadia"), a North-American private company with a history of development and operation of recreation facilities through community partnerships. The original agreement shared the cost of the facility between the City of Guelph and Nustadia, which would operate the facility for 30 years. Due to shortfalls in financial performance of the facility relative to Nustadia's forecasts, Nustadia failed to make quarterly payments of approximately $180,000 on the loan guaranteed by the City of Guelph. Over a period of four years, the City of Guelph made payments totalling approximately $3 million on the loan. Nustadia continued to operate the facility until 2005, in accordance with the terms of the original agreement. In 2005, ownership and operating management of the facility was transferred to the City of Guelph, along with $13 million of additional debt. in subsidy from the City's obligations.

City of Ottawa Lansdowne Park

Ottawa's 40-acre Lansdowne Park, owned by the City of Ottawa, consisted of Frank Clair Stadium originally constructed in 1908, and the Civic Centre Arena constructed in 1967. In 2008, the City received a proposal from Ottawa Sports and Entertainment Group (OSEG) to revitalize the facilities. Their proposal included the renovations to the arena and the football stadium, and the additions of a restaurant, retail, residential, office and hotel space. Under the proposal, the City of Ottawa would pay for the capital improvements to the arena and football stadium, and the OSEG would assume responsibility for ongoing operations of the facilities. The OSEG proposal was reliant on pooling its various business units at the site resulting in positive overall net operating income. The City contributed a total investment of $172.8 million to the capital redevelopment of the site, financed mostly through long-term debt. OSEG contributed $118 million toward the purchase of the OHL and CFL sports franchises, and building the retail component of the project. In return, the City was is no longer required to spend money to operate and maintain the aging infrastructure, or retain any risks from the operation of the stadium and the arena. The residents of Ottawa benefited from having a new stadium, a redeveloped arena, and new community hub with no increase in property taxes attributed to the project.

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Appendix C: Documents Reviewed by KPMG

St. John's Sports Entertainment

Sale Implication Review

Documents Reviewed

Documents Reviewed and Referenced for Report	Date
The Economic Impacts of Mile One Centre and St. John's Convention Centre Final Report by Wade Locke and Associates	October 10, 2006
Roadmap 2021: A Strategic Economic Plan for St. John's by City of St. John's	2011-2021
Destination St. John's Annual Report	2019
North East Avalon Region Tourism Destination Visitor Appeal Assessment by Brain Trust Marketing and Communications and Tourism Café	August 2016
Franchise Impact on the City of St. John's by SOK Associates	September 2019
Charlottetown Multi-Use Sport & Event Centre: Funding Model & Implementation Plan by Sierra Planning and Management	July 2020
Moncton's Proposed Downtown Centre: Anchoring a Vibrant Downtown by David Campbell of Jupia Consultants Inc.	May 2013
CUPE Local 5459 Collective Agreement	July 1, 2018 – June 30, 2022
Length of Tenure Chart SJSEL Non-Unionized Full Time Employees	2020
SJSEL Position Descriptions	2019
SJSEL 2019 & 2020 Budget provided by the City of St. John's	2020
SJSEL Insurance and Risk Management document provided by the City of St. John's	2020
Memorandum of Understanding Between ASE, Deacon, SJSEL & City	2018
Molson Canada and Cable Atlantic Agreement	1999

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Appendix D: 2018/2019 Mile One Event List

St. John's Sports Entertainment

Sale Implication Review

2018 Mile One Events

Events that attract audiences from outside the City generate incremental economic activity and represent new money for the local economy with their expenditures on accommodations, food, entertainment. Any local or tenant events have been excluded from this list.

Event	Date
Mathew Good and Our Lady Peace	March 1, 2018
Toronto Maple Leafs Alumni	March 16, 2018
Nelly	March 28, 2018
Johnny Reid	April 24, 2018
Harlem Globetrotters	April 25, 2018
Eckhart Tolle	June 14, 2018
Atlantic Canada Petroleum Show	June 20-21, 2018
Bryan Adams – The Ultimate Tour	July 27-28, 2018
Aqua – The Rewind Tour	September 19, 2018
Fetty Wap	September 20, 2018
RIMS Conference Canada	September 24-25, 2018
The Tenors	October 11, 2018
Paw Patrol Live	October 19-20, 2018
Traditional Karate-do Renaissance Festival	October 26-27, 2018
Avalon Celebration of Hope with Will Graham	November 2-4, 2018
North Atlantic Fish and Workboat Show	November 16-17, 2018
Tessa Virtue and Scott Moir "Thank You Canada" Tour	November 24, 2018
Boney M – Holiday Favourites and Classic Hits	December 20, 2018

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2019 Mile One Events

Events that attract audiences from outside the City generate incremental economic activity and represent new money for the local economy with their expenditures on accommodations, food, entertainment. Any local or tenant events have been excluded from this list.

Event	Date
Blue Rodeo	February 16, 2019
FIBA Basketball World Cup Qualifier	February 21, 24, 2019
John Cleese	May 10, 2019
Old Dominion	May 12, 2019
Tanya Tucker	May 14, 2019
The Cult – A Sonic Temple	May 28, 2019
Corey Hart	May 31, 2019
Atlantic Canada Petroleum Show	June 18-19, 2019
Toronto Maple Leafs Alumni Game	September 15, 2019
Toronto Maple Leafs	September 17, 2019
Dean Brody and Dallas Smith Friends Tour	September 24, 2019
The Wiggles	September 25-26, 2019
A Conversation with Barrack Obama	November 12, 2019
Johnny Reid My Kind of Christmas	November 18, 2019
Rock the Rink Tessa Virtue and Scott Moir	November 23, 2019
Loud Luxury's Night Like This Tour with Neon Dreams	November 27, 2019
Boney M Holiday Favourites and Classic Hits Tour	December 20, 2019

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