

Executive Summary and Recommendations

In September of 2006 GEC Architecture was retained to provide the City of Medicine Hat with recommendations on the Viability and Feasibility of constructing a new multipurpose event centre including:

- An analysis of potential sites and a recommendation on the preferred site.
- A recommended functional plan including seat count and building size.
- A concept design indicating a possible building configuration.
- A financial analysis including the probable capital cost, funding options, operating costs, potential revenues.
- Recommendations regarding possible development models and operating models.
- Recommendations regarding implementation strategies and tactics.

KEY ASSUMPTIONS BY THE CONSULTING TEAM

- The building will serve the City of Medicine Hat for at the least the next 25 years.
- The prime tenant for the building will be the Medicine Hat Tigers in the near term.
- The facility will be when constructed the largest spectator facility in Medicine Hat and therefore should be a multipurpose building that provides for a variety of uses including concerts, other ice events and dry floor events.
- A multipurpose building will imply less community ice use.
- The operation of the new facility will require no greater subsidy than exists today and ideally over time will be reduced to a breakeven or modest surplus excluding debt servicing.

- The facility should contribute to Medicine Hat’s quality of life and its economic development.
- The project should be a “made in Medicine Hat solution” representative of the unique geography, civic spirit and interests of the citizens of Medicine Hat.

METHODOLOGY

Interviews with Key Stakeholders, discussions with the New Arena Steering Committee have been undertaken together with a series of tours of similar facilities. Given the sensitivity of the site selection process the public consultation process has been deferred until after the presentation of this study to the New Arena Steering Committee and City Council.

SITE ANALYSIS AND RECOMMENDATION

Eleven sites were reviewed including 3 sites close to the present arena in the North Flats area. As directed by the New Arena Steering Committee and City Council, the team focused on three sites:

- Family Leisure Centre
- East Southlands
- North Flats (Downtown Sites)

We recommend that the new event centre be located on the Maple Avenue & 2nd Street site as it represents the best option for the City with respect to the long term viability of the facility and the most potential for a positive economic impact.

We believe that this site represents the best opportunity for the City of Medicine Hat to realize the maximum return on their capital investment.

FUNCTIONAL ANALYSIS

Based upon comparable facilities, the expected market demand, the nature of the facility as a multipurpose building and the projected long term growth of Medicine Hat the team recommends a total capacity for hockey of 7,136 people consisting of:

- 6,500 fixed seats
- 440 standing room
- 60 restaurant fixed seats
- 136 seats in 17 boxes/suites

The capacity for concert events will range between 7,000 and 8,000 depending on the show’s configuration. We would also recommend the inclusion of minimum of 15 private boxes and community suites and the opportunity for additional premium seating “within the bowl”.

Based upon this seat count we would recommend a building size of 175,000 square feet.

The community arena demand study indicates that there is a need for additional community ice and that in addition to the present facilities an additional sheet of ice is now required with a second within ten years. The present spectator Arena is meeting some of this demand therefore its removal and replacement with a multipurpose building will necessitate additional recreational ice in the community. We are recommending that the City consider the addition of a recreational ice surface to the new arena or at least ensuring that land is available for a future addition. It is recommended that the one additional community ice facility be constructed at this time with the revenues applied to overall facility proforma. It is further recommended that the additional community ice facility be located at the proposed Maple Avenue site.

CONCEPT DESIGN

The proposed concept design indicates that a 7,136 seat, 175,000 square feet facility with a second sheet of recreational ice will fit on the proposed downtown site.

The design anticipates a lower event level concourse primarily assigned to building and team support facilities with an upper concourse serving the spectators. This design eliminates vomitories from the building and minimizes conflicts between spectators and participants.

A mid concourse at one end of the building will accommodate a restaurant/lounge that overlooks both the ice and the surrounding community.

The upper concourse, in combination with the mid-concourse, emulates the present arena with its generous standing room areas at the top and corners. We have been impressed with the number of persons commenting on these areas and would intend to retain this building character in the new arena. The private boxes will be gondola style with access from the upper public concourse.

FINANCIAL AND FEASIBILITY STUDY

Based on the new facility consisting with a total capacity of 7,136 within 175,000 square feet with a second community ice facility at the downtown Maple Avenue site, it is estimated that:

- The new facility has a total project value of \$96,731,539 including construction, land, soft costs and construction inflation to the midpoint of construction.
- The new facility has a projected operating expense of \$1.97 million in Year 1 and \$2.35 million in Year 5
- The new facility has projected revenues in year 1 of \$1.78 million and in year 5 of \$2.31 million
- The projected subsidy is therefore \$0.189 million in year 1 and \$0.42 million in year 5
- Assuming capital grants of \$11.0 million. The debt servicing costs for the facility are estimated to be \$5.935 million per annum.
- The total project cost is made up of the following components:

Construction	\$56,900,000
Escalation	\$15,078,500
Total Direct Construction Cost	\$71,978,500
Land, Soft Costs & Contingencies	\$24,753,039
Total Project Value	\$96,731,539

IMPLEMENTATION & OPERATING STRATEGIES

The consulting team has evaluated three development implementation strategies:

- Municipal Public works project.
- 3P Private Public Partnership
- Private sector finance design build operate.

We are of the opinion that the best and most financially prudent option for the City is a to develop the project as a municipal public works project. As a result of Medicine Hat's sound fiscal position, the City is in the enviable position of being able to finance this project at a much more favorable rate than can the private sector.

Given the project is undertaken as a Municipal Public Works Project we would recommend that a construction management procurement process be strongly considered. In the present construction climate this approach has the best track record in controlling costs and schedules. Our second choice would be a traditional design bid build process. We would not recommend a design build approach as we do not believe it will afford the City with the degree of control over the building quality and program that they have traditionally exercised in previous capital projects.

Given the nature of the Medicine Hat Market we are doubtful that any private operator will be able to generate sufficient revenues to service a significant proportion of the debt on the project. Any model that relies on private sector borrowing will result in additional interest charges and in all probability additional development and financing fees.

With respect to operating models we have examined several approaches including the present City departmental model, a society model and contracting with a private operator. We recommend that the City consider the City Departmental Model or the Society Model. The emphasis in either case should be of ensuring that a strong marketing team is put in place, with a mandate and incentives to sell the community and the building. To maximize the number of event days.

RISK ASSESSMENT AND ASSIGNMENT

The construction of this facility is a significant undertaking that represents a degree of risk to the key stakeholders. It has become apparent to the consulting team that the stakeholders have differing perspectives on the risks and as the project progresses it will important to all stakeholders that their particular perspective is understood by other stakeholders. In summary the major risks facing the major stakeholders are as follows:

Building Cost

Regardless of the funding model, the City of Medicine Hat will be largest contributor to the capital cost. While some development models may reduce risk to an extent, the City will assume the bulk of the risk for construction inflation and unknown construction conditions. Our capital cost projections include significant construction inflation projections reflective of recent trends in Southern Alberta. We note that there is also an upside risk to these projections in that construction inflation may level off in the next months resulting in lower costs than projected.

We would also add that the recommended downtown site represents a schedule risk in that a protracted expropriation process if required could result in a delayed construction start. Given construction inflation, this will add to capital cost.

Operating Costs

The major unknowns in the operating cost are future utility costs and labour costs. Neither of these factors represent a significant risk and in Alberta increases in these costs are typically offset by revenue increases.

Revenue Generation

Future revenue generation will depend upon successfully marketing the building and increasing the number of event days. While the city administration has expressed concern over the ability of the Medicine Hat market to support a significant increase in event days over the present facility, the consultant team is less pessimistic. Increasing the event days will require that a dedicated and skilled marketing team is in place, preferably at the commencement of the project and that the building is designed and fitted out to accommodate differing show requirements including ease of access, setup and takedown, rigging, power, and other building infrastructure.

Revenue shortfalls will result in increased operating subsidies, which inevitably the City will absorb. A private sector operator with responsibility for marketing and operating the facility will mitigate this risk, however typically private sector operators will not contract to assume all of the risk.

Building Size

As noted, the consulting team is recommending a building capacity of 7,136 people for hockey. This is a special category of risk that will affect the building capital and operating cost and potential revenue generation. It is likely the most controversial aspect of the consulting team recommendations.

The Medicine Hat Tigers ownership have expressed great concern over the potential impact of a facility that is larger than needed to meet the demand for seasons tickets. Season ticket sales are vital to the health of most professional sport franchises and the Tigers are no different in this regard. The Tigers foresee an excess of seats reducing the demand for

seasons tickets and possibly resulting in lower attendance than at present. As such they see any size increase beyond the present 4000 seats as a significant risk, particularly in the years following the first few years of the new building opening.

Discussions with the major concert promoter in Southern Alberta indicate that building size will be a key determinant in attracting a greater variety of events than at present. If the building is too small it will preclude some shows from considering a stop in Medicine Hat. On the other hand a building that is too large is not as much as problem as the stage layout and the use of curtains can reduce the effective size for various shows.

The Medicine Hat Curling club has also expressed concern about a facility that is too small with respect to undertaking major Curling events. While the consulting team does not recommend the construction of a facility large enough to host the Briar, we recognize the support the community has shown for national curling events and we expect a larger facility beyond capacity of the existing arena will continue to be supported and will serve to increase interest in the sport.

Clearly the City of Medicine Hat has an interest in both the financial health of the Tigers and the suitability of the building for a variety of events. Furthermore the City as the ultimate underwriter of the project, must consider the building in the context of a long term investment that must serve the stakeholders for a period of 25 years or more. Over this time Medicine Hats population is projected to increase from 56,000 to approximately 90,000 persons with a midpoint projected population of 72,000 at 12½ years. Growth assumptions are described in the functional analysis of the study.

On this basis the construction of a building below 5500 seats and or the failure to ensure that the building can easily grow to accommodate more seats would represent a risk to the City over the long term, particularly if a new building is required prior to paying off the existing one. It could also be argued that construction of an undersized building could risk the loss of the junior hockey franchise in the long term if average league attendance grows. The present Medicine Hat Arena at 4000 seats is already one of the smaller facilities in the league.

With respect to building size, therefore the consulting team concurs with the City Administration and the previous report recommendations regarding a size of approximately 6,000 seats. We would however strongly recommend that the design allow for an opening capacity of 6,136 people and easily accommodate the addition of 1000 more seats without significant capital expenditure. Our concept design indicates one method by which this might be achieved, however there are other approaches that should be considered in the detailed design phase.

CONCLUSIONS

It is the conclusion of this report that the City of Medicine Hat proceed with the construction of a new event centre:

- located on the Maple Avenue & 2nd Street site
- an initial capacity of 6,136 seats for hockey, expandable to 7,136 seats
- a capacity of between 7,000 and 8,000 people for concerts, depending on configuration
- the existing arena is decommissioned
- total building area of 175,000 square feet
- completed as a municipal works project making use of a construction management delivery model
- a total project value of \$96.59 million fully escalated
- net capital funding requirement of \$ 92.59 million