



ADVISORY SERVICES

# City of St. John's

**Jurisdictional Comparison for  
St. John's Sports &  
Entertainment Ltd.**

**Final Report**

March 6, 2019

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KPMG LLP



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# 1 Executive Summary

## A. Objectives of the Report

In 2018, the Board of St. John's Sports and Entertainment Ltd. passed a motion requesting that a third-party comparable jurisdiction review (the "SJSEL Review") of St. John's Sports & Entertainment Ltd. ("SJSEL", or the "Corporation") be conducted by an independent external consultant. SJSEL was incorporated in 1997 as The Civic Centre Corporation. On August 8, 2001, the name was changed to St. John's Sports & Entertainment Ltd. The Corporation is a non-profit, wholly-owned subsidiary of the City of St. John's (the "City"), and currently operates the St. John's Convention Centre ("SJCC") and the Mile One Centre ("Mile One") (together, the "SJSEL Facilities") on behalf of the City.

In March, 2018, a memorandum of understanding (the "Proponents MOU") between SJSEL, Atlantic Sports Enterprises Ltd. ("Atlantic"), Deacon Investments Ltd. ("Deacon"), Irwin Simon, Robert Sabbagh and the City was signed, to document the principal terms of a proposed working relationship between the parties. Atlantic is the owner and operator of the St. John's Edge (the "Edge") franchise, which was founded in 2017 and which plays its home games at Mile One. The Edge is a team in the National Basketball League of Canada. Deacon is the owner and operator of the Newfoundland Growlers (the "Growlers") franchise of the ECHL, which was founded in 2018, and is currently in its first season of playing its home games at Mile One. The Proponents MOU was drafted following a proposal to the City by the owners of Atlantic and Deacon, who expressed an interest in assuming the management and operations functions of one or both of the SJSEL Facilities.

The underlying driver of the request for the SJSEL Review was the receipt of the proposal from Atlantic and Deacon (together, the "Proponents"). KPMG LLP ("KPMG") was retained by the City to undertake the SJSEL Review. KPMG is a large global provider of professional and advisory services.

The primary objective of the SJSEL Review was to conduct a review of operating and ownership models for the SJSEL Facilities. Through this review, KPMG determined possible ownership and operating models available to the City for the SJSEL Facilities, and the potential scope and structure of these models. Our report also provides a jurisdictional review of comparable arena and convention centre facilities owned by other Canadian municipalities. The SJSEL Review provides a contextual overview to assist Council and the Board of SJSEL in assessing whether the City should proceed with exploration of alternative ownership and operating models for SJSEL.

This final report contains findings from a financial analysis of SJSEL, a jurisdictional review of comparator facilities and an analysis of different operating and ownership models for the facilities.

The scope outlined by the Board for the SJSEL Review is comprehensive. In performing the SJSEL Review, the Board's request for proposal asked the successful bidding firm to:

- Undertake a review of 3 to 5 similar jurisdictions that have similar buildings, including reviewing available documentation, and interviewing relevant stakeholders to document third-party agreements in place, best practices and lessons learned.
- Analyze and recommend the potential scope and structure of a potential third-party to either operate or purchase the SJSEL Facilities.
- Document the findings in a report, along with recommendations on the potential scope and structure of a potential third-party agreement, including recommended negotiable issues and positions on these issues that SJSEL could take in order to achieve the strategic objectives stated above.

In conducting the SJSEL Review, KPMG undertook the following procedures:

- Toured SJSEL's facilities;
- Reviewed background information with respect to SJSEL (See Appendix A);
- Interviewed City staff, members of SJSEL's management team and Board of Directors, the Mayor and City Councilors, as well as key stakeholders such as Destination St. John's ("DSJ") DSJ (See Appendix B);
- Interviewed a number of arm's length parties engaged in the entertainment, sports and hospitality sectors (See Appendix B);
- Reviewed publicly-available information in respect of sports and entertainment facilities comparable to SJSEL;
- Conducted a half-day working session with the SJSEL Board of Directors; and,
- Developed our findings and recommendations.

## B. Current State

SJSEL was incorporated in 1997 and is a wholly-owned subsidiary of the City of St John's. Through its Board of Directors and management team, SJSEL manages the day-to-day operations of two City-owned, special-use SJSEL Facilities located in the downtown core of St. John's.

The two SJSEL Facilities are the St. John's Convention Centre and the Mile One Centre.

### **St. John's Convention Centre**

The original St. John's Convention Centre opened in May 2001, featuring approximately 18,000 sq. ft. of usable space. In February 2009, a report from a City-sponsored study on a potential expansion of the original facility was presented to the City, recommending the expansion of the existing building. On August 31, 2011, the federal, provincial and municipal governments announced the planned expansion, to be jointly funded by all three parties. The facility was closed for renovations in October 2014, and the current SJCC facility opened in May 2016. The expanded SJCC facility is the largest convention centre in the Province of Newfoundland and Labrador, boasting approximately 47,000 sq. ft. of usable space.

### **Mile One Centre**

Mile One is a medium-capacity arena that opened in May, 2001. The arena has a single ice surface configuration of 85' x 200' (NHL), seating 5,800 when configured for ice hockey games. However, the boards are removable and due to modular seating in the lower bowl, the arena has various configurations which allow the facility to host a variety of sports and entertainment.

As at the report date, Mile One has an agreement with two anchor tenants, the Edge and the Growlers. The Growlers are currently an affiliate team of the Toronto Maple Leafs and the Toronto Marlies. Mile One has hosted a number of professional and junior hockey teams including the St. John's IceCaps (2011-2017, AHL), the St. John's Fog Devils (2005-2008, QMJHL) and the St. John's Maple Leafs (2001-2005, AHL). The facility has also hosted many concert performances, events and trade shows.

Through the annual budgeting process, SJSEL determines the amount of funding required from the City in order to cover the budgeted deficit of revenues and expenses of the SJSEL Facilities. According to the audited annual financial statements, amounts received from the City for this purpose are included as, "City of St. John's operating grant", and "City of St. John's capital reserve funding". In the years ended December 31, 2016 and December 31, 2017, the City of St. John's made an additional transfer to SJSEL for the cost of expanding the SJCC. This amount was approximately \$68 million in 2016, with a small transfer in 2017 (approximately \$75k) related to some furniture and equipment for the expanded facility.

Below KPMG has summarized the grants and funding provided to SJSEL by the City for the four-year period ended December 31, 2017:

<b>Table 5.5 Summary of grants from City of St. John's</b>					
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Average</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	
City of St. John's operating grant	1,000	1,400	2,070	1,990	1,615
Excess of expenditures over revenues*	(872)	(2,167)	(2,258)	(2,081)	(1,845)
Net operating income* and grants from the City of St. John's	128	(767)	(188)	(91)	(230)
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

For the four-year period ended December 31, 2017, the average operating grant from the City of St. John's was approximately \$1.6 million. In 2014, before capital reserve funding from the City of St. John's, SJSEL achieved a small budget surplus of \$128k. In 2015 there was a significant budget deficit of (\$767k). The budget deficit can be attributed in large part to the closure of the SJCC during renovations. In 2016 and 2017, with the newly expanded SJCC open for business, the operating deficit was significantly smaller, at (\$188k) and (\$91k), respectively.

In 2014, the capital reserve transfer from the City was \$300k. In 2015, 2016 and 2017 the amount was \$800k per annum. The capital transfer from the City of St. John's is less than the amortization of tangible capital assets in each year of the four-year period ended December 31, 2017. When including amortization of tangible capital assets, the deficit of SJSEL was approximately (\$760k) in the year ended December 31, 2014, and increased each year to approximately (\$2.8 million) in the year ended December 31, 2017. The increase can be attributed to the amortization of the additional assets related to the expanded SJCC facility. Amortization of tangible capital assets was approximately \$1.2 million in the year ended December 31, 2014 and approximately \$3.5 million in the year ended December 31, 2017.

## C. Jurisdictional Review

In order to understand the current and past operating models, best practices and lessons learned of similar facilities operating within Canada, KPMG undertook a jurisdictional review of comparable Canadian arena and convention centre facilities (together, the "Comparators"). Through discussions with the SJSEL project team, it was determined that the following facilities were appropriate for study as the Comparators. For each Comparator, KPMG conducted an interview with members of that facility's senior management team, distributed and collected additional requests for information, and reviewed publicly available information.

### Avenir Centre (Moncton, NB):

The Avenir Centre is located in downtown Moncton, New Brunswick. The newly constructed facility opened on September 8, 2018 to replace the aging, 45-year old Moncton Coliseum. The Avenir facility has 8,800 seats when configured for ice hockey games, an NHL ice surface, luxury boxes and ample tournament, concert and trade show space. The facility also has an outdoor plaza with a bandstand, rink, park and gazebo. Concert seating capacity is dependent on stage size and configuration, but is typically less than ice hockey seating.

Avenir Centre is operated by SMG Canada, a part of SMG World ("SMG"). SMG is an international venue management organization founded in 1977. The company manages convention centres, exhibition halls and trade centres, arenas, stadiums, performing arts centres, theatres and specific-use centres. The land and building are owned by the City of Moncton.

**FirstOntario Centre (Hamilton, ON):**

FirstOntario Centre is located in downtown Hamilton, Ontario. Construction on the arena began in 1983 and was completed approximately two years later. The facility was originally named Copps Coliseum, but was renamed in 2014 when naming rights were sold to FirstOntario Credit Union. FirstOntario Centre is relatively large, seating 17,000 when configured for ice hockey games, and between 4,000 and 18,000 for concerts, depending on required stage setup and configuration.

FirstOntario Centre is currently operated by Spectra, a Philadelphia-based, global venue, hospitality and sports and entertainment manager. The land and building are owned by the City of Hamilton. Spectra's original contract to manage the facility expired on December 31, 2018 and a number of other parties, including SMG, and Carmen's Group have expressed an interest in bidding for the rights to manage FirstOntario Centre. In the meantime, the City of Hamilton has extended Spectra's contract for six months, to allow time for the city to determine next steps.

**Scotiabank Centre (Halifax, NS):**

Scotiabank Centre is located in downtown Halifax, Nova Scotia. Scotiabank Centre is the largest multi-purpose facility in Atlantic Canada, with a seating capacity exceeding 10,000 for ice hockey games. The facility was constructed in 1978, and was originally named the Halifax Metro Centre. The facility has been renovated numerous times, including a recent addition of 43 'skyboxes' and 11 executive suites. The naming rights to the arena were sold to Scotiabank in 2014.

Since April 1, 2017, Scotiabank Centre has been operated by Events East Group, which was created through provincial legislation in 2014. Previously, the facility was operated by Trade Centre Limited, a Provincial Crown Corporation. The land and building are owned by Halifax Regional Municipality ("HRM").

**Sleeman Centre (Guelph, ON):**

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.

The facility seats 4,715 when configured for ice hockey games. The multi-purpose facility also hosts concerts, family events, trade shows and conferences.

**Halifax Convention Centre (Halifax, NS):**

The Halifax Convention Centre is located in downtown Halifax, Nova Scotia. The newly constructed facility opened in December, 2017 and was substantially completed in Spring 2018. The facility replaced the aging Halifax World Trade and Convention Centre ("WTCC"). The WTCC was located adjacent to Scotiabank Centre. However, the newly constructed Halifax Convention Centre facility is located in the nearby Nova Centre, a mixed-use commercial development comprised of a hotel tower, two office towers, retail space and a public pedestrian arcade, in addition to the convention facility itself. The new facility boasts approximately 120,000 sq. ft. of flexible event space.

The operations of the Halifax Convention Centre are managed by Events East Group, which is jointly owned by Halifax Regional Municipality ("HRM") and the Province of Nova Scotia. Events East Group was created through 2014 legislation to operate, maintain and manage the Halifax Convention Centre. Prior to that time, WTCC was managed by a Provincial Crown

Corporation, Trade Centre Limited. The WTCC building has been privately sold. The land and buildings of the Nova Centre, including the new Halifax Convention Centre facility, are privately held, with the lease for the facility held by the Province of Nova Scotia.

#### Hamilton Convention Centre (Hamilton, ON):

The Hamilton Convention Centre is located in the heart of downtown Hamilton, Ontario. The building was constructed in 1981. The facility has a total rentable space of approximately 80,000 sq. ft., divisible into up to twenty-two (22) separate meeting and event spaces. In 2013, the aging facility underwent over \$1 million of renovations. Being half way between Niagara Falls and Toronto, Hamilton is located within a short distance of several major, southwestern Ontario urban centres.

Since 2013, the Hamilton Convention Centre has been operated by Carmen's Group, a third-party, private, hospitality, catering and event production company. The City's contract with Carmen's Group expired December 31, 2018. However, the contract was extended for six months to allow Carmen's Group and Spectra (the third-party manager of FirstOntario for the same five-year period) to prepare proposals to manage all three of: The Hamilton Convention Centre, FirstOntario Centre, and FirstOntario Place (a performing arts centre).

#### Whistler Conference Centre (Whistler, BC):

The Whistler Conference Centre, a 60,000 square foot convention facility, is located in the Resort Municipality of Whistler ("Whistler"), British Columbia and has over 40,000 square feet of versatile meeting space for rent. The facility can host up to 1,500 people for a convention, or 1,200 for a full meal service. The facility boasts that it is capable of producing high-end food and beverage offerings, with a level of style and panache exceeding typical convention offerings.

The facility is owned by the Resort Municipality of Whistler, and is operated by Tourism Whistler.

#### Features and Performance of the Comparators' Facilities:

The table below summarizes some attributes of Mile One and the Comparator arenas, as well as some indicators of

Facility	Number of Event Nights	Number of Tickets Sold	Venue Capacity*	Event Capacity	% Capacity Utilized	Ticket Yield	Operating Cost per Visit	Net Cost per Visit	Marketing Spend as a % of Revenue	Subsidy
<b>Municipally Operated</b>										
Mile One Centre	63	291,633	5,800	365,400	79.8%	12.32	18.51	6.19	3.0%	2,131,212
Scotiabank Centre	111	403,547	10,595	1,176,045	34.3%	17.04	17.02	(0.02)	2.4%	(7,962)
Sleeman Centre	54	215,000	4,715	254,610	84.4%	10.14	14.00	3.86	unknown	830,106
Average	76	303,393	7,037	598,685	66.2%	13.17	16.51	3.34	2.7%	984,452
<b>Third-Party Operator</b>										
Avenir Centre	N/A		8,800	N/A - venue opened fall, 2018						
FirstOntario Centre**	77	255,011	17,000	1,309,000	19.5%	10.49	13.87	3.38	unknown	1,302,724

\*Venue seating capacity when configured for ice hockey games

\*\*Certain data for FirstOntario venues in 2017 has been pro-rated using assumptions. Available data aggregates results from the three FirstOntario venues: FirstOntario Centre, FirstOntario Concert Hall and the Studio. Certain data has been pro-rated based on the relative seating capacities, assuming 80% capacity at non-FirstOntario Centre events, and known event nights.

\*\*\*Most current year available for Scotiabank Centre year ended March 31, 2018

Sources:

Discussions with senior management of SJSEL and the Comparators (all)

Information provided by senior management of SJSEL and the Comparators (all)

Audited annual financial statements (SJSEL)

Appendix D to Report CM18013, 2013-107 Review (FirstOntario Centre)

Annual Report 2017-2018 (Scotiabank Centre)

SJCC and Mile One Third Party Management Comparable Jurisdictional Review Terms of Reference

performance in the year ended December 31, 2017, the most current fiscal year for which information was available:

In 2017, Mile One had 63 events nights, well below the average of 76 event nights of all included facilities. Scotiabank Centre had 111 events nights, the largest number among the Comparators. When removing Scotiabank Centre from the calculation, Mile One was only slightly below the average of 65 event nights.



With 291,633 tickets sold, Mile One performed slightly below the average of the municipally-operated facilities, 303,393. Scotiabank Centre sold 403,547 tickets, the most among the Comparators. There are a number of external factors which likely had a negative impact on the number of events, and therefore the number of tickets sold at Mile One. These factors include the geographic isolation of St. John's, as well as the relatively small population of the City and Province. The Sleeman Centre sold approximately 215,000 tickets, the least among the Comparators. According to senior management of the Sleeman Centre, the following factors contributed to their low sales: A lack of a professional basketball team, a directive from the City of Guelph to operate the facility strictly on a rental model (for events), and significant regional competition.

The facility with the largest seating capacity is FirstOntario Centre, which has a capacity of 17,000 when configured for ice hockey. FirstOntario Centre was built in contemplation of bringing an NHL team to Hamilton. It is the largest junior hockey arena in Canada, which results in additional capacity for many events. With 5,800 seats, Mile One has a seating capacity below the average of 9,382. If FirstOntario Centre is not considered in the average calculation, Mile One is still below the average of 7,478 seats of the remaining facilities. The Sleeman Centre is the smallest Comparator facility, with a seating capacity of just 4,715, when configured for ice hockey games.

On event nights, Mile One utilized 79.8% of its capacity in 2017, which is 13.6% greater than the average of 66.2% for all municipally-operated facilities, and 25.3% greater than the average of all Comparators. Among the municipally-operated Comparators, Scotiabank Centre had the lowest utilized event night capacity, 34.3%. Event capacity was calculated as the product of the number of event nights and the facility's seating capacity. Therefore, the percentage of capacity utilized is the average attendance of all event nights in the period.

Mile One had a ticket yield (average revenue per ticket) of \$12.32, which is slightly below the average of \$12.50 for all Comparator arenas. However, due to Mile One having the highest operating cost per visit among the Comparator arenas, \$18.51, the facility incurred a net cost of \$6.19 for each ticket sold. Scotiabank Centre generated a net income of \$0.02 for each ticket sold. It was the only Comparator arena that generated a net surplus in 2017, earning \$7,962.

Mile One received the largest subsidy among the arena facility Comparators in 2017, \$2,131,212. The Mile One subsidy is \$1,146,760 larger than the average for all Comparators. When excluding Scotiabank Centre from the calculation, the Mile One subsidy is \$1,064,797 higher than the average of the remaining Comparators.

Due to the age of the Avenir Centre (opened fall, 2018) no significant amount of data is available for comparison of performance.

The following table includes some attributes of SJCC and the Comparator convention centre facilities, as well as some indicators of financial performance in the year ended December 31, 2017:

	<b>City</b>	<b>Owner</b>	<b>Operator</b>	<b>No. of Events</b>	<b>Subsidy</b>
<b>Municipally Operated</b>					
SJCC	St. John's, NL	City of St. John's	SJSEL	95	658,687
Halifax Convention Centre*	Halifax, NS	Argyle Developments	Events East Group	130	594,453
<b>Third-Party Operator</b>					
Hamilton Convention Centre	Hamilton, ON	City of Hamilton	Carmen's Group	137	(20,000)
Whistler Conference Centre	Whistler, BC	Resort Municipality of Whistler	Tourism Whistler	73	333,354
<b>Average</b>				<b>109</b>	<b>391,624</b>

\*Most current year available for Halifax Convention Centre year ended March 31, 2018. Since new facility opened December, 2017 subsidy and events relate to both the former and current facility

**Sources:**

Discussions with the Board and the City (SJSEL) and senior management of the Comparators (all)  
Information provided by the Board and the City (SJSEL) and senior management of the Comparators (all)  
Audited annual financial statements (SJSEL)  
2017-2018 Annual Report Trade Centre Limited Operated By Events East Group  
Appendix E to Report CM18013 Hamilton Convention Centre by Carmen's  
Tourism Whistler Annual Report 2017 (Whistler)

In the year ended December 31, 2017, SJCC hosted 95 events. This was below the average of 109 events, and the second lowest of all Comparator convention centre facilities. The Halifax Convention Centre hosted the largest number of events, 130, and the Whistler Conference Centre hosted the smallest number of events, 73.

The SJCC subsidy of \$658,687 was the largest among the Comparators. The amount of Mile One's subsidy is \$64,234 greater than the subsidy received by the other municipally-operated Comparator, the Halifax Convention Centre. The Mile One subsidy is \$267,063 higher than the average for all Comparators, \$391,624.

The following table includes some additional attributes of SJCC and the Comparator convention centre facilities:

<b>Facility</b>	<b>Meeting / Ballroom Space (sq ft)</b>	<b>Total Rentable Event Space (sq ft)</b>	<b>No. of Downtown / Nearby Hotel Rooms</b>	<b>Hotel Rooms / 1,000 sq. ft. Rentable Space</b>
SJCC	33,332	46,938	1,248	27
Halifax Convention Centre	109,279	120,474	3,000	25
Hamilton Convention Centre*	53,715	53,715*	1,000	19
Whistler Conference Centre	28,636	38,091	3,500	92
<b>Average</b>	<b>56,241</b>	<b>64,805</b>	<b>2,187</b>	<b>41</b>

\*Sq. ft. of concourses and balconies not available, and have not been included

Sources:

Discussions with the Board and City (SJSEL) and senior management of the Comparators (all)

Information provided by the Board and City (SJSEL) and senior management of the Comparators (all)

Discussions with management of Destination St. John's (SJCC)

Facility websites (all)

SJCC is the second smallest convention centre facility, with a total rentable space of 46,938 sq. ft. The Halifax Convention Centre is significantly larger, at 120,474 sq. ft. of total rentable space, which is nearly double the average of 64,805 sq. ft. When excluding the Halifax Convention Centre from the calculation, the rentable space at SJCC is just above the average of 46,248 sq. ft. Similarly, SJCC has the second smallest amount of ballroom space, 33,332 sq. ft.

The number of hotel rooms in close proximity to a convention centre is a common and sometimes crucial consideration of convention and conference event planners. At the end of 2018, the City of St. John's had a total of approximately 3,000 hotel rooms. Not all of the St. John's hotels are located in the downtown core. According to DSJ, St. John's has approximately 850 hotel rooms within a reasonable walking distance of SJCC. In previous years, when large conventions came to St. John's, hotels outside of the downtown core benefited from additional business. However, with several new hotels recently constructed or under construction (Alt, Jag) and additional hotels planned, the number of rooms downtown has increased. While the number of nearby hotel rooms is well below the average of 2,088, we understand from our conversations with DSJ that there is sufficient capacity to support most prospective events. Due to the relatively small rentable space relative to the Comparators, SJCC has the second largest number of nearby hotels per 1,000 sq. ft. of rentable space. It is difficult to obtain statistical information for services such as Airbnb, which are active in many Canadian municipalities, including St. John's. According to senior management of DSJ, in 2018 (through November 30) an estimated 66,000 room nights in St. John's were booked through non-traditional online booking services, including Airbnb.

## D. Options to Deliver the Mandate

Five broad operating options can be evaluated by the City and the SJSEL Board of Directors for the future operation of the SJSEL Facilities. These five options are as follows:

- 1 ***Modified Existing Municipally-Controlled Operating Model*** – Under this option, SJSEL would continue to operate the SJSEL Facilities, with its own Board of Directors. The management and employees of SJSEL would continue to perform the management of day-to-day operations of the facilities. A number of changes should be implemented in order to make the operations of SJSEL more effective and efficient. Depending on the mandate selected for SJSEL, the changes could include some or all of the following:
  - Modifications to Board governance and policies;
  - Determination of an acceptable level of subsidization and a plan to reduce the existing level of subsidization;
  - Modifications to financial reporting and communication to the Board of Directors and the City; and,
  - Ongoing operational changes to improve SJSEL's profitability.

Hybrids of the existing and proposed operating models may be possible if, for example, one but not both of SJSEL's operations or facilities could be privatized. For example, SJSEL could continue to own and manage SJCC, with the management and/or ownership of Mile One being privatized.

- 2 ***Third-Party Management of One or Both SJSEL Facilities*** – Under this option, the City would continue to own SJSEL and its two facilities, but would enter into agreements with one or more third parties who would manage the operations of one or both of the SJSEL Facilities for a set period of time. This model of third-party management of publicly-owned facilities has been, and continues to be, employed by other Canadian municipalities. Although the City would lose day-to-day control over the operations of one or both SJSEL Facilities, the intention is that the third party's industry specialization and financial and human resources may result in enhanced utilization and economic performance for the SJSEL Facilities. This model does not necessitate that the City relinquish complete control of the operations or strategic direction of the facilities. Rather, a number of controls, including use of performance measures, could be put in place to ensure the third-party manager operates in consideration of the City's mandate and objectives. The agreement could be structured to dictate or curtail certain activities, or place other restrictions on operations. Importantly, the City and SJSEL should require that any interested third-party managers demonstrate their capacity and capability to assume the operation of SJSEL facilities. The experience of municipalities who have retained third party managers with limited expertise has not been positive (e.g. Guelph Sleeman Centre).
- 3 ***Third Party Management Hybrid*** - As a hybrid of the Third Party Management option, the City could enter into agreements with one or more third parties who would manage the marketing and operations of one of both of the SJSEL Facilities for a set period of time, while the City would continue to manage the physical facilities. The intention is that the City could enter into an operating agreement with a third party that has industry specialization and financial and human resources which may result in enhanced marketing, utilization and economic performance of the SJSEL operations, but that does not have experience in management of the physical facility.
- 4 ***Long-Term Lease of One or Both SJSEL Facilities*** – Under this option, the City would enter into an agreement with one or more third parties that would lease SJSEL's land and/or buildings pursuant to a long-term lease or partnership agreement. The City would have minimal ongoing involvement in the day-to-day operations of the SJSEL Facilities. Rather, the private sector lessee(s) would be free to operate the facilities in a manner as they see fit. The lease could stipulate certain restrictions or obligations as deemed necessary at the time of the lease. However, under this option the City would retain less control of the strategic direction of the facilities. The City retains title to the underlying land and buildings, but physical possession would not be possible until some date in the future, as determined by the lease.

- 5 **Divestiture of One or Both SJSEL Facilities** – Under this option, the City would enter into agreements with one or more third parties who would purchase SJSEL's facilities outright, thereby eliminating the need for any ongoing operating or capital subsidization by the City (beyond any restrictions or obligations determined necessary at the time of sale). The City would have minimal ongoing involvement with the SJSEL Facilities, with the private sector purchaser free to operate the facilities as they see fit. The City could consider a sale with no restrictions on use, allowing the purchaser to potentially transform one or both of the SJSEL Facilities to a different purpose. Alternatively, as a term of sale, the City could prescribe maintenance of the facilities in a manner similar to the current operations (e.g. the City could mandate that SJCC continue to be used as public-assembly venue), but this could diminish or eliminate the interest of prospective purchasers. In exchange for the agreed selling price, the City would relinquish a key downtown asset, and would rely on the purchaser to generate the economic and/or City-building benefits from the existing operations.

The primary objective of the SJSEL Review was to conduct a review of operating and ownership models for the SJSEL Facilities. Through this review, KPMG determined possible ownership and operating models available to the City for the SJSEL Facilities, and the potential scope and structure of these models. Our report also provides a jurisdictional review of comparable arena and convention centre facilities owned by other Canadian municipalities. The SJSEL Review provides a contextual overview to assist Council and the Board of SJSEL in assessing whether the City should proceed with exploration of alternative ownership and operating models for SJSEL.

## E. Overall Conclusions

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

- **Lack of Mandate:** There is a lack of a clear written mandate to guide the decisions and strategic direction of SJSEL. SJSEL was incorporated on November 7, 1997, “for the purposes of planning, designing, financing, constructing and operating a civic centre to serve the Northeast Avalon area of the Province of Newfoundland and Labrador and to do all other things relating or incidental hereto”. Since incorporation, the functions and operations of the organization have been modified by various decisions of the Board of Directors, and interests of City Councilors. However, lacking a concise relevant mandate throughout its operating history, SJSEL has been without a compass to navigate strategic operating decisions. A key finding from the jurisdictional review (i.e. Halifax Convention Centre and Scotiabank Centre) is the importance of a clear and defined mandate for the operational success of the facilities.
- **High Fixed-Cost Structure:** An estimated \$5.9 million (64%) of SJSEL's annual operating expenses, excluding amortization, are fixed in nature (i.e. indirect expenses). Accordingly, the profitability of SJSEL is contingent on the level of utilization of the SJSEL Facilities (and the related ancillary revenue streams). Due to the high fixed-cost nature of SJSEL's operations, every dollar of rental and ancillary revenues has a significant impact on the bottom-line profitability of SJSEL.
- **Geographic Location:** The geographic isolation of St. John's relative to other Canadian event destinations presents a unique marketing challenge to SJSEL. Not only does the location present a potential obstacle to convention delegates and event goers, it also presents a logistical obstacle for travelling acts and exhibitors who often transport required equipment by ground. Touring acts are often booked on nights in close succession, and therefore the time to travel to St. John's may be prohibitive. This is exacerbated if the tour does not already include Halifax, NS, as greater travel times may be required from the previous destination.
- **Level of City Subsidization:** The City provides various operating and capital subsidies to SJSEL on an annual basis. For the four-year period ended December 31, 2017, the average operating grant from the City of St. John's was approximately \$1.6 million. In 2014, before amortization of tangible capital assets and capital reserve funding from the City, SJSEL achieved a small budget surplus of \$128k. In 2015 there was a significant budget deficit of (\$767k). The budget deficit can be attributed in large part to the closure of SJCC during renovations. In 2016 and 2017, with the newly expanded SJCC open for business, the operating deficit was significantly smaller, at (\$188k) and (\$91k), respectively. While the amount of subsidy required by SJSEL is the highest among the Comparators, it is unlikely that any form of



operational change, other than an outright sale of the SJSEL Facilities, would completely eliminate some level of City subsidization.

- **Lack of Board-Approved Business Plan:** Any challenges faced by SJSEL management in making strategic decisions are exacerbated by the organization's lack of a short-term and long-term business plan. Similar to a mandate, a laser-focused business plan would provide a guide against which all strategic and significant operational decisions of the organization could be weighed. Our research with the comparator organizations emphasized the importance of a Board approved business plan for the overall success of the organization.
- **Economic Impact:** An analysis conducted by DSJ on the economic impact of the SJSEL Facilities indicates that there is a positive impact on the City's and Province's economy as a direct result of SJSEL's operations. The experience and analysis of the Events East Group ("Events East"), operators of the Halifax Convention Centre and Scotiabank Centre, support this finding. In a five-year period, the incremental visitor expenditures for Halifax ranged from \$10.1 million (fiscal 2017) to \$14.5 million (fiscal 2013). Events East defined incremental impacts as, "those expenditures that would not have taken place in the absence of our facilities and activities."

Regardless of which operating option the City chooses to explore, the importance of clarifying the mandate(s) for the SJSEL Facilities needs to be emphasized. The two options – an economic engine for St. John's and the surrounding area, where the focus is on the economic spin offs, as well as a community builder in terms of sport, arts and cultural programming, or a more business-oriented enterprise designed to operate the SJSEL Facilities on a for-profit (or at least break-even) basis each needs to be evaluated. The City must also clarify its vision for the SJSEL Facilities for the next 10 -15 years.

The current lack of a mandate and key performance measurements has resulted in general confusion and mild friction between the City, the SJSEL Board of Directors and SJSEL management. The City and SJSEL will need to clarify on a go-forward basis the following:

- What business operations SJSEL should be engaged in;
- The level of subsidization that SJSEL should receive from the City on an annual basis, along with guidance on future increases or decrease in subsidization; and,
- The key performance indicators that SJSEL's performance should be evaluated against (e.g. number of events, number of attendees at events, level of City subsidization required, incremental period-over-period improvements in profitability, etc.). The KPIs should be tailored to each facility, and should be designed in consideration of the clarified mandate and business plan.

Once the mandate for SJSEL has been clearly articulated, the City can proceed to evaluate the potential operating models. If the City decides to pursue the modified status quo (municipally-controlled) operating model, SJSEL management and the SJSEL Board of Directors should proceed to create a strategic/business plan for SJSEL that aligns with the mandate. KPIs such as those included in this report should be tracked to measure SJSEL's success.

If the new mandate does not support the City's continuation in the business conducted at one or both SJSEL Facilities, or that if the mandate is focused on bottom-line improvement for the organization, the City will need to explore the four privatization options (i.e. third-party management contracts, a third-party marketing contract with ongoing facility maintenance performed by the SJSEL, long-term leases, outright sale) as outlined in Section 7 of this report. Broad exploration of privatization options will require the City to determine its obligations to the Proponents resulting from the Proponents MOU, as well as the solicitation of industry participants, and the evaluation of their proposals.

# 2 Introduction

## A. Objectives of the Report

In 2018, the Board of St. John's Sports and Entertainment Ltd passed a motion requesting that a third-party comparable jurisdiction review (the "SJSEL Review") of St. John's Sports & Entertainment Ltd. ("SJSEL", or the "Corporation") be conducted by an independent external consultant. SJSEL was incorporated in 1997 as The Civic Centre Corporation. On August 8, 2001, the name was changed to St. John's Sports & Entertainment Ltd. The Corporation is a non-profit, wholly-owned subsidiary of the City of St. John's (the "City"), and currently operates the St. John's Convention Centre ("SJCC") and the Mile One Centre ("Mile One") [together, the "SJSEL Facilities"] on behalf of the City.

In March 2018, a memorandum of understanding (the "Proponents MOU") between SJSEL, Atlantic Sports Enterprises Ltd. ("Atlantic"), Deacon Investments Ltd. ("Deacon"), Irwin Simon, Robert Sabbagh and the City was signed to document the principal terms of a proposed working relationship between the parties. Atlantic is the owner and operator of the St. John's Edge (the "Edge") franchise, which was founded in 2017 and which plays its home games at Mile One. The Edge is a team in the National Basketball League of Canada. Deacon is the owner and operator of the Newfoundland Growlers (the "Growlers") franchise of the ECHL, which was founded in 2018, and is currently in its first season of playing its home games at Mile One. The Proponents MOU was drafted following a proposal to the City by the owners of Atlantic and Deacon, who expressed an interest in assuming the management and operations functions of one or both of the SJSEL Facilities.

The underlying driver of the request for the SJSEL Review was the receipt of the proposal from Atlantic and Deacon (together, the "Proponents"). KPMG LLP ("KPMG") was retained by the City to undertake the SJSEL Review. KPMG is a large global provider of professional and advisory services.

The primary objective of the SJSEL Review was to conduct a review of operating and ownership models for the SJSEL Facilities. Through this review, KPMG will determine possible ownership and operating models available to the City for the SJSEL Facilities, and the potential scope and structure of these models. Our report also provides a jurisdictional review of comparable arena and convention centre facilities owned by other Canadian municipalities. The SJSEL Review will provide a contextual overview to assist Council and the Board of SJSEL in assessing whether the City should proceed with exploration of alternative ownership and operating models for SJSEL.

This final report contains findings from a financial analysis and operational review of SJSEL. Our financial analysis includes the benchmarking of SJSEL's performance against similar Canadian arena and convention centre organizations (the "Comparators"). This report also provides an overview of alternative ownership and operating models available to the City (See Section 7, Operating Options).

## B. Scope of Review

The scope outlined by the Board for the SJSEL Review is comprehensive. In performing the SJSEL Review, the Board's request for proposal asked the successful bidding firm to:

- Undertake a review of 3 to 5 similar jurisdictions that have similar buildings, including reviewing available documentation, and interviewing relevant stakeholders to document third-party agreements in place, best practices and lessons learned.
- Analyze and recommend the potential scope and structure of a potential third-party to either operate or purchase the SJSEL Facilities.
- Document the findings in a report, along with recommendations on the potential scope and structure of a potential third-party agreement, including recommended negotiable issues and positions on these issues that SJSEL could take in order to achieve the strategic objectives stated above.

In conducting the SJSEL Review, KPMG undertook the following procedures:

- Toured SJSEL's facilities;
- Reviewed background information with respect to SJSEL (See Appendix A);
- Interviewed City staff, members of SJSEL's management team and Board of Directors, the Mayor and City Councilors, as well as key stakeholders such as Destination St. John's ("DSJ") [See Appendix B];
- Interviewed a number of arm's length parties engaged in the entertainment, sports and hospitality sectors (See Appendix B);
- Reviewed publicly-available information in respect of sports and entertainment facilities comparable to SJSEL; and,
- Conducted a half-day working session with the SJSEL Board of Directors; and,
- Developed our findings and recommendations.

The following report presents the findings to date from the SJSEL Review, based on the procedures as outlined above.

## C. Limiting Conditions

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

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, the City of St. John's. KPMG has not and will not perform management functions or make management decisions for the City of St. John's.

This report may include or make reference to future oriented financial information. Readers are cautioned that since financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

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

# 3 Current State

## A. Corporate Overview

SJSEL was incorporated in 1997 and is a wholly-owned subsidiary of the City of St John's. Through its Board of Directors and management team, SJSEL manages the day-to-day operations of two city-owned, special-use SJSEL Facilities located in the downtown core of St. John's.

## B. Facilities Overview

The two SJSEL Facilities include:

- St. John's Convention Centre; and
- Mile One Centre

### **St. John's Convention Centre**

The original St. John's Convention Centre opened in May 2001, featuring approximately 18,000 sq. ft. of usable space. In February 2009, a report from a City-sponsored study on a potential expansion of the original facility was presented to the City, recommending the expansion of the existing building. On August 31, 2011, the federal, provincial and municipal governments announced the planned expansion, to be jointly funded by all three parties. The facility was closed for renovations in October 2014 and the current SJCC facility opened in May 2016. The expanded SJCC facility is the largest convention centre in the Province of Newfoundland and Labrador, boasting approximately 47,000 sq. ft. of usable space.

### **Mile One Centre**

Mile One is a medium-capacity arena that opened in May 2001. The arena has a single ice surface configuration of 85' x 200' (NHL), seating 5,800 when configured for ice hockey games. However, the boards are removable and due to modular seating in the lower bowl, the arena has various configurations which allow the facility to host a variety of sports and entertainment.

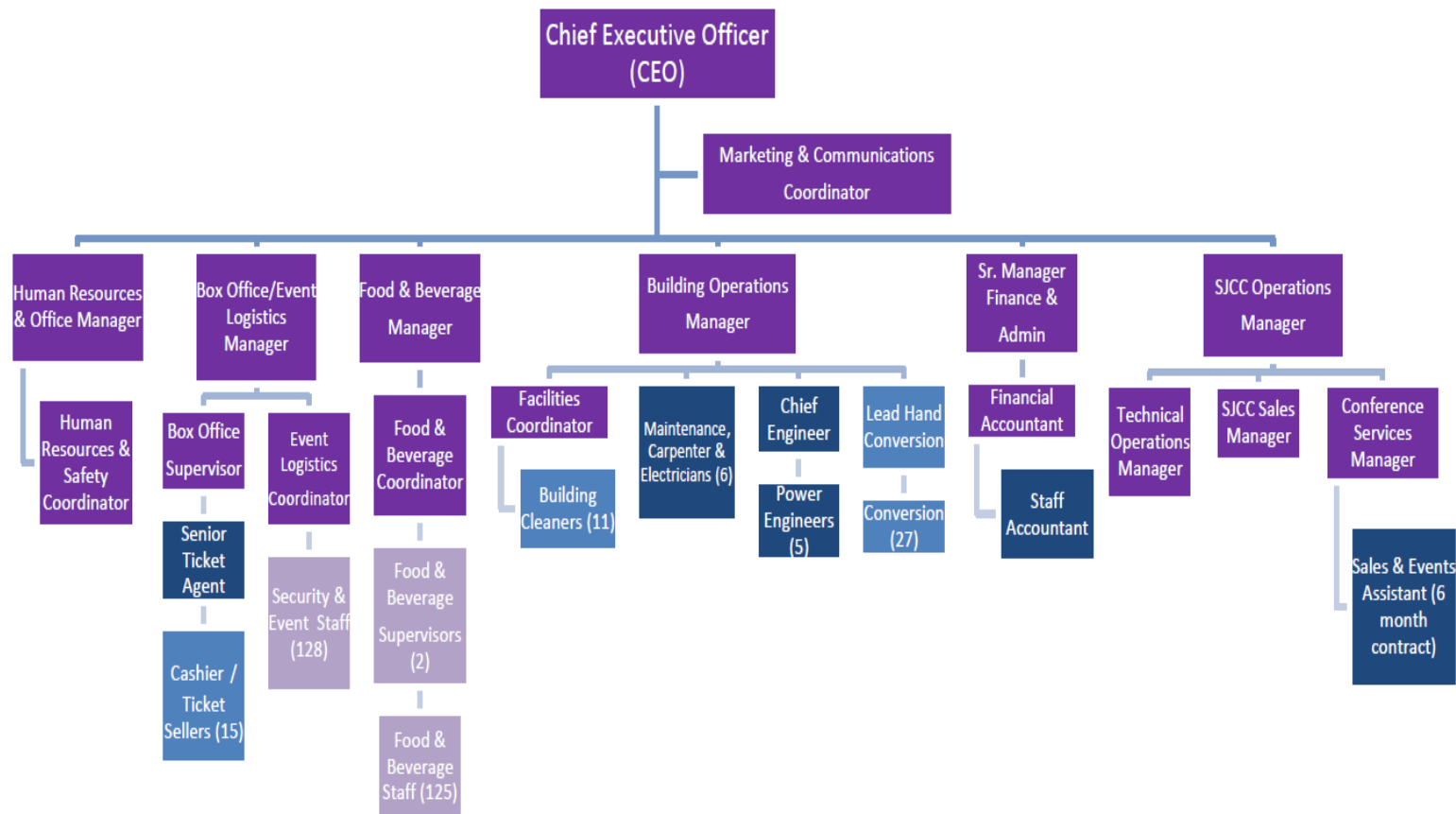
As at the report date Mile One has an agreement with two anchor tenants, the Edge and the Growlers. The Growlers are currently an affiliate team of the Toronto Maple Leafs and the Toronto Marlies. Mile One has hosted a number of professional and junior hockey teams including the St. John's IceCaps (2011-2017, AHL), the St. John's Fog Devils (2005-2008, QMJHL) and the St. John's Maple Leafs (2001-2005, AHL). The facility has also hosted many concert performances, events and trade shows.



## C. Management Structure

SJSEL management is led by a Chief Executive Officer (“CEO”). The CEO of SJSEL is responsible for the overall operation of the organization, and reports directly to SJSEL’s Board of Directors. In addition to the CEO, there are six senior management positions: Human Resources and Office Manager, Box Office/Event Logistics Manager, Food & Beverage Manager, Building Operations Manager, Senior Manager of Finance & Administration and the SJCC Operations Manager.

The SJSEL organizational chart as at December 7, 2018 is included below:



The CEO has responsibility for oversight of SJSEL's overall operations. The position is responsible for major corporate and strategic decisions and managing the overall operations and resources of SJSEL. The CEO reports directly to SJSEL's Board of Directors.

The Human Resources and Office Manager has responsibility for all aspects of human resources for Mile One and SJCC. This position has some additional administrative responsibilities including: approval of departmental expenditures, maintenance of building-related contracts, liaison with the City's Risk Management staff, and preparation of insurance quotes. There is also a Human Resources and Safety Coordinator who reports directly to the Human Resources and Office Manager.

The Box Office and Event Logistics Manager has responsibility for all aspects of event and box office preparations for Mile One. The Box Office Supervisor, who oversees sixteen (16) junior ticketing staff, reports directly to the Box Office and Event Logistics Manager. The Event Logistics Coordinator, who oversees security and event staff of one-hundred-twenty-eight (128), reports directly to the Manager.

The Food and Beverage Manager has responsibility for all aspects of Food and Beverage operations for Mile One, and acts as a liaison with the Beverage Partner, Centerplate, at SJCC. Including the Food and Beverage Coordinator who reports directly to the Food and Beverage Manager, there are part-time food service staff of approximately one-hundred-twenty-eight (128).

The SJCC Operations Manager has responsibility for overseeing and managing all aspects of the operations of SJCC, including: Provision of customer service, sales, marketing & communications, conference and event management, technical operations, facility maintenance, cleaning, safety and security. The position recently oversaw the expansion of SJCC from October 2014 to May 2016. This individual is currently involved in an ongoing overhaul of business operations.

The Senior Manager of Finance and Administration has responsibility for all aspects of the financial and fiscal management aspects of administration, accounting and budgeting, including: preparation of financial statements, budgeting, oversight of internal controls and preparation of management payroll.

The Building Operations Manager has responsibility for all aspects of building operations for Mile One and SJCC as it relates to the Maintenance and Technical Departments. The position has 13 full-time direct reports including a Facilities Coordinator, a Chief Engineer and a Lead Hand Conversion. The Building Operations Manager oversees a total staff of approximately 50 staff (building cleaners, maintenance staff, carpenters, electricians, power engineers, and conversion staff).

There is also a Marketing and Communications Coordinator who reports directly to the CEO.

As at December 7, 2018, there were approximately 340 full-time and part-time staff employed by SJSEL. Per discussions with the Board, there have been no significant staffing changes in spite of increased event nights. However, since part-time staffing hours and therefore Personnel expenses are tied to the number of event nights, there has been an increase in Personnel expenses for Mile One.

SJSEL's maintenance, conversion, engineering, box office, staff accountant and cleaning employees are represented by the Canadian Union of Public Employees ("CUPE").

## D. Board Reporting Structure

The City is the sole shareholder of SJSEL and the owner of both SJSEL Facilities. In creating SJSEL, and through some amending articles, the City established a Board of Directors to provide governance of the management of SJSEL and the assigned City assets (i.e. the SJSEL Facilities).

The SJSEL Board requires a minimum of 7 and a maximum of 20 voting members, with the following composition:

- Two members from DSJ;
- One member of Council;
- Six members from the community at large; and
- The City Manager and the Deputy City Manager, Financial Management, both serving as ex-officio voting members.

Each year, the Board elects the officers of the Board - Chair, Vice-Chair, Secretary and Treasurer (or in lieu of a Secretary and Treasurer, a Secretary-Treasurer). The term of appointment of a Board member is three years with a limit of two consecutive terms. The City Manager and Deputy Mayor for the City do not have their terms limited in any way.

The Powers of the Board are outlined in SJSEL's General Operating By-Law, amended January 30, 2018. The Board's responsibilities per the Operating By-Law are as follows:

- a) Appoint and replace the officers of the Corporation, including the Chairman;
- b) Approve annual operating and capital budgets for the Corporation;
- c) Authorize expenditures on behalf of the Corporation from time to time and may delegate by resolution to an officer or officers of the Corporation the right to employ and pay salaries to employees of the Corporation;
- d) Raise funds in any manner;
- e) Make expenditures of funds for the purpose of furthering the objects of the Corporation;
- f) Enter into a trust arrangement with a trust company for the purpose of creating a trust fund in which the capital and interest may be made available for the purpose of establishing a reserve for the benefit of the Corporation, in accordance with such terms as the Board may prescribe;
- g) Constitute such committees of the Corporation as the Board, from time to time, considers necessary to assist in carrying out the objects of the Corporation, and to appoint the chairman and members of such committees to serve during the pleasure of the Board, and to fix the remuneration, if any, to be paid to such committee members;
- h) Appoint such agents as it deems necessary from time to time and those agents shall have such authority and shall perform such duties as are prescribed by the Board at the time of their appointment; and
- i) Delegate any of its powers to committees consisting of such number of Directors as the Board thinks fit. Any committee so formed shall, in the exercise of powers so delegated, conform to any regulations that may be imposed on them by the Board.

In carrying out these responsibilities, the Board has established a Finance Committee composed of three Board members—to monitor SJSEL's financial reporting and disclosure. On an annual basis, at the first general meeting, the Finance Committee shall appoint an auditor or firm of auditors.

Further, per the Operating By-Law, the Board is responsible to provide a written report to the City on an annual basis. The reporting includes:

- a) SJSEL's financial statements and auditor's report for the previous fiscal year;
- b) A summary of SJSEL's affairs during the previous fiscal year;
- c) Information on the performance of SJSEL relating to SJSEL's business plan and objectives for the previous year and, up to previous five years, including significant variances between such performance and SJSEL's business plan, including corrective action taken by SJSEL to address such variances; and,
- d) A summary of the Corporation's business plan for the forthcoming fiscal year and forthcoming five-year period, including specific objectives relating to the objectives of SJSEL in the Articles.

The City, as the sole shareholder, has established the following limits to the authority of the Board in the management of SJSEL. Notwithstanding any provision of the General Operating By-Law, any of the following actions require consent of the City:

- a) The appointment and replacement of the officers of the Corporation, pursuant to Section 6.1(a);
- b) The approval of the annual operating and capital budgets for the Corporation pursuant to Section 6.1(b);
- c) The approval of any remuneration to be paid to the Directors pursuant to Section 6.11;
- d) The approval of any borrowing by the Corporation pursuant to Section 14.1; and
- e) The repeal, amendment, alteration, addition to or re-enactment of any by-laws of the Corporation, including the General Operating By-Law, pursuant to Section 16.1.

Per above, the Board is responsible to provide a written report to the City on an annual basis, including an assessment of SJSEL's performance against its business plan. However, since SJSEL has not prepared a formal short-term or long-term business plan in recent years, the Board has not assessed the Corporation's performance against a formal business plan.

## E. Evolution of Mandate

One finding of KPMG's discussion with senior management and the Board of SJESL is a lack of a clear mandate to guide the decisions and strategic direction of the organization. SJSEL was incorporated on November 7, 1997 as The Civic Centre Corporation under the Corporations Act of Newfoundland and Labrador. According to the Articles of Incorporation, The Civic Centre Corporation was incorporated, "for the purposes of planning, designing, financing, constructing and operating a civic centre to serve the Northeast Avalon area of the Province of Newfoundland and Labrador and to do all other things relating or incidental hereto". Since incorporation, the functions and operations of the organization have been modified by various decisions by the Board of Directors, and interests of City Councilors. However, lacking a concise relevant mandate throughout its operating history, SJSEL has been without a compass to navigate strategic operating decisions.

Within the Request for Proposal ("RFP") for this engagement, management included the following information related to the organizational mandate: "The following four strategic objectives guide all decision making at SJSEL:

- Stimulate economic development for the City of St. John's;
- Generate revenue from the Buildings;
- Minimize the operating costs of the Buildings; and,
- Preserve the integrity of the City's assets inside the Building"



The City further noted in the RFP that, “SJSEL’s mandate from the City of St. John’s is to not take on any risk in the solicitation and promotion of events. As a result of this mandate, the buildings have excess capacity and so there may be potential for an agreement with a for-profit third party who is willing to take on more risk, to generate more activity for the buildings.” However, there are competing priorities within the four strategic priorities as listed above, which could create tension and confusion in operating decision making. Operating the SJSEL Facilities with the goal of generating revenue and minimizing operating costs of the buildings could regularly be at odds with operating the facilities with the objective of stimulating economic development in the City and surrounding area. For example, a large convention hosted at SJCC would create positive externalities in the St. John’s economy through spending by delegates, separate from revenues earned by SJCC itself. This spending may include purchases related to hotel stays, local restaurants, shopping, parking, transportation, etc. If a candidate group planning a convention reached out to SJCC and inquired about reducing fees for food and beverage as a prerequisite to securing the booking, two of the strategic objectives would be at odds. On one hand securing the event (assuming there is no opportunity cost for an alternative full-fee event) would inject capital into the local economy. However, SJCC would reduce its profitability through a reduction in revenues. While the strategic objective is to generate revenue from the buildings (and not maximize revenue), it is implied that increased revenue is a strategic priority. How then, do SJSEL management determine an appropriate threshold for price discounting in the absence of a clear mandate, and without a current economic impact study related to the SJSEL Facilities to guide their hand?

A similar conflict may exist from the City’s directive to not take on risk in the solicitation and promotion of events. By restricting SJSEL’s ability to co-promote and promote events, the organization may be limited in its ability to both stimulate economic development for the City of St. John’s and to generate revenue for the facilities.

Any challenges faced by SJSEL management in making strategic decisions of the organization may be exacerbated by the organization’s lack of a short-term and long-term business plan. KPMG noted that per Article 17.1 c) of the Amending Articles of Incorporation, “The Directors shall produce an annual written report containing, among other things: a report on the performance of the Corporation relating to the Corporation’s business plan and objectives for the Corporation’s previous fiscal year and, as applicable, the Corporation’s previous five fiscal years, with an explanation of any significant variances between such performance and the Corporation’s business plan and objectives and any correction action taken by the Corporation to address such variances.” However, when KPMG requested the current and historical business plan of SJSEL, it was noted that one had not been produced. Similar to a mandate, a laser-focused business plan would provide a guide against which ongoing and forecasted performance could be weighed.

In summary, two mandates for SJSEL exist with somewhat competing interests:

- An engine for economic stimulation of the St. John’s community, with a focus on the economic impact on the community at large through the attraction of conventions, acts, and visitors to the venues; and
- A business designed to minimize the municipal subsidy through operating on a profitable, or at least a break-even basis. Positive externalities resulting from operation of a convention centre and arena are recognized, but the focus is on reducing the municipal subsidy funded through the tax levy.

The dichotomy of direction faced by SJSEL’s management is a common challenge faced by municipal facilities such as arenas and convention centres. However, the current lack of clarity would be reduced, or eliminated if there was a business plan and an agreed mandate.

## F. Financing the Construction/Expansion of the SJSEL Facilities

### i. St. John's Convention Centre

A 1998 Memorandum of Understanding ("MOU") between the City, the Province of Newfoundland and Labrador, and the Avalon Convention and Visitor Bureau (the predecessor of DSJ) provided for the creation of a three (3) percent accommodation tax on hotel stays in the City of St. John's (the "Accommodation Tax"), in order to assist with repayment of construction costs of the original SJCC Facility. In order to pay for a portion of the SJCC construction, the City issued a debenture (the "Original Debenture"). Principal and interest under the original debenture continues to be paid with funds collected by the City through the Accommodation Tax, with repayment scheduled to be completed in 2020. The City also used funds collected through the Accommodation Tax to partially finance the construction of Mile One (discussed later, below).

A further MOU was signed between the City and DSJ (the "DSJ MOU") on October 22, 2013, following the decision to proceed with the expansion of SJCC at an estimated cost of \$64 million. At that time the federal and provincial governments had each committed approximately \$14.4 million towards the expansion. The City committed to pay the balance of \$34 million, as well as additional amounts that may have been required for the completion and commissioning of the SJCC expansion, including cost overruns. To finance the City's portion of the new construction, the City issued a debenture in the amount of \$34,641,703 (the "Expansion Debenture"). Around the time the DSJ MOU was signed, the Accommodation Tax was legislated to be increased to four (4) percent. Per the DSJ MOU, the following annual disbursements from the Accommodation Tax were agreed by the City and DSJ:

- \$1,250,000 to DSJ to sustain marketing of the destination, to be adjusted by CPI;
- The next \$300,000 collected to be placed into a capital reserve for the recapitalization, repair, renovation and maintenance of SJCC and Mile One;
- The remainder of funds to be utilized by the City as needed, to pay the principal and interest of the debentures related to the City's portion of financing for the SJSEL Facilities; and,
- The establishment of a special marketing reserve, and to allocate a portion of funds to that reserve on an ongoing basis, as mutually agreed, with expenditures from that reserve to be mutually agreed by both parties.

See table below for the balances of the Original Debenture and the Expansion Debenture as at December 31, 2017, and December 31, 2018:

<b>Table 3.1 Balance of the Original and Expansion Debentures (RE SJCC)</b>		
<b>Years ended December 31</b>	<b>2017</b>	<b>2018</b>
Original Debenture		
Bond - issued December, 2000	7,000,000	7,000,000
Repayment (sinking fund)	6,350,154	6,555,328
<b>Balance</b>	<b>649,846</b>	<b>444,672</b>
Expansion Debenture		
Bond - issued March, 2016	34,641,703	34,641,703
Repayment (sinking fund)	1,111,043	1,946,908
<b>Balance</b>	<b>33,530,660</b>	<b>32,694,795</b>

Source: Senior Management of SJSEL, January, 2019

The amount financed through the Expansion Debenture, \$34,641,703, represents amounts paid by the City for the SJCC expansion prior to that date. In March, 2019, the City will issue an additional debenture for \$5,015,926 to be repaid through the same mechanism (use of the Accommodation Tax collected by the City to repay principal and interest). The amount of the planned debenture corresponds to costs incurred by the City in the construction of SJCC since the issuance of the March 2016 Expansion Debenture.

Per Article 8 of the DSJ MOU signed October 22, 2013, the DSJ MOU shall not be assigned by the City of St. John's or DSJ without the prior written consent of the other.

## ii. Mile One Centre

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

<b>Table 3.2 Financing for Mile One Construction</b>			
<b>Source</b>	<b>Balance at date of issue</b>	<b>Repaid with</b>	<b>Balance as at December 31, 2018</b>
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	3,371,978
Proceeds of St. John's Memorial Stadium sale	1,087,716	Non-repayable	N/A
<b>Total</b>	<b>48,878,312</b>		<b>3,371,978</b>

Source: Senior Management of SJSEL, January, 2019

The total cost of construction of Mile One 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 using the Accommodation Tax collected by the City. A further \$1,283,859 paid by the City during construction of Mile One was fully repaid from amounts collected through the Accommodation Tax. A second bond issued by the City for \$16,500,000 is still being repaid by the City, with repayment scheduled for completion in 2020. The principal and interest of that bond are being paid by the City through the use of general operating funds. 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.

The table below shows the balance of the \$16,500,000 bond issued by the City as at December 31, 2017 and December 31, 2018:

<b>Table 3.3 Outstanding Balances of Mile One Construction Financing</b>		
<b>Years ended December 31</b>	<b>2017</b>	<b>2018</b>
Bond - issued April, 2002	16,500,000	16,500,000
Repayment (sinking fund)	12,283,284	13,128,022
<b>Balance</b>	<b>4,216,716</b>	<b>3,371,978</b>

Source: Senior Management of SJSEL, January, 2019



# 4 Operational Commentary on SJSEL Venues

## A. Overview

The SJSEL Facilities are located adjacent to each other in downtown St. John's. When the original SJCC facility was constructed at 101 New Gower Street, it essentially bisected renowned George Street. As a result, the facility is flanked on one side by George Street, which is known for its record number of pubs and restaurants. On the other side is the renamed George Street West, home to a number of downtown businesses. Mile One is located directly across from SJCC, at 50 New Gower Street. The original SJCC facility and Mile One opened in 2001, in their current locations.

Over the past 18 years, the SJSEL Facilities have hosted many memorable sports and entertainment events, as well as numerous conventions and conferences that have been a source of civic pride to the City and its citizens.

In the past, Mile One was occasionally operated under a co-promotion or promotion model. However, these operating models create financial exposure for SJSEL when events are not financially successful. After some July 2007 events caused SJSEL to incur moderate financial losses, the City issued a directive to SJSEL to no longer undertake risk in securing entertainment or events. Since that time, SJSEL has operated primarily under a rental revenue model.

Rental, co-promotion and promotion revenue generation models are typical to other arena and convention centre facilities in North America:

- **Rental:** Where the facility is rented to a facility user or promoter for a fixed fee plus the recovery of out-of-pocket costs for event set-up, stage hands, etc. Almost all current activities of Mile One (i.e. concerts, performances and sports) are under this operating model.
- **Co-Promotion:** Where the facility shares risk, in the form of shared revenue and costs, with a facility user or promoter for a given event. These arrangements are often a requirement of the performer.
- **Promotion:** Where the facility takes 100% of the risk of the event along with responsibility for performer fees and all marketing and associated costs, in exchange for 100% of ticket sales and ancillary revenues.

The three models above are arranged in order of escalating risk. While there is additional risk in co-promotion and promotion, there is also a potential for additional upside if the event is successful. Per our discussions with management, in the period since the City-issued directive to avoid risk in securing events, there have been rare instances when SJSEL successfully sought City approval for the co-promotion of shows that they believed were guaranteed to be financially successful.

The geographic isolation of St. John's relative to other Canadian event destinations creates a unique marketing challenge for SJSEL. Not only does the location present a potential obstacle to convention delegates, but it also presents a logistical obstacle for acts and exhibitors who transport required equipment by ground.

The table below shows the approximate flight times for travel to St. John's from several major cities:

<b>Table 4.3 Approximate air travel times to St. John's, NL</b>	
<b>City of Origin</b>	<b>Approximate Flight Time</b>
Boston, Massachusetts	2.5 hours
Halifax, Nova Scotia	1.75 hours
London, England	5.0 hours
Montreal, Quebec	2.5 hours
Toronto, Ontario	3.0 hours
Vancouver, British Columbia	6.5 hours

Source: <https://flighttime-calculator.com/>

Driving to Newfoundland is particularly challenging and requires the use of a ferry. There are two ferry routes to Newfoundland, with both operated from North Sydney, NS, by Marine Atlantic. North Sydney is approximately 396 km north-east of Halifax, NS. Only one route operates year-round, travelling from North Sydney to Port aux Basques, NL. This route is 178 km with a travel time of seven (7) hours. Once in Port aux Basques, the drive to the SJSEL Facilities is 903 km, and takes over nine (9) hours. From June to September, a second route is also available. This ferry travels to Argentia, NL, a distance of 520 km, with an approximate travel time of sixteen (16) hours. From Argentia the drive to the SJSEL Facilities is considerably shorter, a distance of 134 km (approximately 1.5 hours).

The geographic isolation of St. John's is a contributing factor to the difficulty in attracting performances and events to the City, due to additional costs and time required to transport equipment to the SJSEL Facilities. Touring acts are often booked on nights in close succession, and therefore long travel times may be prohibitive. This issue is exacerbated if a tour does not already include Halifax, NS, as greater travel times may be required from the preceding destination.

## B. St. John's Convention Centre

### i) Description

The renovated SJCC facility is a state-of-the-art building. The highly modifiable space is well appointed with visually stunning art work and world-class lighting and audio-video equipment.

The facility offers eight (8) flexible event spaces. There are two (2) large ballrooms divisible into quadrants, and six (6) meeting rooms that divide into a maximum of ten (10) rooms (in total, divisible into eighteen (18) separate spaces). There are also two lobbies and a green room, with useable meeting and conference space of the facility totaling approximately 47,000 sq. ft. The space can accommodate groups of 10 to 2,000.

A summary of the usable space at SJCC is presented in the table below:

<b>Table 4.1 SJCC Rentable space and capacity</b>						
	<b>Area (sq ft)</b>	<b>Banquet</b>	<b>Capacity (no. of guests)</b>			
			<b>Theatre</b>	<b>Reception</b>	<b>Classroom</b>	<b>Boardroom</b>
Bowring Ballroom	19,550	1,548	2,172	2,175	1,352	-
Bannerman Ballroom	7,600	552	745	855	536	-
Lobby / pre-function Space	13,606	-	-	1,512	-	-
Meeting rooms	6,182	288	520	580	300	112
<b>Totals</b>	<b>46,938</b>	<b>2,388</b>	<b>3,437</b>	<b>5,122</b>	<b>2,188</b>	<b>112</b>

Source: <http://sjcc.ca/wp-content/uploads/2016/03/SJCC-Capacity-Chart.pdf>

The facility also has a full-service kitchen capable of producing meals for up to 3,000 over a two-hour dinner service. Effective June 1, 2018, SJSEL entered into a 10-year agreement for food preparation and service with Centerplate (Servomation Inc.), an international, full-service, third-party food and beverage solution. Prior to the contract with Centerplate, SJCC had a 15 year agreement through May 31, 2018 with the Delta Hotel St. John's ("Delta Hotel") to provide the same services.

Some notable groups hosted at the expanded SJCC facility include: Royal Canadian Legion, Professional Convention Management Association, Dieticians of Canada and the Canadian Society of Executive Conventions. SJCC was also used as a secondary facility when St. John's hosted the Tim Horton's Brier in 2017.

## ii) Market Realities

SJCC operates in an intensely and increasingly competitive North American marketplace. As noted above, the geographic location of St. John's presents some challenges to the organization in attracting conventions. However, the City has experienced recent success with marketing campaigns for St. John's as a tourism destination. Combined with the unique entertainment, historical and natural offerings to visitors, SJCC presents a unique sales proposition over local and national competition.

A summary of strengths, weaknesses, opportunities and threats follows:

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Complete renovation of SJCC completed in 2016</li> <li>Largest convention and event facility in the province</li> <li>Flexible space to meet a variety of needs</li> <li>Accommodation Tax utilized to pay for SJSEL Facilities' capital investments and to market St. John's as destination.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of clear mandate and strategic business plan</li> <li>Limited in-house marketing function, and resulting dependence on DSJ</li> <li>Unclear pricing model</li> <li>Recent news about potential change or sale of SJSEL Facilities has created difficulty in attracting talent.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Leveraging St. John's as a tourism destination to attract conventions and events</li> <li>Closer marketing alliances with local business generators (i.e., academic institutions)</li> <li>Recent increase in nearby hotel rooms available to delegates and event goers.</li> </ul>	<ul style="list-style-type: none"> <li>Time and cost to exhibit in St. John's</li> <li>Practical requirement to fly for delegates and outside visitors</li> <li>Low population in surrounding area (population of St. John's is 206,000, and total population of NL is 520,000)</li> <li>Travel costs to St. John's are sensitive to volatile fuel prices</li> <li>Significant competition with Canadian convention destinations</li> <li>Seasonality of tourism and Argentina ferry route</li> <li>Dependence on local population for attendance.</li> </ul>

### iii) Sources of Revenue

SJCC's revenues are comprised of three streams: Rental revenues, food & beverage revenues and ancillary revenues. All three streams of revenue are closely related, with individual events typically generating at least some revenue from each stream.

1. Rental revenues are earned for use of the physical facility including charges for event, exhibition and meeting space.
2. Food & beverage revenues are earned for food and drink service to renting parties.
3. Ancillary revenues are comprised of use of digital signage and advertising, use of internet & telecom, labour services, electrical services, parking, equipment rental and commissions for use of audio video equipment during rentals etc.

In 2017, the first complete year of operating the renovated facility, SJCC generated revenues of \$3,608,584. This revenue, before grants from the City of St. John's exceeded budget by \$1,021,215. Per revenue allocations included in the City's RFP, actual rental, food & beverage and ancillary revenues exceeded budget by 10%, 78% and 12%, respectively, for the year ended December 31, 2017.

Consistent with other Canadian convention facilities, food & beverage revenues makes up the lion's share of SJCC's revenue. In 2017, food & beverage services were provided by the Delta Hotel, with revenues shared according to a service agreement. Since June 1, 2018, revenues for food & beverage are shared with Centerplate as per the following terms:

- Centerplate will receive a management fee of 5% of adjusted gross receipts (as defined in the agreement) collected during the monthly period. The annual management fee will be no less than \$150,000 per contract year, adjusted annually by CPI and paid on a monthly basis; and,
- Centerplate will receive a share of the net operating profits (as defined within the agreement) calculated by subtracting direct operating costs of food services from adjusted gross receipts. Centerplate's share will be 10% in the first contract year, and between 5% and 10% in subsequent contract years based on Centerplate achieving benchmarks and/or key performance indicators, as mutually agreed by SJSEL and Centerplate.

While food & beverage is the largest source of revenue, the margins are often smaller than those earned from the rental and ancillary revenue streams. No consensus exists across Canadian convention facilities with respect to the best approach for food and beverage management (self-operating vs. third-party management).

## C. Mile One Centre

### i) 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 labour hours. Converting from a concert to a basketball configuration requires approximately 70 labour hours. Converting from an ice hockey to a basketball configuration requires approximately 100 labour hours. The conversions are all completed overnight.

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

Table 4.2 Mile One seating configurations	
Arena surface area (sq ft, boards in)	17,000
Arena surface area (sq ft, boards out)	31,476
<b>Capacity (no. of attendees):</b>	
Hockey	5,800
Basketball (Edge)	4,800
Theatre concert	1,900
Full concert	5,600
<b>Trade show capacity (no. of booths)</b>	
Ice surface	96
Full floor	184

Source: SJSEL Third Party Management Jurisdictional Review Terms of Reference (Appendix A)

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 event nights at Mile One has been between 63 (2017) and 101 (2014) in the past seven 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).

## ii) Market Realities

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Facility is large enough to host many upper-tier concert and entertainment events</li> <li>Popularity of the Edge should lead to increased attendance and sustain the team (contributes significant number of event nights)</li> <li>New LED signage will increase ability to generate ad revenue.</li> </ul>	<ul style="list-style-type: none"> <li>Aging facility without significant renovation or upgrades to date</li> <li>Limited concourse space</li> <li>Seating capacity may be insufficient to generate sufficient revenue to attract top acts</li> <li>Low utilization (leasing) of corporate/private suites</li> <li>Lack of strategic business plan and mandate</li> <li>City directive to not undertake promotion risk limits opportunities to secure events.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Mile One is a key part of the social and cultural fabric of the City</li> <li>In the event of a new operating agreement, the Proponents may be willing to take on additional risk attracting events</li> <li>Sponsorship.</li> </ul>	<ul style="list-style-type: none"> <li>Area population insufficient to support fully-utilized facility</li> <li>Historical volatility in junior and professional hockey (changes in anchor tenants)</li> <li>Attendance dependent on local economy</li> <li>Geographic location and access</li> </ul>

### iii) Sources of Revenue

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 interrelated. 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 2017 audited annual financial statements, budgeted revenues for entertainment and events makes up \$4,051,143, or 87% of total revenues. That amount is comprised of \$2,499,019 for entertainment and events (tickets and admission, including credit card charges and fees), and \$1,552,124 for food & beverage revenue. There is also sales and marketing revenue generated from corporate partnerships, advertising and cleaning of corporate suites. Sales and marketing was budgeted at \$602,164, with technical service and building maintenance accounting for a budgeted \$10,500.

The financial success of Mile One is largely dependent on the success of its two anchor tenants, the Growlers and the Edge. On November 14, 2018, the current lease between SJSEL, the City, Atlantic and Deacon was signed. Per the lease:

- The term of the lease is for the 2018/2019 season (i.e. "the period during which all regular season games and playoff games are played"), terminating on June 30, 2019;
- The fee payable to SJSEL for each Edge or Growlers home game is \$4,500 plus HST;
- The lease gives Atlantic and Deacon rights for advertising and sponsorship during home games, in exchange for a \$500,000 fee, payable to SJSEL in two equal payments of \$250,000;
- SJSEL will retain a fee of \$0.25 per ticket sold to cover print costs, as well as a charge of 3.5% of ticket price for each ticket or season ticket purchased electronically, to cover banking and credit card fees;
- Atlantic and Deacon will take over the restaurant and catering operations. For non-home game event nights, SJSEL will receive 8% of gross revenue (excluding HST). Notwithstanding the foregoing, SJSEL will receive 20% of gross revenue (excluding HST) on non-home game event nights until such time as Atlantic and Deacon demonstrate to the satisfaction of the City and SJSEL that the suite catering options have been substantially changed from the previous year. On home game nights, SJSEL will receive 10% of gross revenue (excluding HST);
- SJSEL will operate all food and beverage concessions at the concourse level, with Atlantic and Deacon sharing 30% of gross revenue (excluding HST) during home games. The percentage increases to 35% when the average attendance for the season exceeds 3,500. Given this revenue split, SJSEL's earning from food and beverage may be reduced; and,
- All parking revenue is retained by SJSEL.

Prior to the lease negotiations, suite-level catering, including the operation of a 140-seat restaurant was contracted to a third party, A Taste of Class. When Atlantic and Deacon took control of suite-level catering through the current lease, A Taste of Class proceeded to remove their equipment and supplies from Mile One. At some time after, it was determined by Atlantic and Deacon that it would be a tremendous undertaking to start a catering business independently. Atlantic and Deacon have subsequently contracted A Taste of Class to deliver suite-level and restaurant catering, but SJSEL is not privy to the current terms of the agreement.

Per the terms of the November 2018 lease and the MOU, SJSEL will be responsible for one third (1/3) of the cost for renovations to the home team dressing rooms (for each of the Edge and the Growlers), as well as some minor suite-level renovations. SJSEL's obligation is limited to a maximum of \$500,000.

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. The Ice at Mile One is typically maintained from October until late April, dependent on the hockey anchor tenant's playoff schedule.

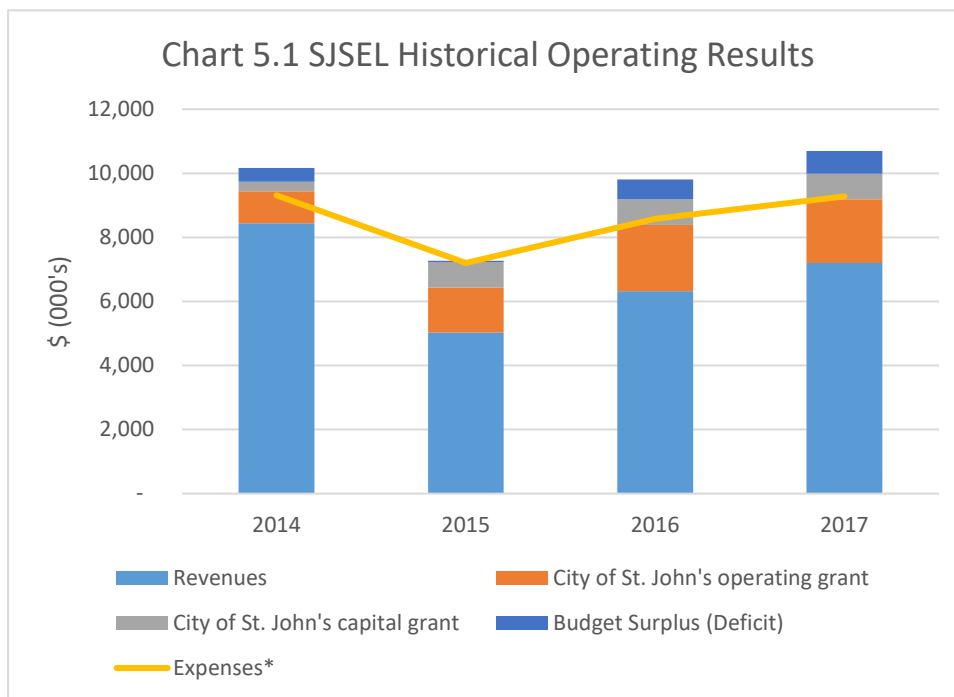


# 5 Financial Analysis

## A. Summary of Historical Financial Performance

SJSEL prepares its own stand-alone financial statements on an annual basis. These statements are subject to a year-end audit. As an element of our engagement, we completed a review of SJSEL's historical financial performance for the years ended December 31, 2014 through December 31, 2017. In Appendix C, we have summarized the audited statements of operations ('income statements'), and statements of financial position ('balance sheets') of SJSEL for the past four years. Since the SJCC facility underwent a significant expansion from 2014 until 2016, the operating results have been impacted by the closure of SJCC during that period.

The chart below summarizes the revenues and expenses of SJSEL for the four-year period ended December 31, 2017.



\*Expenses excluding amortization of tangible capital assets  
Source: SJSEL audited annual financial statements

SJSEL's annual operating shortfall is covered by the City of St. John's through an operating grant and capital grant. As discussed in Section 3. F previously, \$300,000 of the capital transfer is 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 had a surplus ranging between \$33k (2015) and \$709k (2017) in the four-year period ended December 31, 2017. This is displayed in the chart as the distance between the yellow line (expenses) and the top of each bar. However, without the operating grant and capital grant from the City of St. John's, SJSEL would experience a deficit in the same period.

The table below summarizes the operating results of SJSEL for the four-year period ended December 31, 2017:

<b>Table 5.1 SJSEL Income Statement Summary</b>							
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2016</b>	<b>2017</b>	<b>2017</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>% Change</b>	<b>Audited</b>	<b>% Change</b>	<b>Audited</b>	<b>% Change</b>
Revenues	8,441	5,034	40%	6,323	26%	7,201	14%
City of St. John's operating grant	1,000	1,400	40%	2,070	48%	1,990	4%
Total Revenues	9,441	6,434	32%	8,393	30%	9,191	10%
Less: Operating Expenses*	(9,312)	(7,201)	23%	(8,580)	19%	(9,282)	8%
<b>Budget Surplus (Deficit)</b>	<b>129</b>	<b>(767)</b>	<b>695%</b>	<b>(187)</b>	<b>76%</b>	<b>(91)</b>	<b>51%</b>

\*Expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements

The table above illustrates the operating results of SJSEL in the four-year period ended December 31, 2017, before capital grants or special capital transfers from the City of St. John's. After removing amortization of tangible capital assets from expenses, SJSEL had a surplus of approximately \$129k in the year ended December 31, 2014. In the year ended December 31, 2015 with SJCC closed for expansion, SJSEL had a deficit of approximately \$767k. With the newly expanded SJCC open for business in Spring 2016 the deficit decreased significantly in the years ended December 31, 2016 and December 31, 2017, with deficits of \$187k and \$91k, respectively.

#### i) Historical Revenue Analysis

SJSEL has two distinct facilities, an arena and convention centre, with diverse revenue streams. See below for a summary of SJSEL's historical revenues as presented in SJSEL's audited annual financial statements for the four-year period ended December 31, 2017:

<b>Table 5.2 SJSEL Historical Revenues by Facility</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>\$(000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Revenues - Mile One Centre*:				
Entertainment and events	6,508	4,649	3,936	3,271
Technical services and building maintenance	22	54	29	15
Sales and Marketing	487	330	313	306
Subtotal - Mile One revenues	7,017	5,033	4,278	3,592
Revenues - SJCC*	1,424	1	2,045	3,609
<b>Total revenues</b>	<b>8,441</b>	<b>5,034</b>	<b>6,323</b>	<b>7,201</b>

\*Revenues excluding operating grants, capital grants, and other transfers from the City of St. John's

SJSEL's audited financial statements disaggregate the revenues of Mile One into: Entertainment and events, Technical services and building maintenance, and Sales and marketing, while the revenues from SJCC are aggregated into a single line item. The Entertainment and events revenue line item is comprised of: Main events (large attractions such as concerts), rental revenue, ticketing fees, parking and suite rentals, and amounts for food and beverage (bar sales, concessions, coffee, merchandise, catering, etc). The percentages earned by SJSEL for food and beverage sales during anchor tenants' home games are dictated by the lease with Atlantic and Deacon. The second material financial statement revenue line, Sales and marketing, is comprised of amounts for corporate partnerships, advertising and suite cleaning. Revenues of SJCC are primarily comprised of: food and beverage revenue, banquet revenue, AV commission revenue, and advertising revenue.

Revenues of Mile One declined over the four-year period from a high of approximately \$7 million in the year ended December 31, 2014, to approximately \$3.6 million in the year ended December 31, 2017. The decline in revenues at Mile One was a result of a reduction in event nights. Revenues for SJCC were impacted by the expansion and associated temporary closure of the facility. Revenues of SJCC were approximately \$1.4 million in the year ended December 31, 2014, with no revenues in 2015. In the partial year of operations in 2016, revenues reached approximately \$2 million. In the first full year of operations, revenues reached a four-year high of approximately \$3.6 million.

## ii) Historical Expense Analysis

A significant portion of SJSEL's expenses are fixed and therefore do not vary significantly with fluctuations in revenue. As a result, SJSEL is dependent on attracting shows and events, as well as strong attendance at the anchor tenants' sporting events in order to cover fixed expenses.

Below, KPMG has summarized SJSEL's expenses for the four-year period ended December 31, 2017, as presented in the audited annual financial statements:

<b>Table 5.3 Summary of SJSEL Historical Expenses*</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>\$(000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Mile One Centre Expenses:				
Entertainment and events	4,244	3,325	2,840	2,360
Technical services and building maintenance	2,358	2,270	2,286	2,128
General and administrative	902	946	715	803
Sales and marketing	141	104	113	106
Subtotal	7,645	6,645	5,954	5,397
SJCC Expenses	1,668	557	2,627	3,885
Amortization of tangible capital assets	1,188	1,179	2,398	3,507
<b>Total expenses</b>	<b>10,501</b>	<b>8,381</b>	<b>10,979</b>	<b>12,789</b>

\*Expenses excluding loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements, Schedule 2

Overall, expenses of SJSEL decreased approximately \$2.1 million from the prior year in the year ended December 31, 2015. Approximately \$1.1 million of the variance can be attributed to the closure of SJCC for construction. The remaining difference was due to a decrease in events at SJCC during expansion, and the resulting decrease of direct expenses. In the year ended December 31, 2016 (the first event at the newly renovated SJCC was in May, 2016), expenses of SJSEL increased to approximately \$11.0 million, with \$2.1 million of the increase related to SJCC. In the year ended December 31, 2017, the first full year of operations of the newly expanded SJCC, expenses of SJCC rose to \$3.9 million. Expenses of Mile One decreased steadily from \$7.6 million in the year ended December 31, 2014 to \$5.4 million in the year ended December 31, 2017. The decline can be attributed to a decrease in the number of events at the facility. In 2014 there were 101 event nights at Mile One. In 2015 there were 91 event nights. The number decreased significantly to 67 event nights in 2016, and reached the lowest level in seven years in 2017, with 63 event nights. Due to the direct expenses associated with an event night (facility staff, food costs, utilities, etc.), a reduction in event nights leads to an overall decrease in expenses for the facility.

Below KPMG has summarized the historical expenses of SJSEL as presented in Schedule 2 of the Corporation's audited annual financial statements, for the four-year period ended December 31, 2017:

<b>Table 5.4 Summary of SJSEL Historical Expenses by Type</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>\$(000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Expenses				
Personnel	4,023	3,560	4,511	5,058
Contractual services	694	506	762	400
Materials and supplies	4,596	3,136	3,308	3,824
Other - amortization	1,188	1,179	2,398	3,507
<b>Total expenses</b>	<b>10,501</b>	<b>8,381</b>	<b>10,979</b>	<b>12,789</b>

\*Expenses excluding loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements, Schedule 2

Schedule 2 of the audited annual financial statements disaggregates the expenses line by the nature of the expenses: Personnel expenses, Contractual services, Materials and Supplies expenses, and Other expenses. Personnel expenses

decreased from approximately \$4.0 million in 2014 to \$3.6 million in 2015, before increasing to \$5.1 million by 2017. The change is due to the declining number of event nights at Mile One (discussed previously) and the closure for expansion of SJCC in part of 2014, 2015 and part of 2016 (discussed previously). Approximately \$433k of the \$463k reduction in Personnel expenses in 2015 is directly attributable to a decrease in Personnel expenses at SJCC. Between 2015 and 2016, SJSEL's Personnel expenses increased \$951k overall, while SJCC's Personnel expenses increased \$1.25 million. The relatively low personnel expenses of SJCC in 2015 resulted from the facility's closure at that time. Since SJCC's Personnel expenses increased more than the overall increase for SJSEL, a reduction in Personnel expenses at Mile One took place in the same period. Similarly, in 2017, Personnel expenses of SJSEL overall increased just \$547k, while Personnel expenses of SJCC increased 617k. The decline in Personnel expenses at Mile One is consistent with the decline in event nights, leading to reduced part-time staff expenses, as discussed previously.

In the year ended December 31, 2014, materials and supplies expense was \$4.6 million, the high in that four-year period. For the following three years, the expense was relatively stable averaging \$3.4 million, with a small increase to \$3.8 million in the year ended December 31, 2017. Fluctuations in materials and supplies expense can be attributed to the expansion and related closure of SJCC, together with the decrease in Mile One event nights.

The other expenses category is comprised of amortization of tangible capital assets. In the years ended December 31, 2016 and December 31, 2017, other expenses increased as a result of amortization on newly-added SJCC tangible assets related to the facility's expansion.

### iii) Revenue and Transfers from/to the City

On an annual basis, SJSEL prepares a detailed budget for the upcoming three years. Through the budgeting process, SJSEL determines the amount of funding required from the City in order to cover the budgeted deficit of revenues and expenses. According to the audited annual financial statements, amounts received from the City for this purpose are included as, "City of St. John's operating grant", and "City of St. John's capital reserve funding". In the years ended December 31, 2016 and December 31, 2017, the City of St. John's made an additional transfer to SJSEL for the cost of expanding SJCC. This amount was approximately \$68.4 million in 2016, with a small transfer in 2017 (approximately \$75k) related to some furniture and equipment for the expanded facility.

Below KPMG has summarized the grants and funding provided to SJSEL from the City for the four-year period ended December 31, 2017:

<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Average</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	
City of St. John's operating grant	1,000	1,400	2,070	1,990	1,615
Excess of expenditures over revenues*	(872)	(2,167)	(2,258)	(2,081)	(1,845)
Net operating income* and grants from the City of St. John's	128	(767)	(188)	(91)	(230)
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

For the four-year period ended December 31, 2017, the average operating grant from the City of St. John's was approximately \$1.6 million. In 2014, before capital reserve funding from the City of St. John's, SJSEL achieved a small budget surplus of \$128k. In 2015 there was a significant budget deficit of (\$767k). The budget deficit can be attributed to the closure of SJCC for expansion. In 2016 and 2017, with the newly expanded SJCC open for business, the operating deficits were significantly smaller, at (\$188k) and (\$91), respectively.

In 2014, the capital reserve transfer from the City was \$300k. In 2015, 2016 and 2017, the amount was \$800k per annum. The capital transfer from the City of St. John's is less than amortization of tangible capital assets in each year of the four-year period ended December 31, 2017. When including amortization of tangible capital assets, the deficit of SJSEL was approximately (\$760k) in the year ended December 31, 2014, and increased each year to a maximum of approximately (\$2.8 million) in the year ended December 31, 2017. The increase can be attributed to amortization of the additional assets of the expanded SJCC facility. Amortization of tangible capital assets was approximately \$1.2 million in the year ended December 31, 2014 and approximately \$3.5 million in the year ended December 31, 2017.

## B. Financial Analysis by Venue

As an element of the engagement, KPMG has performed some financial analysis of the individual SJSEL Facilities. The audited annual financial statements disaggregate the operations of SJCC and Mile One. However, the level of detail for the performance of Mile One is significantly higher, while revenues and expenses of SJCC are included as a single line item in the financial statements.

### i) Mile One Centre

The table below shows the contribution margin (i.e. revenues less direct expenses) of Mile One. SJSEL management prepared an analysis of expenses, net of amortization, of the year-ended December 31, 2017, for each SJSEL Facility. The analysis disaggregated expenses into direct and indirect expenses. KPMG used the percentage of actual direct expenses included in each financial statement line (as provided in the analysis), to estimate the direct expenses of the years-ended December 31, 2014, to December 31, 2016.

As shown in the table below, Mile One had a positive contribution margin in each year of the four-year period ended December 31, 2017:

<b>Years ended December 31</b>				
<b>\$ (000's)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenues	7,016	5,033	4,278	3,593
Direct expenses*				
Entertainment and events	3,585	2,809	2,399	1,993
Technical service and building maintenance	85	82	83	77
General and administrative	-	-	-	-
Sales and marketing	46	34	37	35
	3,716	2,925	2,519	2,105
<b>Contribution margin</b>	<b>3,300</b>	<b>2,108</b>	<b>1,759</b>	<b>1,488</b>

Source: SJSEL audited annual financial statements

\*KPMG obtained a detailed analysis of direct expenses from SJSEL management for the year-ended December 31, 2017. For the years-ended December 31, 2014 to December 31, 2016, KPMG used the pro-rata portion of direct expenses in fiscal 2017 to estimate direct expenses in the years fiscal 2014 to fiscal 2016.

As a percentage of revenues of Mile One, the direct expenses of Mile One varied between 53.0% (2014) and 58.9% (2017), with an average of 57.1% of revenues in the four-year period ended December 31, 2017. The variability of direct expenses as a percentage of revenues can be attributed to the variability in event mix and the changes in amateur sports hosted at the facility during the four-year period (e.g. Anchor tenant the Edge because its first season in 2017). The contribution margin of Mile One varied between \$1,487,734 (2017) and \$3,299,799 (2014) in the same four-year period.

The revenues of Mile One for the four-year period ended December 31, 2017 are summarized in the table below:

<b>Table 5.7 Mile One Centre Historical Revenues*</b>								
<b>Years ended December 31</b>	<b>2014</b>	<b>Per Event</b>	<b>2015</b>	<b>Per Event</b>	<b>2016</b>	<b>Per Event</b>	<b>2017</b>	<b>Per Event</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Night</b>	<b>Audited</b>	<b>Night</b>	<b>Audited</b>	<b>Night</b>	<b>Audited</b>	<b>Night</b>
Entertainment and events	6,508	64.4	4,649	51.1	3,936	58.7	3,271	51.9
Technical service and building maintenance	22	0.2	54	0.6	29	0.4	15	0.2
Sales and marketing	487	4.8	330	3.6	313	4.7	306	4.9
<b>Total revenues</b>	<b>7,017</b>	<b>69.5</b>	<b>5,033</b>	<b>55.3</b>	<b>4,278</b>	<b>63.9</b>	<b>3,592</b>	<b>57</b>

\*Revenues excluding operating grants and other transfers from the City of St. John's

Source: SJSEL audited annual financial statements

Revenues of Mile One have declined steadily throughout the four-year period ended December 31, 2017. Revenues in the year ended December 31, 2014 were approximately \$7.0 million, declining to approximately \$3.6 million in the year ended December 31, 2017. The decline in revenue is the result of declining event nights in the same period.

The expenses of Mile One for the four-year period ended December 31, 2017 are presented in the table below:

<b>Table 5.8 Mile One Centre Historical Expenses</b>								
<b>Years ended December 31</b>	<b>2014</b>	<b>Per Event</b>	<b>2015</b>	<b>Per Event</b>	<b>2016</b>	<b>Per Event</b>	<b>2017</b>	<b>Per Event</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Night</b>	<b>Audited</b>	<b>Night</b>	<b>Audited</b>	<b>Night</b>	<b>Audited</b>	<b>Night</b>
Entertainment and events	4,244	42.0	3,325	36.5	2,840	42.4	2,360	37.5
Technical service and building maintenance	2,358	23.3	2,270	24.9	2,286	34.1	2,128	33.8
General and administrative	902	8.9	946	10.4	715	10.7	803	12.7
Sales and marketing	141	1.4	104	1.1	113	1.7	106	1.7
<b>Total expenses</b>	<b>7,645</b>	<b>75.7</b>	<b>6,645</b>	<b>73</b>	<b>5,954</b>	<b>88.9</b>	<b>5,397</b>	<b>85.7</b>

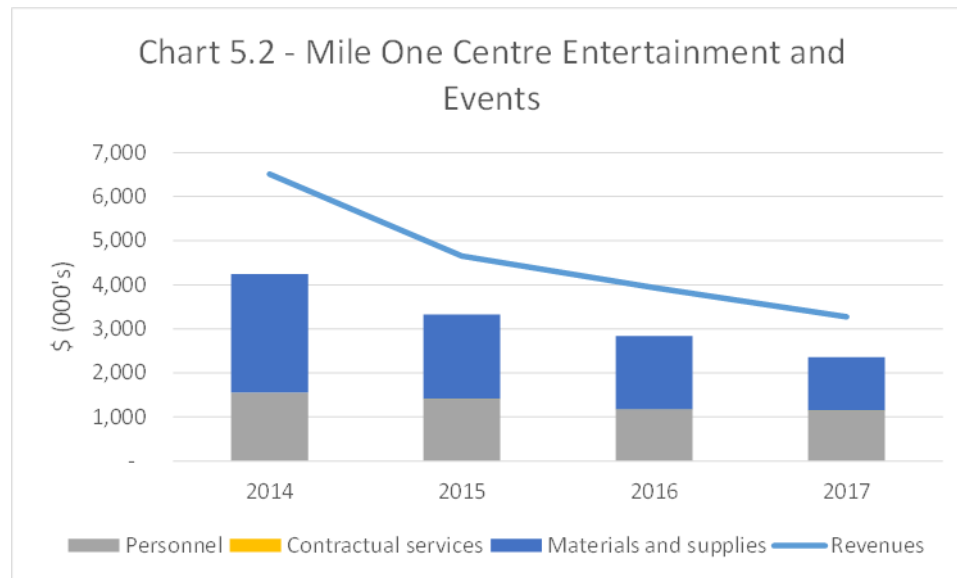
\*Expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements

Due to the large proportion of direct expenses included in the entertainment and events expenses line item, there has been a decline in expenses in the four-year period ended December 31, 2017. This can be attributed to a reduction in the number of events hosted at Mile One. Since the direct expenses can be attributed to entertainment and events hosted at the facility, a decline in events reduced overall expenses. Conversely, indirect expenses remained relatively stable in that period, and the portion of indirect expenses as a percent of total expenses increased from the year ended December 31, 2014 (42.3%) to the year ended December 31, 2017 (54.0%). SJSEL reduced general and administrative expenses in the four years ended December 31, 2017. General and administrative expenses reached a peak in the year ended December 31, 2015 (approximately \$946k). In the years ended December 31, 2016 and December 31, 2017, the amount decreased to \$715k and \$803k, respectively. Per discussions with SJSEL management, the decrease resulted partially from the elimination of the Food and Beverage Coordinator position in 2015.



Below, KPMG has plotted revenues\* from entertainment and events at Mile One to direct expenses\*\* for entertainment and events in the four-year period ended December 31, 2017:



\*Revenues excluding grants or transfers from the City of St. John's

\*\*Operating expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements.

Unsurprisingly, revenues from entertainment and events, the primary source of income of Mile One, exceed the related direct expenses. Total direct expenses from entertainment and events as a percent of revenues from entertainment and events remained stable, with a low of 65.2% in the year ended December 31, 2014 and increasing to 72.1% in the year ended December 31, 2017, and an average of 70.3% across the full four-year period. The two largest cost elements of entertainment and events are personnel and materials and supplies. As a percentage of entertainment and events revenues, both personnel and materials and supplies have remained stable, averaging 30.0% and 40.3%, respectively, in the four-year period ended December 31, 2017.

The profitability of Mile One is driven by three primary factors:

- Number of event nights
- The success of the anchor tenant teams, in terms of attendance
- Controlling direct and indirect expenses.

Due to the high percentage of indirect expenses and the positive contribution margin of Mile One (particularly from events and entertainment), increasing the utilization of the facility would reduce losses before subsidizing grants and with a sufficient volume could drive profitability.

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:

<b>Table 5.9 Subsidization of MOC by the City of St. John's</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Operating Deficit	628	1,611	1,675	1,804
Operating deficit (proportion of total SJSEL operating deficit, %)	72%	74%	74%	87%
Operating subsidy allocated to Mile One	720	1,036	1,532	1,731
Capital transfer allocated to Mile One <sup>(*)</sup> ( <sup>**</sup> )	150	400	400	400

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

\*\*Amounts excluding capital transfers from the City of St. John's related to construction of the new SJCC facility

Source: SJSEL audited annual financial statements

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. The capital transfer was allocated on an equal basis (50% for each facility). Mile One contributes the majority of the overall SJSEL operating deficit. From 2014 to 2016, Mile One's proportion of the total operating deficit was stable at 73%, with an increase to 87% in 2017. The increase can be attributed to the relatively strong financial performance of SJCC in 2017, with an operating deficit before amortization of just \$276k.

## ii) St. John's Convention Centre

With the significant expansion of SJCC (between 2014 and 2016), the year ended December 31, 2017 was the first complete year of operations. As a result, year-over-year financial performance has been impacted by the closure, as well as the increased size and capacity of the new facility.

Presented below is a summary of revenues and expenditures of SJCC for the four-year period ended December 31, 2017:

<b>Table 5.10 SJCC Summary of Historical Operating Results</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Convention Centre revenues*	1,424	1	2,045	3,609
Convention Centre expenses**	1,668	557	2,627	3,885
<b>Excess of expenditures over revenues before grants</b>	<b>(244)</b>	<b>(556)</b>	<b>(582)</b>	<b>(276)</b>

\*Revenues excluding operating grants and other transfers from the City of St. John's

\*\*Operating expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements

In 2014 the previous SJCC facility incurred expenses representing 117% of revenues. In the year ended December 31, 2016, SJCC incurred expenses representing 128% of revenues. In the year ended December 31, 2017, with a full year of operations and therefore more events to offset indirect expenses of SJCC, expenses dropped to 108% of revenues.

In 2017 with revenues of \$3,608,584, SJCC incurred direct expenses of \$1,229,350, resulting in a contribution margin of \$2,379,234. In that year \$2,655,348 (68.4%) of expenses were indirect.

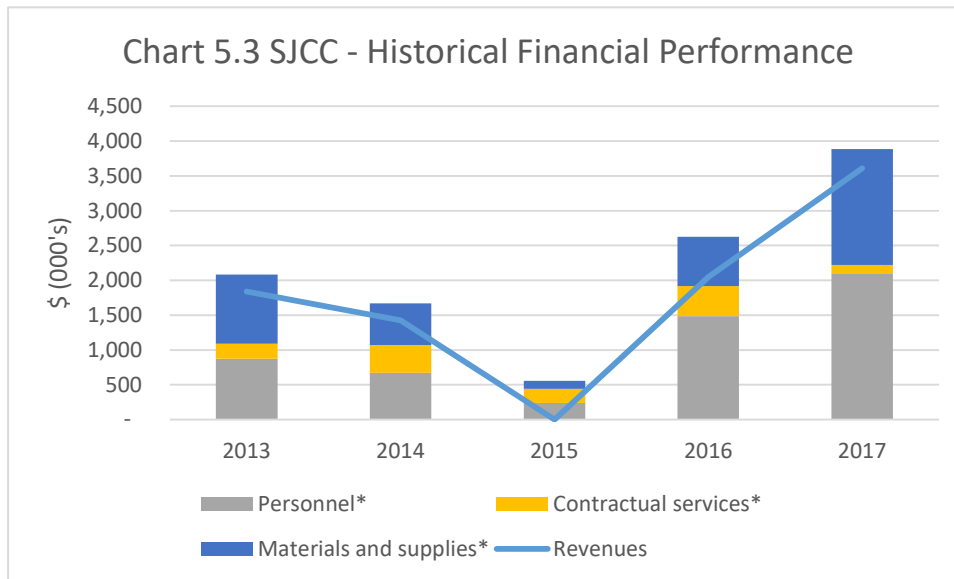
Below KPMG has charted historical revenues\* of SJCC against expenses\*\*, by type:

\*Revenues excluding grants or transfers from the City of St. John's

\*\*Operating expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements

Per our discussions with management, SJCC hosted 95 groups (total of conventions, consumer shows, meetings, food & beverage events, and other events) in the year ended December 31, 2017. In the year ended December 31, 2016, SJCC hosted 80 groups. There are various ways convention centre utilization can be calculated. For example, if a fictional



convention facility's mandate is to bring in outside (national and international) convention delegates, as a means of stimulating the local economy, utilization could be measured by gross number of outside delegates attending events. Alternatively, utilization may be calculated as number of days of use of a facility. Per SJSEL management, SJSEL has never measured utilization of SJCC, nor do they currently have a model to do so.

Due to the limited operating details for the newly expanded SJCC facility included in the annual audited financial statements, KPMG looked to the detailed budgets of SJSEL for a breakdown of revenues and expenses of SJCC.

The table below provides a breakdown of the revenues and expenses of SJCC as included in the 2017-2019 annual budgets of SJCC:

<b>Table 5.11 SJCC Budgeted Revenues and Expenses</b>			
<b>Years ended December 31</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>\$ (000's)</b>			
Revenues:*			
Food	1,757	1,757	1,757
Beverage	181	181	181
Banquet	612	612	612
AV commission	31	31	31
Advertising	6	6	6
Total budgeted revenues	2,587	2,587	2,587
Expenses:**			
Personnel	1,581	1,593	1,597
COGS - Food	457	457	457
COGS - Beverage	49	49	49
Management & incentive fees	394	394	394
Convention Centre allocation	326	336	338
Other	700	680	680
Total budgeted expenses	3,507	3,509	3,515
<b>Budgeted deficit from operations:*</b>	<b>(920)</b>	<b>(922)</b>	<b>(928)</b>

\*Revenues excluding operating grants and other transfers from the City of St. John's

\*\*Operating expenses excluding amortization of tangible capital assets and loss on disposal of tangible capital assets

Source: SJSEL audited annual financial statements and SJSEL 2017-2019 detailed budgets

The largest source of revenues for SJCC is food, which was budgeted for approximately \$1.8 million of revenue in the year ended December 31, 2017. Other significant sources of revenues are beverage and fees for banquets. SJCC earns an immaterial amount from commissions related to AV at events, as well as advertising. Significant expenses of SJCC are personnel, food, management and incentive fees, and allocations of costs to SJCC by SJESL. While SJCC earns a positive margin on food and beverage, overall anticipated revenues were not sufficient to cover budgeted expenditures. Per Schedule 1 of SJSEL's audited annual financial statements, \$57.1 million of tangible capital assets related to SJCC were added to SJSEL in the year ended December 31, 2016 as a result of the facility expansion.

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

<b>Table 5.12 Subsidization of SJCC by the City of St. John's</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>\$ (000's)</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Operating Deficit	244	556	582	276
Operating deficit (proportion of total SJSEL operating deficit, %)	28%	26%	26%	13%
Operating subsidy allocated to SJCC	280	364	538	259
Capital transfer allocated to SJCC*	150	400	400	400

\*Assumes 50% of capital reserve funding from the City of St. John's is allocated to each SJSEL Facility. Amounts excluding capital transfers from the City of St. John's related to construction of the new SJCC facility

Source: SJSEL audited annual financial statements

Similar to Mile One, KPMG calculated the operating subsidy of SJCC by pro-rating SJSEL's total operating subsidy from the City by SJCC's share of the combined deficit from operations, before amortization of capital assets and grants/transfers from the City. In the four year period ended December 31, 2017, SJCC's operating deficit fluctuated between \$244k (2014) and \$582k (2016), with the SJCC deficit contributing between 13% (2017) and 28% (2014) of the overall operating deficit of SJSEL.

# 6 Jurisdictional Review

## A. Overview

In order to understand the current and past operating models, best practices and lessons learned of similar facilities operating within Canada, KPMG undertook a jurisdictional review of comparable Canadian arena and convention centre facilities (together, the “Comparators”). Through discussions with the SJSEL project team, it was determined that the following facilities were appropriate for study as the Comparators. For each Comparator, KPMG conducted an interview with members of that facility’s senior management team, distributed and collected additional requests for information and reviewed publicly available information about the facility. For a complete list of work undertaken by KPMG, see Appendix A and Appendix B.

Public support of convention centres and arena facilities large enough to host large-scale entertainment and events is common across Atlantic Canada, and the remainder of the country. The quantum and nature of support varies, but is most often a function of the size and scale of the facilities themselves, past financial performance, and local culture activism.

Among the arena Comparators, some are governed directly or indirectly by a municipal authority. Others are governed by a private third-party operator.

### **Avenir Centre (Moncton, NB):**

The Avenir Centre is located in downtown Moncton, New Brunswick. The newly constructed facility opened on September 8, 2018 to replace the aging, 45-year old Moncton Coliseum. The Avenir facility has 8,800 seats when configured for ice hockey games, an NHL ice surface, luxury boxes and ample tournament, concert and trade show space. The facility also has an outdoor plaza with a bandstand, rink, park and gazebo. Concert seating capacity is dependent on stage size and configuration, but is typically less than ice hockey seating.

Avenir Centre is operated by SMG Canada, a part of SMG World (“SMG”). SMG is an international venue management organization founded in 1977. The company manages convention centres, exhibition halls and trade centres, arenas, stadiums, performing arts centres, theatres and specific-use centres. The land and building are owned by the City of Moncton.

### **FirstOntario Centre (Hamilton, ON):**

FirstOntario Centre is located in downtown Hamilton, Ontario. Construction on the arena began in 1983 and was completed approximately two years later. The facility was originally named Copps Coliseum, but was renamed in 2014 when naming rights were sold to FirstOntario Credit Union. FirstOntario Centre is relatively large, seating 17,000 when configured for ice hockey games, and between 4,000 and 18,000 for concerts, depending on required stage setup and configuration.

FirstOntario Centre is currently operated by Spectra, a Philadelphia-based, global venue, hospitality and sports and entertainment manager. The land and building are owned by the City of Hamilton. Spectra’s original contract to manage the facility expired on December 31, 2018 and a number of other parties, including SMG, and Carmen’s Group have expressed an interest in bidding for the rights to manage FirstOntario Centre. In the meantime, the City of Hamilton has extended Spectra’s contract for six months, to allow time for the city to determine next steps.

### **Scotiabank Centre (Halifax, NS):**

Scotiabank Centre is located in downtown Halifax, Nova Scotia. Scotiabank Centre is the largest multi-purpose facility in Atlantic Canada, with a seating capacity exceeding 10,000 for ice hockey games. The facility was constructed in 1978, and



was originally named the Halifax Metro Centre. The facility has been renovated numerous times, including a recent addition of 43 'skyboxes' and 11 executive suites. The naming rights to the arena were sold to Scotiabank in 2014.

Since April 1, 2017, Scotiabank Centre has been operated by Events East Group, which was created through provincial legislation in 2014. Previously, the facility was operated by Trade Centre Limited, a Provincial Crown Corporation. The land and building are owned by Halifax Regional Municipality ("HRM").

#### **Sleeman Centre (Guelph, ON):**

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.

The facility seats 4,715 when configured for ice hockey games. The multi-purpose facility also hosts concerts, family events, trade shows and conferences.

#### **Halifax Convention Centre (Halifax, NS):**

The Halifax Convention Centre is located in downtown Halifax, Nova Scotia. The newly constructed facility opened in December 2017 and was substantially completed in Spring 2018. The facility replaced the aging Halifax World Trade and Convention Centre ("WTCC"). The WTCC was located adjacent to Scotiabank Centre. However, the newly constructed Halifax Convention Centre facility is located in the nearby Nova Centre, a mixed-use commercial development comprised of a hotel tower, two office towers, retail space and a public pedestrian arcade, in addition to the convention facility itself. The new facility boasts approximately 120,000 sq. ft. of flexible event space.

The operations of the Halifax Convention Centre are managed by Events East Group, which is jointly owned by Halifax Regional Municipality ("HRM") and the Province of Nova Scotia. Events East Group was created through 2014 legislation to operate, maintain and manage the Halifax Convention Centre. Prior to that time, WTCC was managed by a Provincial Crown Corporation, Trade Centre Limited. The WTCC building has been privately sold. The land and buildings of the Nova Centre, including the new Halifax Convention Centre facility, are privately held, with the lease for the facility held by the Province of Nova Scotia.

#### **Hamilton Convention Centre (Hamilton, ON):**

The Hamilton Convention Centre is located in the heart of downtown Hamilton, Ontario. The building was constructed in 1981. The facility has a total rentable space of approximately 80,000 sq. ft., divisible into up to twenty-two (22) separate meeting and event spaces. In 2013, the aging facility underwent over \$1 million of renovations. Being half way between Niagara Falls and Toronto, Hamilton is located within a short distance of several major, southwestern Ontario urban centres.

Since 2013, the Hamilton Convention Centre has been operated by Carmen's Group, a third-party, private, hospitality, catering and event production company. The City's contract with Carmen's Group expired December 31, 2018. However, the contract was extended for six months to allow Carmen's Group and Spectra (the third-party manager of FirstOntario for the same five-year period) to prepare proposals to manage all three of: The Hamilton Convention Centre, FirstOntario Centre, and FirstOntario Place (a performing arts centre).

## Whistler Conference Centre (Whistler, BC):

The Whistler Conference Centre, a 60,000 square foot convention facility, is located in the Resort Municipality of Whistler ("Whistler"), British Columbia and has over 40,000 sq. ft. of versatile meeting space for rent. The facility can host up to 1,500 people for a convention, or 1,200 for a full meal service. The facility boasts that it is capable of producing high-end food and beverage offerings, with a level of style and panache exceeding typical convention offerings.

The facility is owned by the Resort Municipality of Whistler, and is operated by Tourism Whistler.

## B. Comparison of Mandates for Similar Facilities

The lack of a clear mandate is not unique to SJSEL or the City of St. John's. For municipally-owned convention centres and arena facilities, it is common to struggle with a balancing act of driving local economic activity and reducing or eliminating the tax burden of a potential operating deficit. Presented below is a discussion of the mandates of the Comparators, as well as the challenges and successes that result.

### Arena Facilities:

The table below summarizes the mandates of the arena facility Comparators:

Table 6.1 Mandates and Operating Structure of Comparator Facilities - Arenas:				
Facility	Avenir Centre	FirstOntario Centre	Scotiabank Centre	Sleeman Centre
Location	Moncton, NB	Hamilton, ON	Halifax, NS	Guelph, ON
Mandate	To be a catalyst for economic growth and development in Moncton's downtown core.	FirstOntario Centre (Core Entertainment) does not have a written, or single mandate. Spectra's contract with the City of Hamilton states that Spectra is operating FirstOntario on behalf of the City. Management of Core indicated that their effective mandate is to enhance the operating performance of the facilities, by: Bringing in as many wide-reaching events as possible, operating the facilities in an efficient (cost-effective) manner and working with the City on an ongoing basis to adjust operations as changes in the industry take place.	The Events East Group mandate is to promote and develop economic development, tourism and industry in the Province of Nova Scotia ("PNS") generally, and the Halifax Regional Municipality ("HRM") in particular. The mandate is shared with the other Events East Group organizations (including Halifax CC) around events attraction. However, Scotiabank Centre is specifically mandated to increase community vibrancy.	Similar to SJSEL, the Sleeman Centre does not have a formal written mandate. Operational and strategic decisions are made by the City, and are not guided by a written mandate or strategic directive.
Land and buildings owned by	City of Moncton	City of Hamilton	HRM	City of Guelph
Responsibility for operating control	SMG (third-party operator)	Core Entertainment (Spectra, third-party operator)	Events East Group operates the Scotiabank Centre under a management agreement with HRM	City of Guelph
Structure of operating control entity	The General Manager of SMG reports to a designated City representative.	Core (Spectra) reports to the Client Administrator, who in turn reports to City Council	The President and CEO report to the Board of Directors. The Board in turn reports to its shareholders: PNS and HRM.	The Sleeman Centre is a part of City operations: Public Services - Culture, Tourism and Community Investment
Board of Directors:				
Number	N/A - there is a Facility Management Committee, but not Board of Directors	N/A - no Board of Directors	Ten (10) Directors	N/A - no Board of Directors
Composition	Three (3) representatives of the City and two (2) representatives of SMG	N/A	With the wind down of the Trade Centre Limited (the operating manager prior to the formation of Events East Group) underway, a limited Board representing PNS and HRM provided oversight in Fiscal 2018.  The Board of Events East was appointed June, 2018. Board members are jointly appointed by PNS and HRM. The Board consists of four (4) Directors appointed by PNS, and four (4) Directors appointed by HRM Council. The Deputy Minister (PNS Department of Business) and the CAO (HRM) also sit on the Board.	N/A
Term	N/A	N/A	Maximum of two (2) terms of four (4) years for appointed members.	N/A

Source: Based on interviews of Comparators' Senior Management, and follow-up surveys conducted by KPMG. KPMG also reviewed publicly available financial and non-financial information.

The Avenir Centre has a mandate to be a catalyst for economic growth and development in Moncton's downtown core. This mandate gives SMG, the third-party operator, clear direction in decision making. While the City also calls for responsible management of the facility (ideally, profitable operations), SMG management is aware of the mandate to bring visitors into the downtown core, so they are willing to work with the City to make economic development-centric operating decisions. On a regular basis senior management of the Avenir Centre report to a Facility Management Committee. The Committee consists of three representatives from the City of Moncton, and two representatives of SMG. The Committee is ultimately accountable to Moncton's City Council. Due to the relatively young age of the Avenir Centre (opened fall 2018) it is not yet possible to draw conclusions about the long-term success of the facility's mandate.

The mandate of FirstOntario Centre was developed in cooperation with the City of Hamilton in 2013, at the time Spectra took over operations of the facility. According to senior management of FirstOntario Centre, the effective mandate is to enhance the operating performance of the facility by bringing in as many wide-reaching events as possible, while operating the facilities in a cost-effective manner, and working with the City on an ongoing basis to adjust operations as industry changes take place. Spectra reports directly to a Client Administrator at the City of Hamilton. In turn, the City Manager reports to Hamilton's City Council on operations of the facility.

Avenir Centre and SMG are both municipal facilities under management by private third-party operators. These third parties are for-profit organizations. Therefore, in order for the facilities to achieve a mandate focused, or partially focused on economic development, the contracts and fee arrangements with these third parties must be structured in consideration of the mandates of both the municipalities and the operators. Spectra has guaranteed the City of Hamilton that the operating loss of FirstOntario Centre will be less than \$1,402,000 annually. Spectra receives 100% of the reduction of the operating loss up to \$450,000, and any further reduction is shared between Spectra and the City of Hamilton, with the City of Hamilton receiving 70% of the additional cost savings. At the same time, FirstOntario is required to work closely with the City of Hamilton to secure far-reaching events, which bring outside visitors into the local economy. Further, the renewal of Spectra's current five-year operating agreement will be dependent on support from Hamilton's City Council. In the absence of required cooperation between Spectra and the City of Hamilton, Spectra may make strategic and operating decisions in order to maximize their profitability, without consideration of the City of Hamilton's mandate.

Events East Group has a clear mandate to promote and develop economic development, tourism and industry in the Province of Nova Scotia generally, and HRM in particular. According to senior management of Events East Group, this mandate is applicable for all Events East Group managed facilities and organizations, including both Scotiabank Centre and the Halifax Convention Centre. For Scotiabank Centre, there is an additional mandate to increase community vibrancy through events. Management at Scotiabank Centre report to management of Events East Group. In turn, management at Events East Group are accountable to the Board of Directors.

Scotiabank Centre's clear mandate takes the guesswork out of strategic decision making by management. Armed with an understanding that breaking even or incurring a moderate loss on an event may bring many more thousands of dollars into the local economy, management of each facility pursues entertainment and events with the broader goal of driving spending at local restaurants, hotels, parking and other attractions. Without this clarity, management may be less willing, or unwilling, to bring events to their respective facilities without a high confidence that the event would have a positive contribution margin.

Similar to SJSEL, Sleeman Centre does not have a documented mandate, and currently operates a strictly rental revenue model. The facility is currently under management by the City of Guelph, who make all strategic and operating decisions. Another Guelph City-operated facility, the River Run Centre (Guelph's performing arts centre), occasionally pursues events using a co-promotion or promotion model. According to senior management of the Sleeman Centre, the City is not comfortable utilizing a co-promotion or promotion model at the Sleeman Centre since the capacity of the facility increases the risk and size of potential financial losses.

## Convention Centre Facilities:

See table below for a summary of the mandates and operating models of convention facility Comparators:

Table 6.2 Mandates and Operating Structure of Comparator Facilities - Convention Centres			
Facility	Halifax Convention Centre	Hamilton Convention Centre	Whistler Conference Centre
Location	Halifax, NS	Hamilton, ON	Whistler, BC
Mandate	The object of the Halifax Convention Centre Corporation is to operate, maintain and manage the activities of the Halifax Convention Centre in a manner that will promote and develop economic development, tourism and industry in the province of Nova Scotia ("PNS") generally, and the Halifax Regional Municipality ("HRM") in particular, in accordance with strategic directions established by the Board and approved by the Chief Administrative Officers (HRM) and the Minister (PNS). The object also includes other activities as approved from time to time by the CAO and the Minister.	The mandate of Hamilton Convention Centre was developed by Carmen's Group in cooperation with the City of Hamilton, during contract negotiations in 2013. According to Senior Management of the facility, there are multiple elements to the mandate. The first is to stop the bleeding that was taking place at Hamilton Convention Centre prior to 2013 (i.e. find cost savings within the operations, reduce shrinkage of food by spoilage and theft, review all existing supplier pricing and contracts). The second piece of the mandate is to stimulate tourism and the economy in Hamilton, by hosting as many large events at the facility as possible.	There is a dual mandate:  The first mandate is to generate group room nights for the Resort Municipality of Whistler ("RMW").  The second mandate is to meet the needs of visitors in terms of event space, particularly when hotel facilities are not sufficient. The overarching goal of this mandate is to draw visitors into the Resort Municipality of Whistler.
Land and buildings owned by	Argyle Developments, a private company, own the convention centre's building (Halifax Convention Centre is part of a mixed-use commercial development, 'The Nova Centre'). Lease for the convention centre building is held by the City of Halifax, with cost shared evenly between HRM and PNS.	City of Hamilton	RMW
Responsibility for operating control	Events East Group, a 50/50 partnership between Halifax Regional Municipality and the Province of Nova Scotia	Carmen's Group (third-party operator)	Tourism Whistler (third-party)
Structure of operating control entity	The management and control of the affairs of the Corporation is vested in a Board of Directors and the Board may, subject to the HCC Act, exercise powers of the Corporation.	Carmen's Group is a private company. A new corporation, Hospitality Centre Corporation was created to hold the current contract between Carmen's Group and the city of Hamilton. The CEO of Carmen's Group reports to the Director, Strategic Partnerships and Communications at the City of Hamilton. In turn, the Director reports the Hamilton City Council.	Third-party operating manager under contract with RMW, who reports to the Board of Directors
Board of Directors:			
Number	Ten (10) Directors	N/A, there is no Board of Directors. There is an Advisory Board consisting of seven (7) members.	Twelve (12) members
Composition	With the wind down of the Trade Centre Limited (the operating manager prior to the formation of Events East Group) underway, a limited Board representing PNS and HRM provided oversight in Fiscal 2018.  The Board of Events East was appointed June, 2018. Board members are jointly appointed by PNS and HRM. The Board consists of four (4) Directors appointed by PNS, and four (4) Directors appointed by HRM Council. The Deputy Minister (PNS Department of Business) and the CAO (HRM) also sit on the Board.	N/A	The Board is comprised of industry stakeholders, municipal representatives, representatives of Whistler Blackcomb, and hotel representatives.
Term	Maximum of two (2) terms of four (4) years for appointed members.	N/A	Each term is two (2) years, with no limit on the number of terms.

Source: Based on interviews of Comparators' Senior Management, and follow-up surveys conducted by KPMG. KPMG also reviewed publicly available financial and non-financial information

As noted above, the mandate of the Halifax Convention Centre is shared with Scotiabank Centre. According to senior management of the Halifax Convention Centre, the facility is generally aiming for financial break-even operationally. However, in doing so they strive to serve their mandate to promote and develop economic development, tourism and industry in the Province of Nova Scotia generally, and HRM in particular. All cost overruns of the facility are shared evenly by the Province of Nova Scotia and HRM. As with Scotiabank Centre, management of the Halifax Convention Centre report to Events East Group, who in turn are accountable to their Board of Directors. The facility is privately owned, and the lease is held by the Province of Nova Scotia.

The Hamilton Convention Centre's facility is owned by the City of Hamilton. Since 2013, Carmen's Group, a private third-party manager has been under contract to operate the facility. The mandate of the Hamilton Convention Centre is to reduce the tax burden on the City of Hamilton by improving the financial performance of the facility, while simultaneously stimulating the local

economy. The mandate was developed in cooperation between Carmen's Group and the City of Hamilton, at the time that the current operating agreement was developed.

The Whistler Conference Centre has a dual mandate. First, it is instructed to drive resort-wide event business that benefits the Resort Municipality of Whistler as a whole. The second mandate is to provide meeting space to those hotels that do not have sufficient space to house 'under-one-roof' business. The Whistler Conference Centre is operated by Tourism Whistler and the building is owned by the Municipality. Tourism Whistler is a not-for-profit, member-based marketing and sales organization, representing more than 8,000 members who own, manage and operate properties and/or businesses on land in the Municipality. Tourism Whistler has acted as the third-party manager of the conference facility since 1989. Both mandates of the Whistler Conference Centre facility work to drive economic development in the municipality. Management of the facility do not compete directly with area hotels. Rather, they provide a space to accommodate groups too large for hotel convention facilities, in order to prevent those groups from travelling to an alternative destination. While senior management of the facility noted they strive to be operationally responsible in order to reduce the burden on the municipality through operating subsidies, their mandate allows for them to negotiate with promoters in order to drive delegates into the area.

The mandates of the convention centre Comparators ease the strategic burden of management. Senior management and the Board of both the Halifax Convention Centre and the Whistler Conference Centre understand that strategic decisions should favour economic development in the community at large. The mandate of the Hamilton Convention Centre leans further toward reducing the economic burden on Hamilton taxpayers, while also bringing visitors to the downtown core. While dissimilar from the mandates of the other convention centre Comparators, management derives a strategic direction from the mandate, such as focusing partially on the attraction of weddings and other local banquets to improve the utilization, and therefore the financial performance of the facility.

## C. Features and Performance of the Comparators' Facilities

The table below summarizes some attributes of Mile One and the Comparator arenas, as well as some indicators of performance in the year ended December 31, 2017, the most current fiscal year for which information was available:

Facility	Number of Event Nights	Number of Tickets Sold	Venue Capacity*	Event Capacity	% Capacity Utilized	Ticket Yield	Operating Cost per Visit	Net Cost per Visit	Marketing Spend as a % of Revenue	Subsidy
<b>Municipally Operated</b>										
Mile One Centre	63	291,633	5,800	365,400	79.8%	12.32	18.51	6.19	3.0%	2,131,212
Scotiabank Centre	111	403,547	10,595	1,176,045	34.3%	17.04	17.02	(0.02)	2.4%	(7,962)
Sleeman Centre	54	215,000	4,715	254,610	84.4%	10.14	14.00	3.86	unknown	830,106
Average	76	303,393	7,037	598,685	66.2%	13.17	16.51	3.34	2.7%	984,452
<b>Third-Party Operator</b>										
Avenir Centre	N/A		8,800	N/A - venue opened fall, 2018						
FirstOntario Centre**	77	255,011	17,000	1,309,000	19.5%	10.49	13.87	3.38	unknown	1,302,724

\*Venue seating capacity when configured for ice hockey games

\*\*Certain data for FirstOntario venues in 2017 has been pro-rated using assumptions. Available data aggregates results from the three FirstOntario venues: FirstOntario Centre, FirstOntario Concert Hall and the Studio. Certain data has been pro-rated based on the relative seating capacities, assuming 80% capacity at non-FirstOntario Centre events, and known event nights.

\*\*\*Most current year available for Scotiabank Centre year ended March 31, 2018

Sources:

Discussions with the Board and City (SJSEL) and senior management of the Comparators (all)  
Information provided by the Board and City (SJSEL) and senior management of the Comparators (all)  
Audited annual financial statements (SJSEL)  
Appendix D to Report CM18013, 2013-107 Review (FirstOntario Centre)  
Annual Report 2017-2018 (Scotiabank Centre)  
SJCC and Mile One Third Party Management Comparable Jurisdictional Review Terms of Reference

In 2017, Mile One had 63 events nights, well below the average of 76 event nights of all included facilities. Scotiabank Centre had 111 events nights, the largest number among the Comparators. When removing Scotiabank Centre from the calculation, Mile One was only slightly below the average of 65 event nights.

With 291,633 tickets sold, Mile One performed slightly below the average of the municipally-operated facilities, 303,393. Scotiabank Centre sold 403,547 tickets, the most among the Comparators. There are a number of external factors which likely had a negative impact on the number of events, and therefore the number of tickets sold at Mile One. These factors were discussed previously, including the geographic isolation of St. John's, as well as the relatively small population of the City and Province. The Sleeman Centre sold approximately 215,000 tickets, the least among the Comparators. According to senior management of the Sleeman Centre, the following factors contributed to their low sales: A lack of a professional basketball team, a directive from the City of Guelph to operate the facility strictly on a rental model (for events), and significant regional competition.

The facility with the largest seating capacity is FirstOntario Centre, which has a capacity of 17,000 when configured for ice hockey. FirstOntario Centre was built in contemplation of bringing an NHL team to Hamilton. It is the largest junior hockey arena in Canada, which results in additional capacity for many events. With 5,800 seats, Mile One has a seating capacity below the average of 9,382. If FirstOntario Centre is not considered in the average calculation, Mile One is still below the average of 7,478 seats of the remaining facilities. The Sleeman Centre is the smallest Comparator facility, with a seating capacity of just 4,715, when configured for ice hockey games.

On event nights, Mile One utilized 79.8% of its capacity in 2017, which is 13.6% greater than the average of 66.2% for all municipally-operated facilities, and 25.3% greater than the average of all Comparators. Among the municipally-operated Comparators, Scotiabank Centre had the lowest utilized event night capacity, 34.3%. Event capacity was calculated as the product of the number of event nights and the facility's seating capacity. Therefore, the percentage of capacity utilized is the average attendance of all event nights in the period.

Mile One had a ticket yield (average revenue per ticket) of \$12.32, which is slightly below the average of \$12.50 for all Comparator arenas. However, due to Mile One having the highest operating cost per visit among the Comparator arenas, \$18.51, the facility incurred a net cost of \$6.19 for each ticket sold. Scotiabank Centre generated a net income of \$0.02 for each ticket sold. It was the only Comparator arena that generated a net surplus in 2017, earning \$7,962. In spite of having lower ticket sales and a lower ticket yield (i.e. lower ticket prices) compared to SJSEL, the Sleeman Centre required a lower subsidy due to their relatively low operating costs.

Mile One received the largest subsidy among the arena facility Comparators in 2017, \$2,131,212. The Mile One subsidy is \$1,146,760 larger than the average for all Comparators. When excluding Scotiabank Centre from the calculation, the Mile One subsidy is \$1,064,797 higher than the average of the remaining Comparators.

Due to the age of the Avenir Centre (opened fall 2018) no significant amount of data is available for comparison of performance.

In the following table we have included the definitions for indicators used in the analysis in table 6.3 discussed previously:

Average Attendance	Event Capacity	% of Capacity Utilized	Ticket Yield	Operating Cost per Visit	Net Cost per Visit	Marketing Spend as a % of Revenue
Total no. of tickets sold / number of events	No. of events * venue capacity	Total no. of tickets sold / (number of events * venue capacity)	Revenue / total no. of tickets sold	Total operating costs / total no. of tickets sold	Operating cost per visit - ticket yield	Marketing expenses / annual revenue



The following table includes some attributes of SJCC and the Comparator convention centre facilities, as well as some indicators of financial performance in the year ended December 31, 2017:

Table 6.5 Convention Centre Comparable Facilities, Fiscal 2017					
	City	Owner	Operator	No. of Events	Subsidy**
<b>Municipally Operated</b>					
SJCC	St. John's, NL	City of St. John's	SJSEL	95	658,687
Halifax Convention Centre**	Halifax, NS	Argyle Developments	Events East Group	130	594,453
<b>Third-Party Operator</b>					
Hamilton Convention Centre	Hamilton, ON	City of Hamilton	Carmen's Group	137	(20,000)
Whistler Conference Centre	Whistler, BC	Resort Municipality of Whistler	Tourism Whistler	73	333,354
<b>Average</b>				<b>109</b>	<b>391,624</b>

\*Area of concourses and balconies excluded

\*\*Most current year available for Halifax Convention Centre year ended March 31, 2018. Since new facility opened December, 2017 subsidy and events relate to both the former and current facility

Sources:

Discussions with senior management of SJSEL and the Comparators (all)

Information provided by senior management of SJSEL and the Comparators (all)

Audited annual financial statements (SJSEL)

2017-2018 Annual Report Trade Centre Limited Operated By Events East Group

Appendix E to Report CM18013 Hamilton Convention Centre by Carmen's

Tourism Whistler Annual Report 2017 (Whistler)

In the year ended December 31, 2017, SJCC hosted 95 events. This was below the average of 109 events, and the second lowest of all Comparator convention centre facilities. The Halifax Convention Centre hosted the largest number of events, 130, and the Whistler Conference Centre hosted the smallest number of events, 73.

The SJCC subsidy of \$658,687 was the largest among the Comparators. The amount of Mile One's subsidy is \$64,234 greater than the subsidy received by the other municipally-operated Comparator, the Halifax Convention Centre. The Mile One subsidy is \$267,063 higher than the average for all Comparators, \$391,624.

The following table includes some additional attributes of SJCC and the Comparator convention centre facilities:

Table 6.6 Comparable Convention Centre Rentable Space and Nearby Hotels				
Facility	Meeting / Ballroom Space (sq ft)	Total Rentable Event Space (sq ft)	No. of Downtown / Nearby Hotel Rooms	Hotel Rooms / 1,000 sq. ft. Rentable Space
SJCC	33,332	46,938	1,248	27
Halifax Convention Centre	109,279	120,474	3,000	25
Hamilton Convention Centre*	53,715	53,715*	1,000	19
Whistler Conference Centre	28,636	38,091	3,500	92
<b>Average</b>	<b>56,241</b>	<b>64,805</b>	<b>2,187</b>	<b>41</b>

\*Sq. ft. of concourses and balconies not available, and have not been included

Sources:

Discussions with the Board and City (SJSEL) and senior management of the Comparators (all)

Information provided by the Board and City (SJSEL) and senior management of the Comparators (all)

Discussions with management of Destination St. John's (SJCC)

Facility websites (all)

SJCC is the second smallest convention centre facility, with a total rentable space of 46,938 sq. ft. The Halifax Convention Centre is significantly larger, at 120,474 sq. ft. of total rentable space, which is nearly double the average of 64,805 sq. ft. When excluding the Halifax Convention Centre from the calculation, the rentable space at SJCC is just above the average of 46,248 sq. ft. Similarly, SJCC has the second smallest amount of ballroom space, 33,332 sq. ft.

The number of hotel rooms in close proximity to a convention centre is a common and sometimes crucial consideration of convention and conference event planners. Meeting planners typically seek destinations where delegates can walk to event facilities. Not all of the St. John's hotels are located in the downtown core. According to DSJ, St. John's has approximately 555 hotel rooms within a short walking distance of SJCC, and a further 693 hotel rooms within 1.6 km of SJCC. In previous years, when large conventions came to St. John's, hotels outside of the downtown core benefited from additional business. However, with several new hotels recently constructed or under construction (Alt, Jag) and additional hotels planned, the number of rooms downtown has increased. While the number of nearby hotel rooms is well below the average of 2,088, we understand from our conversations with DSJ that there is sufficient capacity to support most prospective events. Due to the relatively small rentable space relative to the Comparators, SJCC has the second largest number of nearby hotels per 1,000 sq. ft. of rentable space. It is difficult to obtain statistical information for services such as Airbnb, which are active in many Canadian municipalities, including St. John's. According to senior management of DSJ, in 2018 (through November 30) an estimated 66,000 room nights in St. John's were booked through non-traditional online booking services, including Airbnb.

The following table shows some pricing for sample menu items at SJCC, relative to the Comparator convention centre facilities:

<b>Table 6.7 Convention Centre Menu Price Comparison, 2018</b>				
		<b>Coffee</b>	<b>Chicken Entrée</b>	<b>Beef Entrée</b>
SJCC*	\$	4.50	\$ 60.00	\$ 82.50
Halifax Convention Centre		4.00	38.00	39.00
Hamilton Convention Centre**		3.00	42.00	42.00
Whistler Conference Centre		5.00	59.00	95.00
<b>Average</b>	<b>\$</b>	<b>4.13</b>	<b>\$ 49.75</b>	<b>\$ 64.63</b>

\*Pricing for food at SJCC provided as a range. Here prices are presented as the mid-point for each item.

\*\*No individual menu pricing. Dinner service available as full-service buffet, or a la carte, with each option including a chicken and beef entrée choice. Price is an average of buffet service and a la carte

Sources:

Pricing information for SJSEL provided by Senior Management

Halifax Convention Centre website menu pricing, <https://www.halifaxconventioncentre.com/plan/food->

Hamilton Convention Centre website menu pricing, <https://hcc events.ca/planner-info/food-beverage->

Whistler Conference Centre website menu pricing, <https://meetings.whistler.com/wcc/catering/>

Considering an illustrative sample of the menu prices of the convention centre Comparators, food prices at SJCC appear to be above average. This likely reflects the logistical cost of delivering food stuffs to Newfoundland. The price of a chicken entrée at SJCC is \$10.25 higher than the average of \$49.75, while the price of a beef entrée is \$17.87 higher than the average of \$64.63. When excluding the Whistler Conference Centre, which has the most expensive food among the Comparator convention centre facilities, the difference increases to \$13.33 and \$28.00, for the chicken entrée and the beef entrée, respectively. An important consideration is that the menu prices shown may only reflect the starting point for food pricing during pricing negotiations. The Comparators may negotiate pricing as a strategy to secure large conventions or events, and price reductions may be in the form of reduced menu pricing. The SJCC has a sliding scale pricing model for food and beverage so that large events often have no rental charge for the facility. The high food prices at the Whistler Conference Centre are commensurate with the high cost of entertainment and accommodations in the municipality, and in nearby Vancouver, British Columbia.

## D. Economic Impact

In October 2006, four consulting firms delivered the findings of their study, as commissioned by DSJ, “to evaluate the economic impacts of Mile One and the former SJCC facility on the St. John’s Metropolitan Area and the Province of Newfoundland and Labrador,” in a report titled, “The Economic Impacts of Mile One Centre and the St. John’s Convention Centre.” The 2006 study is too outdated for KPMG to rely on specific financial findings. However, there are insights and findings in the report which can be considered more generally, and which still provide insights into the positive economic impact of the SJSEL Facilities. In the course of the study, several specific economic analyses were completed by the authors. KPMG has considered the results of the following analyses in the discussion:

- The economic impacts resulting from the ongoing operations of the facilities;
- The economic impacts associated with conference delegates attending events at either facility;
- The economic impacts that flow from expenditures undertaken by concert promoters hosting events at Mile One; and,
- The economic impact derived by local businesses from individuals who attend concerts at Mile One.

As one element of the study, surveys were distributed to businesses in the City of St. John’s and the Province of Newfoundland and Labrador. Respondents completed and returned 120 of the distributed surveys. The results of the survey indicated a material impact of the SJSEL Facilities for most respondents. While some respondents reported negative impacts, for example, reduced customers on event nights due to, “perceived difficulty with parking”, the reported positive benefits significantly outweighed the reported negative impacts. Some highlights on economic findings have been included below. All figures are reported in 2006 dollars, as presented in the original 2006 report:

- The average positive impact on revenue for businesses analyzed in the survey was approximately \$80,000 per annum;
- When removing the businesses directly supplying the SJSEL Facilities, the average positive impact on revenue for businesses analyzed was approximately \$14,000 per annum;
- From 2000 to 2005, there was approximately \$52,000,000 spent on operations at the facilities;
- From 2001 to 2005, more than 10,000 delegates attended events at the former SJCC facility and Mile One, and spent an estimated \$37,900,000 in St. John’s and Newfoundland and Labrador;
- From 2000 to 2005, private promoters purchased \$4,300,000 worth of goods from local suppliers;
- Concert goers and spectators spent approximately \$16,000,000 in St. Johns in the same period; and,
- Over the same period, the facilities generated slightly more than 3,300 person-years of employment and approximately \$130,000,000 in GDP/income.

KPMG did not review or validate the methodology, or independently confirm any of the findings of the 2006 study. However, assuming that the study authors utilized sufficient and reasonable information and employed appropriate analyses, it is clear from the findings that the study found a significant positive impact on the City’s and the Province’s economy as a direct result of the SJSEL Facilities.

Events East Group, the third-party municipal and provincial operator of the Halifax Convention Centre and Scotiabank Centre, include reporting on the economic impacts of those facilities in their respective annual reports.

In the table below, KPMG has included the five-year economic impacts of Scotiabank Centre, as included in Scotiabank Centre annual report for the fiscal year ended March 31, 2017:

<b>Table 6.8 Scotiabank Centre Economic Impact Five-Year Highlights</b>						
<b>Years ended March 31</b>						
<b>\$ (millions)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Average</b>
Direct visitor expenditures	42.9	37.9	39.0	35.0	28.6	<b>36.7</b>
Incremental visitor expenditures	14.5	12.6	14.0	12.7	10.1	<b>12.8</b>
Employment (person years)	1,011.0	903.0	957.0	857.0	701.0	<b>885.8</b>
Additions to household incomes	27.7	23.7	31.3	28.1	22.9	<b>26.7</b>
Provincial Government revenues	2.9	2.5	3.2	2.9	2.4	<b>2.8</b>

Source: Scotiabank Centre Annual Report (fiscal 2017)

In the five-year period, the incremental visitor expenditures ranged from \$10.1 million (fiscal 2017) to \$14.5 million (fiscal 2013). Per the report, “of the total impacts listed, 27% of attendee impacts are considered incremental”. The report defines incremental impacts as, “those expenditures that would not have taken place in the absence of our facilities and activities.”

Similarly, Events East Group included a table of the five-year economic impact of the Halifax Convention Centre and Scotiabank Centre combined in the annual report for the Halifax Convention Centre:

<b>Table 6.9 World Trade and Convention Centre and Scotiabank Centre Five-Year Highlights</b>						
<b>Years ended March 31</b>						
<b>\$ (millions)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Average</b>
Direct visitor expenditures	100.9	98.4	99.1	83.4	70.6	<b>90.5</b>
Incremental visitor expenditures	68.0	64.6	66.8	61.1	52.1	<b>62.5</b>
Employment (person years)	2,078.0	1,816.0	2,017.0	1,748.0	1,547.0	<b>1,841.2</b>
Additions to household incomes	68.8	55.8	71.8	61.3	54.2	<b>62.4</b>
Provincial Government revenues	7.3	5.9	7.5	6.4	5.7	<b>6.6</b>

Source: Trade Centre Limited 2016-2017 Annual Report

In the five-year period ended March 31, 2017, the incremental visitor expenditures of the two Halifax facilities combined was estimated to be between \$52.1 million (fiscal 2017) and \$68 million (fiscal 2013) annually. In that same period, the full-time person-years of employment resulting from the two facilities ranged from 1,547 (fiscal 2017) to 2,078 (fiscal 2013).

KPMG did not review the methodology of Events East Group. However, again assuming use of appropriate data and research methodologies, it is clear from their findings that municipal arena facilities and convention centre facilities can profoundly and positively impact the economy of the surrounding areas.

According to its 2017 Annual Report, DSJ, a Destination Marketing Organization (“DMO”), “is a private, non-profit corporation operating under the direction of a board of directors on behalf of its partners. It is first and foremost a sales organization, selling tourism partners’ products, services and experiences to the world. It currently targets major meetings, conventions and incentive travel (MC&IT); sport and cultural events, leisure travel and group tours.” Per the notes to DSJ’s audited annual financial statements, DSJ has a mandate to market St. John’s Census Metropolitan Area as a four-season tourism destination for meetings, conventions, travel and tourism, major events and exhibitions involving sport, and cultural or industrial objectives. They achieve this by, “coordinating, focusing and integrating public and private efforts in destination marketing; building community pride by promoting the tourism industry as a visible economic generator, and coordinating public and private marketing budgets.”

For the past eight years, DSJ has conducted surveys of delegates visiting St. John's and the surrounding area, including delegates visiting SJCC. The tables below highlight some of the key impacts SJCC has on the economy of St. John's and the Province of Newfoundland and Labrador:

<b>Table 6.10 Results of DSJ Survey of Conference Delegates</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2017</b>	<b>Average</b>
Had someone accompany them to the conference	28%	20%	31%	<b>26%</b>
Average party size (includes delegate)	3	2	2	<b>2.3</b>
Average nights of stay	5.5	5.9	4.6	<b>5.3</b>
Extended stay beyond dates of conference	46%	36%	47%	<b>43%</b>
Average spending per delegate (excludes airfare)	1,923	1,912	1,814	<b>1,883</b>
Average daily spend	324	238	358	<b>307</b>

Source: 2017 Annual Report, Destination St. John's

In the years ended December 31, 2014, 2015 and 2017, 26% of delegates visiting the City were accompanied by guests. The average party stayed in the province for 5.3 nights. An average delegate's visit resulted in a spend of \$1,883, excluding airfare. Assuming that a significant percentage of delegates travelled to the City from outside of St. John's, and likely outside the Province of Newfoundland and Labrador, these figures include outside money which was injected directly into the St. John's economy. Those funds would not be available to stimulate local business in the absence of SJCC and other local convention and event facilities.

The table below summarizes how delegates spent their money in the local economy:

<b>Table 6.11 DSJ Survey of Conference Delegates Spend by Category</b>				
<b>Years ended December 31</b>	<b>2014</b>	<b>2015</b>	<b>2017</b>	<b>Average</b>
Accommodations	\$ 1,107.00	\$ 1,143.00	\$ 1,080.00	<b>\$ 1,110.00</b>
Pubs/bars/restaurants	449	391	426	<b>422</b>
Taxis	71	78	68	<b>72</b>
Car rental (including gas)	433	367	284	<b>361</b>
Shopping	240	241	220	<b>234</b>
Entertainment	170	242	166	<b>193</b>
Miscellaneous	259	259	374	<b>297</b>

Source: 2017 Annual Report, Destination St. John's

Based on the information from respondents, a significant amount of money was spent at local businesses, including: hotels, bars and restaurants, local stores and local attractions. Transportation businesses in the City (car rentals, taxi) also benefited. The average visiting delegate resulted in a spend of \$422 on pubs, bars and restaurants, \$234 on shopping, and \$433 on transportation.

Consistent with the information from the 2006 economic impact study and the information from Events East Group in Halifax, the data above highlights the importance of the SJSEL Facilities to the City. When these figures are contrasted with the deficit from operations of SJCC in (2017: \$276,114, before amortization of tangible capital assets), and the resulting required subsidy from the City, the financial impact on the area clearly and significantly outweighs the tax burden.

# 7 Operating Options

## A. Clarifying the SJSEL Mandate

Prior to contemplating options for SJSEL, including a modified status quo, the City of St. John's must provide clarity with respect to the mandate of SJSEL either as a whole or for the individual component parts (i.e. SJCC and Mile One).

Broadly, the two alternate directions for SJSEL have been identified as:

- An economic engine for the City and the surrounding area, where the focus is not on SJSEL's bottom line but on the economic spin offs created (by attendees at SJSEL events) as well as a community builder in terms of sport, arts and cultural programming; or,
- A business designed to operate the SJSEL Facilities on a for-profit (or at least break-even) basis. This position recognizes the economic development potential from SJSEL venues and programming, but also recognizes that the current level of City subsidization may outstrip the existing economic benefits.

The mandate(s) should also detail the City's specific objectives as to the expectations from these valuable City-owned assets. Only then can the performance of facility managers (whether SJSEL or a third-party operator) be appropriately measured. Performance measures could be established by facility or for SJSEL as a whole.

## B. Options to Deliver the Mandate

Following the clarification of SJSEL's mandate(s) by the City, five broad operating options can be evaluated by the City and the SJSEL Board of Directors, for the future operation of the SJSEL Facilities. These five options are as follows:

1. ***Modified Existing Municipally-Controlled Operating Model*** – Under this option, SJSEL would continue to operate the SJSEL Facilities, with its own Board of Directors. The management and employees of SJSEL would continue to perform the management of day-to-day operations of the facilities. A number of changes should be implemented in order to make the operations of SJSEL more effective and efficient. Depending on the mandate selected for SJSEL, the changes could include some or all of the following:
  - Modifications to Board governance and policies;
  - Determination of an acceptable level of subsidization and a plan to reduce the existing level of subsidization;
  - Improvements in financial reporting and communication to the Board of Directors and the City; and,
  - Ongoing operational changes to improve SJSEL's profitability.

Hybrids of the existing and proposed operating models may be possible if, for example, one but not both of SJSEL's operations or facilities could be privatized. For example, SJSEL could continue to own and manage SJCC, with the management and/or ownership of Mile One being privatized.

2. **Third-Party Management of One or Both SJSEL Facilities** – Under this option, the City would continue to own SJSEL and its two facilities, but would enter into agreements with one or more third parties who would manage the operations of one or both of the SJSEL Facilities for a set period of time. This model of third-party management of publicly-owned facilities has been, and continues to be, employed by other Canadian municipalities. Although the City would lose day-to-day control over the operations of one or both SJSEL Facilities, the intention is that the third party's industry specialization and financial and human resources may result in enhanced utilization and economic performance for the SJSEL Facilities. This model does not necessitate that the City relinquish complete control of the operations or strategic direction of the facilities. Rather, a number of controls, including use of performance measures, could be put in place to ensure the third-party manager operates in consideration of the City's mandate and objectives. The agreement could be structured to dictate or curtail certain activities, or place other restrictions on operations.
3. **Third-Party Management Hybrid** - As a hybrid of the Third-Party Management option, the City could enter into agreements with one or more third parties who would manage the marketing and operations of one of both of the SJSEL Facilities for a set period of time, while the City would continue to manage the physical facilities. The intention is that the City could enter into an operating agreement with a third party that has industry specialization and financial and human resources which may result in enhanced marketing, utilization and economic performance of the SJSEL operations, but that does not have experience in management of the physical facility.
4. **Long-Term Lease of One or Both SJSEL Facilities** – Under this option, the City would enter into an agreement with one or more third parties that would lease SJSEL's land and/or buildings pursuant to a long-term lease or partnership agreement. The City would have minimal ongoing involvement in the day-to-day operations of the SJSEL Facilities. Rather, the private sector lessee(s) would be free to operate the facilities in a manner as they see fit. The lease could stipulate certain restrictions or obligations as deemed necessary at the time of the lease. However, under this option the City would retain less control of the strategic direction of the facilities. The City retains title to the underlying land and buildings, but physical possession would not be possible until some date in the future, as determined by the lease.
5. **Divestiture of One or Both SJSEL Facilities** – Under this option, the City would enter into agreements with one or more third parties who would purchase SJSEL's facilities outright, thereby eliminating the need for any ongoing operating or capital subsidization by the City (beyond any restrictions or obligations determined necessary at the time of sale). The City would have minimal ongoing involvement with the SJSEL Facilities, with the private sector purchaser free to operate the facilities as they see fit. The City could consider a sale with no restrictions on use, allowing the purchaser to potentially transform one or both of the SJSEL Facilities to a different purpose. Alternatively, as a term of sale, the City could prescribe maintenance of the facilities in a manner similar to the current operations (e.g. the City could mandate that SJCC continue to be used as public-assembly venue), but this could diminish or eliminate the interest of prospective purchasers. In exchange for the agreed selling price, the City would relinquish a key downtown asset, and would rely on the purchaser to generate the economic and/or City-building benefits from the existing operations.

The following section presents an analysis of the five operating alternatives as described above, in the context of SJSEL and its two separate venues.



## C. Matrix of Public and Private Sector Options

Status Quo – Modified Municipally-Controlled Operating Model		
	St. John's Convention Centre	Mile One Centre
<b>Existing Realities</b>	<ul style="list-style-type: none"> <li>Requires maintenance of financial (operating and capital) support from the City.</li> </ul>	
<b>Desired Outcome</b>	<ul style="list-style-type: none"> <li>Clearly articulated mandate for SJSEL (and sub elements for each facility);</li> <li>Clearly articulated Shareholder Direction; and,</li> <li>Reduction of level of annual financial support required.</li> </ul>	
<b>How it Would Work</b>	<ul style="list-style-type: none"> <li>Board and management agree on a five-year strategic plan tied to the mandate; and</li> <li>Clear financial controls, budgeting processes and key performance indicators tied to the Shareholder Direction</li> </ul>	
<b>Potentially Interested Parties</b>	N/A	N/A
<b>Benefits</b>	<ul style="list-style-type: none"> <li>City retains ownership of SJSEL Facilities; and,</li> <li>City mandates SJSEL through Shareholder Direction to achieve specific objectives.</li> </ul>	
<b>Constraints/Challenges</b>	<ul style="list-style-type: none"> <li>Financial challenges remain on operating basis;</li> <li>Capital costs (upkeep, refurbish, renovate, rebuild); and,</li> <li>Operations remain in public eye and under scrutiny.</li> </ul>	
<b>Governance Considerations</b>	<p>Existing governance could be modified, with options including:</p> <ul style="list-style-type: none"> <li>Department of the City (wholly subsumed within the City) with management reporting through City administration to Council; or,</li> <li>Corporation (current model) with Board of Directors comprised of a combination of Councilors and private individuals.</li> </ul>	
<b>Other</b>	<p>If this option is selected, consideration should be given to:</p> <ul style="list-style-type: none"> <li>Development of a Board-approved business plan, including identification of KPIs consistent with mandate;</li> <li>Higher-detail financial reporting with stand-alone internal financial statement for each SJSEL Facility, and key operating elements (e.g. The Edge and Growlers);</li> <li>Retrospective financial analysis with linkage to KPIs;</li> <li>Analysis of existing operation and continuous identification of efficiencies; and,</li> <li>Refinement of Board selection process (e.g. requisite skill set/mix, creation of Nominating Committee).</li> </ul>	

This option is the most typical model employed by Canadian municipalities for governance and operation of convention centre and arena facilities. This model reflects the significant public-sector investment made in facilities.

There are variances at the venue level, including:

- Almost all Canadian convention centres are operated through provincial or municipal entities; typically a single-purpose corporation with a single shareholder. Exceptions among the comparators are the Hamilton Convention Centre (third-party management) and the Halifax Convention Centre (dual shareholders of Events East Group). Many convention centres outsource elements of operations, including food and beverage, audio/visual and telecom services.
- All Canadian arenas hosting NHL teams are owned and operated by the same entity that controls the team. OHL/AHL arenas, as well as similar venues are typically municipally owned. Some of these arenas have been developed by public-private partnerships, including London Ontario's Budweiser Gardens. The Sleeman Centre was originally developed through a public-private partnership between the City of Guelph and Nustadia Recreation, although the venue was fully assumed by the City of Guelph following a series of defaulted debt payments by Nustadia Recreation.

Similar municipally-operated facilities in other Canadian municipalities are facing similar issues as those being experienced by SJSEL, including difficulty in attracting events through a rental-only model and confusion on strategic direction resulting from a lack of a clear mandate.

Third-Party Management		
	St. John's Convention Centre	Mile One Centre
<b>Existing Realities</b>	<ul style="list-style-type: none"> <li>• Likely to require continued financial support (operating and capital) from the City.</li> </ul>	
<b>Desired Outcome</b>	<ul style="list-style-type: none"> <li>• Operation of one or both facilities would be contracted to one or more qualified third parties.</li> <li>• The City has greater certainty over the annual financial commitment.</li> </ul>	
<b>How it Would Work</b>	<ul style="list-style-type: none"> <li>• The City would specify length of term, any constraints on the building(s) usage, annual financial commitment by the City, performance metrics and/or any other constraints.</li> <li>• Potential contractual arrangements could include rental stream, percentage of revenue or a fee-for-service arrangement.</li> <li>• The City would manage a request for proposal process (or separate processes for each building) to seek interested parties, determine appropriate third party and enter into contract(s).</li> </ul>	
<b>Potentially Interested Parties</b>	<ul style="list-style-type: none"> <li>• Adjacent/local hotel operators</li> <li>• Facility management companies (e.g. SMG, Spectra)</li> <li>• Private banquet and event space operators</li> <li>• The Proponents</li> </ul>	<ul style="list-style-type: none"> <li>• Facility management companies (e.g. SMG, Spectra)</li> <li>• The Proponents</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Limits the City's financial risk to the annual commitment specified in the contract.</li> <li>• Allows the City to place constraints on the use of the facilities, as well as the performance of the third-party operator.</li> <li>• Ownership of the two facilities is retained by the City.</li> <li>• Qualified facility management companies (and selected other parties) will bring deeper financial, human resources, marketing</li> </ul>	

	and industry specialization (e.g. sales and linkages to convention centre users, ability to attract events) and operational skill sets.
<b>Constraints/Challenges</b>	<ul style="list-style-type: none"> <li>• Certain operating costs are systemic and may not be reduced.</li> <li>• Local market is geographically isolated from broader North American market.</li> <li>• Rightsizing labour needs and addressing labour costs (union restrictions) will require severance payments and disruption may occur.</li> <li>• Third-party managers will likely require capital commitments from the City at specified intervals.</li> <li>• Third-party management fees will be generated from reduced operating costs and/or price increases.</li> <li>• The City will ultimately still be the subject of negative fallout from operating issues (e.g. inappropriate acts at venues, cost cutting/labour reductions).</li> <li>• Memorandum of Understanding Between City and the Proponents stipulates right of first refusal rests with the Proponents.</li> </ul>
<b>Governance Considerations</b>	<ul style="list-style-type: none"> <li>• Potential governance options include: <ul style="list-style-type: none"> <li>◦ Direct report to City staff – third-party operator(s) report to City staff (perhaps to a single direct report) and a team on a quarterly basis.</li> <li>◦ Report to external Board (SJSEL) established to bring the City as well as community input.</li> </ul> </li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• Still critical to clarify mandate and associated KPIs, as well as governance model, to ensure the third-party manager achieves the desired objectives.</li> <li>• The Comparator's experience with third-party operators supports the selection of industry leaders over local/regional operators.</li> <li>• Set up and management of request for proposal process(es) is complex and costly, and success will depend on the reasonableness of the City's expectations (e.g. rent/fees, annual financial commitment, constraints).</li> </ul>

The third-party management model has been adopted/utilized by many, but by no means most, Canadian municipalities. As with the municipally-controlled model, great rigor is required in defining a clear mandate and business plan for the facilities. A clear mandate, well-defined business objectives and restrictions on use of the facilities are necessary tools to reduce confusion between the City and a contracted party. An important consideration is the incremental increase in revenue and/or incremental reduction in operating expenses that is forecasted by a prospective third party. While many third-party managers can bring a broad base of experience and deep industry specialization, the incremental bottom-line impact must be at least equal to the resulting management fee that would result. Ideally the anticipated incremental bottom-line impact should be sufficiently greater than the resulting management fee to justify the additional efforts and risk borne by the City under this model.

The two third-party management companies most active in the Canadian marketplace are:

- Spectra (formerly Global Spectrum) is a Philadelphia-based division of Comcast Spectacor. Spectra currently manages over 750 clients globally. Venue management markets served include: amphitheater, arena, convention & exhibition center, cultural facilities, entertainment & retail district, ice facility, performing arts center & theater, specialized venue, stadium. Current Canadian arena and convention centre clients include: Abbotsford Centre (arena, Abbotsford BC),

Budweiser Gardens (arena, London ON), EnCana Events Centre (arena, Dawson Creek BC), Enercare Centre (convention centre, Toronto ON), FirstOntario Centre (arena, Hamilton ON), FirstOntario Concert Hall (performing arts centre & theatre, Hamilton ON), Hangar Sport and Events Centre at Downsview Park (event & fairground, North York ON), Mattamy Athletic Centre (arena, Toronto ON), OHS Training Centre (ice facility and specialized venue, Penticton BC), Penticton Memorial Arena (arena, Penticton BC), Penticton Trade & Convention Centre (convention centre, Penticton BC), South Okanagan Events Centre (arena, Penticton BC), Vancouver Island Conference Centre (convention centre, Nanaimo BC), WFCU Centre (arena, Windsor ON) and Youngs Sportplex (specialized venue, Welland ON).

- SMG World (West Conshohocken (suburban Philadelphia, Pennsylvania) serves venue management markets including: stadium, arena, convention centre, theater, recreational & equestrian and amphitheatre. Current Canadian arena and convention centre clients include: Avenir Centre (arena, Moncton NB), Beanfield Centre (arena and convention centre, Toronto ON), Canalta Centre (arena, Medicine Hat AB), Leon's Centre (arena, Kingston ON), Meridian Centre (arena, St. Catharines ON).

These third-party managers are not the only options, but they represent two of the largest operators in North America, and will potentially approach the opportunity to manage one or both of the SJSEL Facilities with interest. Other interested parties may include local hoteliers and banquet hall operators (for SJCC) and the Proponents (for Mile One or Mile One and SJCC). The City and SJSEL should require that any interested third-party managers demonstrate their capacity and capability to assume the operation of SJSEL facilities. The experience of municipalities who have retained third party managers with limited expertise has not been positive (e.g. Guelph Sleeman Centre).

It is likely that a prospective third-party manager will require some degree of capital upgrades at commencement of the contract, particularly for the aging Mile One Centre. Some key considerations for the City when determining whether or not to pursue this option will be expectations for performance measurement, the appetite for capital upgrades and the potential upside of earning management fees as a function of increased revenue and/or decreased operating costs achieved by a third-party operator.

Third-Party Management Hybrid		
	St. John's Convention Centre	Mile One Centre
<b>Existing Realities</b>	<ul style="list-style-type: none"> <li>Requires continued financial (capital) support from the City.</li> </ul>	
<b>Desired Outcome</b>	<ul style="list-style-type: none"> <li>The sales and marketing functions of one or both facilities would be contracted to one or more qualified third parties.</li> <li>The City has greater certainty over the annual financial (operating) commitment.</li> </ul>	
<b>How it Would Work</b>	<ul style="list-style-type: none"> <li>The City would continue to manage the physical facilities.</li> <li>The City would specify length of term, any constraints on the building(s) usage, annual financial commitment by the City, performance metrics and/or any other constraints.</li> <li>Potential contractual arrangements could include rental stream, percentage of revenue or a fee-for-service arrangement.</li> <li>The City would manage a request for proposal process (or separate processes for each building) to seek interested parties, determine appropriate third party and enter into contract(s).</li> </ul>	
<b>Potentially Interested Parties</b>	<ul style="list-style-type: none"> <li>Private event management/marketing companies</li> </ul>	<ul style="list-style-type: none"> <li>Private event management/marketing companies</li> </ul>

	<ul style="list-style-type: none"> <li>• Adjacent/local hotel operators</li> <li>• Private banquet and event space operators</li> <li>• The Proponents</li> </ul>	<ul style="list-style-type: none"> <li>• The Proponents</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Limits the City's financial risk to the annual commitment specified in the contract, along with capital cost of the facilities.</li> <li>• Allows the City to place constraints on the use of the facilities, as well as the performance of the third-party operator.</li> <li>• Ownership of the two facilities is retained by the City.</li> <li>• Interested parties may bring deeper financial, human resources, marketing and industry specialization (e.g. sales and linkages to convention centre users, ability to attract events) and operational skill sets.</li> </ul>	
<b>Constraints/Challenges</b>	<ul style="list-style-type: none"> <li>• The City would retain the cost of maintaining and operating the physical facilities, with a potential reduction in offsetting revenue.</li> <li>• Local market is geographically isolated from broader North American market.</li> <li>• Rightsizing labour needs and addressing labour costs (union restrictions) will require severance payments and disruption may occur.</li> <li>• Third-party management fees will be generated from reduced operating costs and/or price increases.</li> <li>• The City will ultimately still be the subject of negative fallout from operating issues (e.g. inappropriate acts at venues, cost cutting/labour reductions).</li> <li>• The Proponents MOU stipulates right of first refusal rests with the Proponents.</li> </ul>	
<b>Governance Considerations</b>	<ul style="list-style-type: none"> <li>• Potential governance options include: <ul style="list-style-type: none"> <li>○ Direct report to City staff – third-party operator(s) report to City staff (perhaps to a single direct report) and a team on a quarterly basis.</li> <li>○ Report to external Board (SJSEL) established to bring the City as well as community input.</li> </ul> </li> </ul>	
<b>Other</b>	<ul style="list-style-type: none"> <li>• Still critical to clarify mandate and associated KPIs, as well as governance model, to ensure the third-party achieves the desired objectives.</li> <li>• The Comparators' experience with third-party operators supports the selection of industry leaders over local/regional operators.</li> <li>• Set up and management of request for proposal process(es) is complex and costly, and success will depend on the reasonableness of the City's expectations (e.g. rent/fees, annual financial commitment, constraints).</li> </ul>	

Long-Term Lease		
	St. John's Convention Centre	Mile One Centre
<b>Existing Realities</b>	<ul style="list-style-type: none"> <li>The facilities were built for specific purposes, and are not broadly adaptable for alternative uses.</li> <li>Aging Mile One likely requires capital upgrades.</li> </ul>	
<b>Desired Outcome</b>	<ul style="list-style-type: none"> <li>Long-term lease (potentially with restrictions on use) of one or both facilities' land and buildings with the intention to remove any operating and/or mid-term capital commitments from the City.</li> </ul>	
<b>How it Would Work</b>	<ul style="list-style-type: none"> <li>The City engages external advice on value/lease terms.</li> <li>The City to determine any constraints.</li> <li>The City would manage a request for proposal process (or separate processes for each facility) to seek interested parties and enter into lease agreement(s).</li> </ul>	
<b>Potentially Interested Parties</b>	<ul style="list-style-type: none"> <li>Real estate investors</li> <li>The Proponents</li> <li>Hospitality operators (e.g. hotels, banquet operators)</li> <li>Institutions (e.g. Memorial University)</li> </ul>	<ul style="list-style-type: none"> <li>Real estate investors</li> <li>The Proponents</li> <li>Developers (change use)</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Transitional reduction of financial support (capital and operating) and operating risk.</li> <li>Potential annual lease income stream to City.</li> <li>City retains ownership of the land and/or buildings.</li> </ul>	
<b>Constraints/Challenges</b>	<ul style="list-style-type: none"> <li>Reduced control over use and timing of capital expenditures/upgrades.</li> <li>Loss of civic pride.</li> <li>Unlikely to get significant rental income during initial years.</li> <li>Successor rights requiring one-time severance costs (potential ongoing labour restrictions).</li> <li>Potential demands for concessions and financial support (e.g. deferral of property taxes).</li> <li>Memorandum of Understanding Between City and the Proponents stipulates right of first refusal rests with the Proponents.</li> </ul>	
<b>Governance Considerations</b>	<ul style="list-style-type: none"> <li>Report to City staff – third-party tenants to report to City staff (perhaps a single direct report) on an annual basis.</li> </ul>	
<b>Other</b>	<ul style="list-style-type: none"> <li>Set up and management of request for proposal process(es) is complex and costly, and success will depend on the reasonableness of the City's expectations (e.g. rent/fees, constraints).</li> </ul>	

Divestiture		
	St. John's Convention Centre	Mile One Centre
<b>Existing Realities</b>	<ul style="list-style-type: none"> <li>The facilities were built for specific purposes, and are not broadly adaptable for alternative uses.</li> <li>The City has an informal offer to purchase from the Proponents.</li> <li>Aging Mile One likely requires capital upgrades.</li> </ul>	
<b>Desired Outcome</b>	<ul style="list-style-type: none"> <li>Outright sale (potentially with restrictions on use) of one or both facilities, with intention to remove any operating and/or capital commitments of the City.</li> </ul>	
<b>How it Would Work</b>	<ul style="list-style-type: none"> <li>The City engages external advise on valuation (for sale purposes).</li> <li>The City determines any constraints.</li> <li>The City would manage a request for proposal process (or separate processes for each facility) to seek interested parties and enter into sale agreement(s).</li> </ul>	
<b>Potentially Interested Parties</b>	<ul style="list-style-type: none"> <li>Facility management companies (e.g. SMG, Spectra)</li> <li>The Proponents</li> </ul>	<ul style="list-style-type: none"> <li>Facility management companies (e.g. SMG, Spectra)</li> <li>The Proponents</li> <li>Developers (change use)</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Elimination of financial support (capital and operating) and operating risk.</li> <li>One-time (sale) proceeds to the City, in addition to potential future property taxes.</li> <li>Potential capital reinvestment to improve (or change) the facilities.</li> </ul>	
<b>Constraints/Challenges</b>	<ul style="list-style-type: none"> <li>No control over use and limited control over timing of use (redevelopment may not occur on the desired timetable).</li> <li>Loss of civic pride.</li> <li>Unlikely to get significant proceeds from sale relative to book value of assets (i.e. accounting loss on sale).</li> <li>Sale proceeds may be less than existing debt/debentures.</li> <li>Successor rights requiring one-time severance costs (potential ongoing labour restrictions).</li> <li>Environmental issues (costs to City on divestiture to transfer "clean" site).</li> <li>Potential demands for concessions and financial support (deferring property taxes).</li> </ul>	
<b>Governance Considerations</b>	<ul style="list-style-type: none"> <li>Not applicable following divestiture.</li> </ul>	
<b>Other</b>	<ul style="list-style-type: none"> <li>Set up and management of request for proposal process(es) is complex and costly, and success will depend on the reasonableness of the City's expectations (e.g. market value, fees, constraints) and provincial legislation.</li> </ul>	



	<ul style="list-style-type: none"> <li>• The City needs to determine any land severance issues relating to divestiture.</li> </ul>
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Limited comparables exist for this option. To date, we are not aware of any municipally-owned medium or large-capacity arena or primary convention centre facility having been sold (or leased long term) in Canada. The former World Trade and Convention Centre (Halifax, NS) was sold to developer Armco Capital in 2016, following the construction of the new Halifax Convention Centre. The World Trade and Convention Centre was previously the primary convention facility for the City of Halifax. However, at the time of sale, construction of the new facility was near completion. In December, 2018 Armco Capital secured approximately \$10 million of federal and provincial funding to re-purpose the facility into the Link Performing Arts Centre. The proposal includes an 1,800 person performance hall, a media production studio, space for a dance studio, a cinema, a business incubator, a storefront box office (for the attached Scotiabank Arena) and a café. While several spectator and ice-pad-only arenas have traded hands, these facilities are not comparable to Mile One or the Comparator arenas, and therefore have not been considered further.

## D. Final Observations

Once the City has clarified the mandate for SJSEL, there are several different options that can be pursued by the City.

Under the modified status quo option, SJSEL would continue to operate as a wholly-owned subsidiary of the City, with its own management team and Board of Directors. Under this option, the City would need to continue to subsidize the operations of SJSEL. The City would also need to continue to provide capital funding.

Under the third-party management option, the management of one or both of the SJSEL Facilities would be contracted out to third parties, for a fixed period of time. The City could place restrictions on performance measurement and use of the facilities. Although the City would lose direct control of SJSEL's operations, the deeper financial and human resources and industry specialization of the third-party operator could result in enhanced utilization and financial performance of the SJSEL Facilities. Ongoing financial support (capital and operating) will likely be required, at least on a transitional basis.

Under the long-term lease option, the City would relinquish most of its involvement with the SJSEL Facilities to allow the private sector to operate the facilities how they see fit, subject to City-imposed restrictions on use included in the lease. The City may need to contribute to capital improvements at the outset of the lease. Ongoing operating financial support may also be required, at least for the first years of the lease, with a medium-term goal to reduce or eliminate the City's financial commitments to the facilities entirely and receive a long-term lease or profit-sharing stream. The City would retain long-term ownership of the facilities and land. However, in order to entice a prospective lessee, the period of the lease would need to be sufficiently long enough for the lessee to feasibly invest financial and management resources into the facilities, to create a viable business.

Under the divestiture option, the City would have minimal ongoing involvement with the SJSEL Facilities, and would allow the private sector to operate the facilities in a manner they see fit, subject to restrictions imposed by the City as terms of sale. Under this option, the City would eliminate its ongoing financial commitments to SJSEL and receive one-time sales proceeds. The City would lose ownership and control of one or both downtown assets. Depending on the subsequent use of the facilities, there may be a negative economic impact.

The four privatization options described above, if pursued by the City, would best be achieved through a formal Request for Expressions of Interest ("RFEI") process that would solicit interest from the private sector participants who operate both locally and globally. A professional and well-planned RFEI process would facilitate multiple proposals and visions from the private sector for the SJSEL Facilities.

There are several potential private-sector parties who may be interested in the SJSEL Facilities, including Spectra and SMG. As well, there may also be smaller, Canadian, private-sector parties who are interested (e.g. the Proponents). We understand

that in accordance with Section 4.1 of the Proponents MOU, the Proponents have a first right of refusal over any contracts that SJSEL may enter into. Section 4.1 of the Proponents MOU is written, "The Parties agree that SJSEL shall continue to manage and operate Mile One and SJCC for the first year of operation of the ECHL Team, deemed for the purpose of this MOU to expire on June 30, 2019. The Parties further agree that, from the date of execution of this MOU and for the period that SJSEL continue to manage and operate Mile One and SJCC, SJSEL shall not enter into any contracts without the prior written consent of NewCo and Deacon...". We are unsure how the Proponents MOU may impact the City's ability to seek third-party operators.

# 8 Overall Conclusions

The primary objective of the SJSEL Review was to conduct a review of operating and ownership models for the SJSEL Facilities. Through this review, KPMG determined possible ownership and operating models available to the City for the SJSEL Facilities, and the potential scope and structure of these models. Our report also provided a jurisdictional review of comparable arena and convention centre facilities owned by other Canadian municipalities. The SJSEL Review provides a contextual overview to assist Council and the Board of SJSEL in assessing whether the City should proceed with exploration of alternative ownership and operating models for SJSEL.

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

- **Lack of Mandate:** There is a lack of a clear written mandate to guide the decisions and strategic direction of SJSEL. SJSEL was incorporated on November 7, 1997, “for the purposes of planning, designing, financing, constructing and operating a civic centre to serve the Northeast Avalon area of the Province of Newfoundland and Labrador and to do all other things relating or incidental hereto”. Since incorporation, the functions and operations of the organization have been modified by various decisions of SJSEL’s Board of Directors, and the interests of City Councilors. However, lacking a concise relevant mandate throughout its operating history, SJSEL has been without a compass to navigate strategic operating decisions. A key finding from the jurisdictional review (i.e. Halifax Convention Centre and Scotiabank Centre) is the importance of a clear and defined mandate for the operational success of the facilities.
- **High Fixed-Cost Structure:** An estimated \$5.9 million (64%) of SJSEL’s annual operating expenses, excluding amortization, are fixed in nature (i.e. indirect expenses). Accordingly, the profitability of SJSEL is contingent on the level of utilization of the SJSEL Facilities (and the related ancillary revenue streams). Due to the high fixed-cost nature of SJSEL’s operations, every dollar of rental and ancillary revenues has a significant impact on the bottom-line profitability of SJSEL.
- **Geographic Location:** The geographic isolation of St. John’s relative to other Canadian event destinations presents a unique marketing challenge to SJSEL. Not only does the location present a potential obstacle to convention delegates and event goers, it also presents a logistical obstacle for travelling acts and exhibitors who often transport required equipment by ground. Touring acts are often booked on nights in close succession, and therefore the time to travel to St. John’s may be prohibitive. This is exacerbated if the tour does not already include Halifax, NS, as greater travel times may be required from the previous destination.
- **Level of City Subsidization:** The City provides various operating and capital subsidies to SJSEL on an annual basis. For the four-year period ended December 31, 2017, the average operating grant from the City of St. John’s was approximately \$1.6 million. In 2014, before amortization of tangible capital assets and capital reserve funding from the City, SJSEL achieved a small budget surplus of \$128k. In 2015 there was a significant budget deficit of (\$767k). The budget deficit can be attributed in large part to the closure of SJCC during renovations. In 2016 and 2017, with the newly expanded SJCC open for business, the operating deficit was significantly smaller, at (\$188k) and (\$91k), respectively. While the amount of subsidy required by SJSEL is the highest among the Comparators, it is unlikely that any form of operational change, other than an outright sale of the SJSEL Facilities, would completely eliminate some level of City subsidization.
- **Lack of Board-Approved Business Plan:** Any challenges faced by SJSEL management in making strategic decisions are exacerbated by the organization’s lack of a short-term and long-term business plan. Similar to a mandate, a laser-focused business plan would provide a guide against which all strategic and significant operational decisions of the

organization could be weighed. Our research with the comparator organizations emphasized the importance of a Board approved business plan for the overall success of the organization.

- **Economic Impact:** An analysis conducted by DSJ on the economic impact of the SJSEL Facilities indicates that there is a positive impact on the City's and Province's economy as a direct result of SJSEL's operations. The experience and analysis of the Events East Group ("Events East"), operators of the Halifax Convention Centre and Scotiabank Centre, support this finding. In a five-year period, the incremental visitor expenditures for Halifax ranged from \$10.1 million (fiscal 2017) to \$14.5 million (fiscal 2013). Events East defined incremental impacts as, "those expenditures that would not have taken place in the absence of our facilities and activities.

Regardless of which operating option the City chooses to explore, the importance of clarifying the mandate(s) for the SJSEL Facilities needs to be emphasized. The two options – an economic engine for St. John's and the surrounding area, where the focus is on the economic spin offs, as well as a community builder in terms of sport, arts and cultural programming, or a more business-oriented enterprise designed to operate the SJSEL Facilities on a for-profit (or at least break-even) basis each needs to be evaluated. The City must also clarify its vision for the SJSEL Facilities for the next 10 -15 years.

The current lack of a mandate and key performance measurements has resulted in general confusion and mild friction between the City, the SJSEL Board of Directors and SJSEL management. The City and SJSEL will need to clarify on a go-forward basis the following:

- What business operations SJSEL should be engaged in;
- The level of subsidization that SJSEL should receive from the City on an annual basis, along with guidance on future increases or decrease in subsidization; and,
- The key performance indicators that SJSEL's performance should be evaluated against (e.g. number of events, number of attendees at events, level of City subsidization required, incremental period-over-period improvements in profitability, etc.). The KPIs should be tailored to each facility, and should be designed in consideration of the clarified mandate and business plan.

Once the mandate for SJSEL has been clearly articulated, the City can proceed to evaluating the potential operating models. If the City decides to pursue the modified status quo (municipally-controlled) operating model, SJSEL management and the SJSEL Board of Directors should proceed to create a strategic/business plan for SJSEL that aligns with the mandate. KPIs such as those included in this report should be tracked to measure SJSEL's success.

If the new mandate does not support the City's continuation in the business conducted at one or both SJSEL Facilities, or that if the mandate is focused on bottom-line improvement for the organization, the City will need to explore the four privatization options (i.e. third-party management contracts, a third-party marketing contract with ongoing facility maintenance performed by the SJSEL, long-term leases, outright sale) as outlined in Section 7 of this report. Broad exploration of privatization options will require the City to determine its obligations to the Proponents resulting from the Proponents MOU, as well as the solicitation of industry participants, and the evaluation of their proposals.

## Appendix A

### Documents and Information Reviewed by KPMG

#### A. Financial Information

1. Audited annual financial statements of SJSEL for the years ended December 31, 2013 to December 31, 2017
2. Audited annual financial statements of the City of St. John's for the year ended December 31, 2017
3. Detailed budgets of SJSEL for the years ended December 31, 2014 to December 31, 2018
5. Detailed budgets of SJSEL for the three years ending December 31, 2021
7. Summary of debt financing for the SJSEL Facilities
8. Websites of the SJSEL facilities:  
<https://sjcc.ca/>  
<http://mileonecentre.com/>
9. Various other SJSEL financial information provided by Senior Management of SJSEL.

#### B. Operational Information

10. Agreement between SJSEL and Advantage Personnel for event cleaning services at MOC dated September 15, 2014
11. Agreement between SJSEL and Canadian AV Inc. for audio video visual services at SJCC dated November 9, 2015
12. Agreement between SJSEL and Centreplate for food services management at SJCC dated March 7, 2018
13. Agreement between SJSEL and Kelloway Investments Ltd. for snow removal and ice control dated October 7, 2016
14. Agreement between SJSEL and Paciolan Software for ticketing dated October 1, 2011
15. Agreement extension for Advantage Personnel dated September 30, 2018
16. Certain Board Minutes of SJSEL
17. Collective Agreement between SJSEL and Canadian Union of Public Employees effective July 1, 2014 to June 30, 2018
18. Human Resources information of the SJSEL Facilities
19. Summary of events and attendance at SJSEL Facilities for the four years ended December 31, 2017
20. Lease agreement between SJSEL and Atlantic Sports Enterprises Ltd. and Deacon Investments Ltd. and City of St. John's for use of MOC dated November 14, 2018
21. Memorandum of Understanding between the City of St. John's and Destination St. John's Inc. dated October 22, 2013
22. Memorandum of Understanding between Atlantic Sports Enterprises Ltd., Deacon Investments Ltd., SJSEL, the City of St. John's, Irwin Simon, and Robert Sabbagh
23. Operating By-laws of SJSEL (2007)
24. Summary of parking for SJSEL events
25. Various other SJSEL operational information provided by Senior Management of SJSEL

#### C. Other Information

26. Business Case Study and Analysis for the Proposed Expansion of the St. John's Convention Centre Phase 1 Draft Report dated February 2009
27. Core Entertainment 2013-2017 Review
28. Destination St. John's 2017 Annual Report
29. Final Report: The Economic Impacts of Mile One Centre and the St. John's Convention Centre dated October 10, 2006
30. Hamilton Convention Centre by Carmen's Annual Report for the year ended December 31, 2017
31. Scotiabank Centre Annual Reports, for the years ended March 31, 2015 to March 31, 2018
32. Tourism Whistler Annual Reports, for the years ended December 31, 2014 to December 31, 2017
33. Trade Centre Limited Annual Reports, for the years ended March 31, 2015 to March 31, 2018
34. Travel websites regarding flight times and ferry travel to Newfoundland:  
<https://flighttime-calculator.com/>  
<http://www.marineatlantic.ca/>  
<http://newfoundland.hilwin.nl/PHP/en/gettingthere.php>
35. Websites of the Comparator Facilities  
<http://www.avenircentre.com/>  
<http://www.coreentertainment.ca/>  
<https://www.halifaxconventioncentre.com/>  
<https://hccevents.ca/>  
<https://meetings.whistler.com/wcc/facility/>  
<http://www.scotiabank-centre.com/>  
<http://thesleemancentre.com/>
36. Websites of private third-party management companies  
<http://www.smgworld.com/>  
<http://www.spectraexperiences.com/>
37. Whistler Conference Centre Fact Sheet
38. Various other information considered relevant to the SJSEL Review.

## Appendix B

### Individuals Interviewed by KPMG

- Board members of SJSEL – Andrew Sinclair (Citizen representative), Brian Hurley (Citizen representative), Cathy Duke (DSJ representative), Christine Clouston (Citizen representative), Derek Coffey, Deputy City Manager, Financial Management (Ex-officio), Gaylynne Lumbert (DSJ BIA representative), Kevin Breen, City Manager (Ex-officio), Larry Laite (DSJ representative), Sandy Hickman, City Councilor (Chair), Sean Charters (Citizen representative)
- Members of SJSEL's management team – Sheena McCrate (CEO)
- City of St. John's staff - Derek Coffey (Deputy City Manager, Financial Management, Ex-officio), Kevin Breen, City Manager (Ex-officio),
- External parties and stakeholders – Cathy Duke (CEO, DSJ)
- Various sports, entertainment and convention centre industry participants – Grant MacDonald, Senior Director, Scotiabank Centre, Nick Deluco, General Manager, Avenir Centre, PJ Mercanti, CEO, Carmen's Group (RE Hamilton Convention Centre), Preston Miller, Director of Conference Sales & Services, Tourism Whistler, Rich Grau, Facility Manager, Sleeman Centre, Suzanne Fougere, Vice-President, Events East (RE Halifax Convention Centre), Tim Murphy, Interim Director, FirstOntario Centre.



# Appendix C-1

## Summary of Audited Annual Statements of Operations

### For the Years Ended December 31, 2014 to December 31, 2017, and 2018 Budget

Income Statement Summary - SJSEL					
Year ended December 31	2014	2015	2016	2017	2018
\$ (000's)	Audited	Audited	Audited	Audited	Budget
Revenues - Mile One Centre					
Entertainment and events	6,507	4,649	3,936	3,272	3,298
Technical service and building maintenance	22	54	29	15	11
Sales and marketing	487	330	313	306	889
Total	7,016	5,033	4,278	3,593	4,198
Expenses - Mile One Centre					
Entertainment and events	4,244	3,325	2,840	2,360	2,110
Technical service and building maintenance	2,358	2,270	2,286	2,128	2,316
General and administrative	902	946	715	803	841
Sales and marketing	141	104	113	106	160
Total	7,645	6,645	5,954	5,397	5,427
Excess of expenditures over revenue for Mile One Centre	(629)	(1,612)	(1,676)	(1,804)	(1,229)
Convention Centre revenues	1,424	1	2,045	3,609	2,587
Convention Centre expenses	1,668	557	2,627	3,885	3,509
Excess of expenditures over revenues for Convention Centre	(244)	(556)	(582)	(276)	(922)
Excess of expenditures over revenue before grants	(873)	(2,168)	(2,258)	(2,080)	(2,151)
City of St. John's operating grant	1,000	1,400	2,070	1,990	2,151
Deficit from operations	127	(768)	(188)	(90)	-
City of St. John's capital reserve funding	300	800	800	800	500
City of St. John's capital transfer	-	-	68,402	75	-
Loss on disposal of tangible capital assets	-	-	1,253	-	-
Amortization of tangible capital assets	(1,188)	(1,179)	(2,398)	(3,507)	(3,464)
Excess of (expenditures over revenues) revenues over expenditures	(761)	(1,147)	67,869	(2,722)	(2,964)
Accumulated surplus, beginning of year	27,979	27,220	26,073	91,436	88,713
<b>Accumulated surplus, end of year</b>	<b>27,218</b>	<b>26,073</b>	<b>93,942</b>	<b>88,714</b>	<b>85,749</b>

Source: SJSEL audited annual financial statements

## Appendix C-2

### Summary of Audited Annual Statements of Financial Position

#### For the Years Ended December 31, 2014 to December 31, 2017

Balance Sheet Summary - SJSEL				
Year ended December 31	2014	2015	2016	2017
\$ (000's)	Audited	Audited	Audited	Audited
Financial assets				
Accounts receivable	3,984	5,889	13,397	3,404
Financial liabilities				
Bank indebtedness	7,006	7,656	22,273	11,993
Accounts payable and accrued liabilities	876	804	713	880
Due to 10801 Newfoundland Inc. (St. John's Ice Caps)	357	586	386	-
Due to Atlantic Sports Enterprises Ltd.	-	-	-	369
Event payables	1,088	2,732	906	911
Sick leave benefits payable	110	113	117	121
Severance benefit payable	326	339	347	387
	9,763	12,230	24,742	14,661
Net debt	(5,779)	(6,341)	(11,345)	(11,257)
Non-financial assets				
Prepaid expenses	95	104	132	130
Inventories	163	180	199	236
Tangible capital assets	32,741	32,131	102,450	99,603
	32,999	32,415	102,781	99,969
<b>Accumulated surplus</b>	<b>27,220</b>	<b>26,074</b>	<b>91,436</b>	<b>88,712</b>

Source: SJSEL audited annual financial statements



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