

Analyst Briefing Notes

Budget Committee Review

(October 29, 2007)

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October 27, 2007

PART I: CAPITAL PROGRAM**Executive Summary**

- In a report presented to the Policy and Finance Committee on July 25, 26 and 27, 2006, City Council endorsed the proposed agreement for the redevelopment of the Sony Centre for the Performing Arts, formerly the Hummingbird Centre for the Performing Arts. The proposal includes two principal redevelopment options (A & B) available to the Centre:
 - A. Under Option A, the Program will undertake a 4-year redevelopment plan to renovate the theatre and build the “Arts & Heritage Awareness” Centre (AHA! Centre) for a total project cost of \$75 million, if Sony Centre raises \$60 million from federal, provincial and private sector sources by December 31, 2007. The sale of a portion of land on the Sony Centre site to Castlepoint for the construction of a residential condominium building represents the City’s \$15 million contribution to the project. The planned cash flow for Option A will be \$12.5 million in 2008, \$23.5 million in 2009, \$26 million in 2010 and \$13 million in 2011.
 - B. In the event that total funding of \$60 million is not secured by December 31, 2007, the agreement defaults to Option B which allows for the 15-month restoration of the theatre only, resulting in a revised project cost of \$7 million. Under Option B, the AHA! Centre will not be built, instead the proposed location of the AHA! Centre will be leased to Castlepoint for retail/commercial purposes. The sale of a portion of land on the Sony Centre site to Castlepoint for the construction of a residential condominium building, represents the City’s \$15 million contribution to the facility renewal project. The projected cash flow for Option B is \$3.5 million in 2008 with future year commitments of \$3.5 million in 2009.
- Sony Centre’s Recommended 5-Year Capital Plan is based on the assumption that the Program is successful in raising the \$60 million required to implement Option A. This 5-Year Capital Plan consists of 1 project and 5 sub-projects totalling \$75 million in funding over the next 4 years. The 2008 Recommended Capital Budget of \$75 million requires cash flows of \$12.5 million in 2008 and future year commitments of \$23.5 million in 2009, \$26 million in 2010 and \$13 million in 2011. Funding for the 2008 Recommended Capital Budget of \$75 million is planned to be provided by provincial grants of \$15 million, federal grants of \$15 million, naming and private philanthropy funding of \$30 million, and contributions from the sale of air rights granted by the City to Castlepoint of \$15 million. There is no debt funding assumed for this project. The City’s contribution will be the actual land sold to Castlepoint which will allow the construction of a residential condominium building on the southwest corner of the site at 1 Front Street East.
- It is recommended that Sony Centre report back to Budget Committee by November 14, 2007 on the status of Board fundraising for determination of whether Sony Centre proceed with Option A or Option B. If the agreement defaults to Option B, the 2008 Recommended Capital Budget and the timing of its future year cash flow commitments will be amended to reflect a project cost of \$7 million with required cash flow commitments of \$3.5 million in each year of 2008 and 2009. Funding for the renovation of the theatre is provided by contributions from the sale of air rights granted by the City to Castlepoint of \$15 million.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Capital Budget for Sony Centre for the Performing Arts with a total project cost of \$75 million and 2008 cash flow of \$12.5 million and \$62.5 million in future-year commitments be approved, conditional upon receipt of third-party funding commitments of \$60 million to the satisfaction of the Budget Committee. The 2008 Recommended Capital Budget is comprised of:
 - a) New Cash Flow Funding for 1 project consisting of 5 sub-projects with a 2008 total project cost of \$75 million that requires cash flow commitments of \$12.5 million in 2008, \$23.5 million in 2009, \$26 million in 2010 and \$13 million in 2011;
2. in the event that Sony Centre does not secure total funding of \$60 million by December 31, 2007, the agreement default to Option B and the 2008 Recommended Capital Budget be amended to reflect a total capital project cost of \$7 million with cash flow commitments of \$3.5 million in 2008 and \$3.5 million in 2009, funded by the contributions from the sale of air rights granted by the City to Castlepoint of \$15 million;
3. Sony Centre for the Performing Arts report back to Budget Committee by November 14, 2007 on the status of Board fundraising for determination as to whether Sony Centre proceed with Option A or Option B; and
4. Sony Centre for the Performing Arts report back on the operating impacts of the shutdown and post construction fit out period between 2009 and 2011 in the 2009 Capital Budget process.

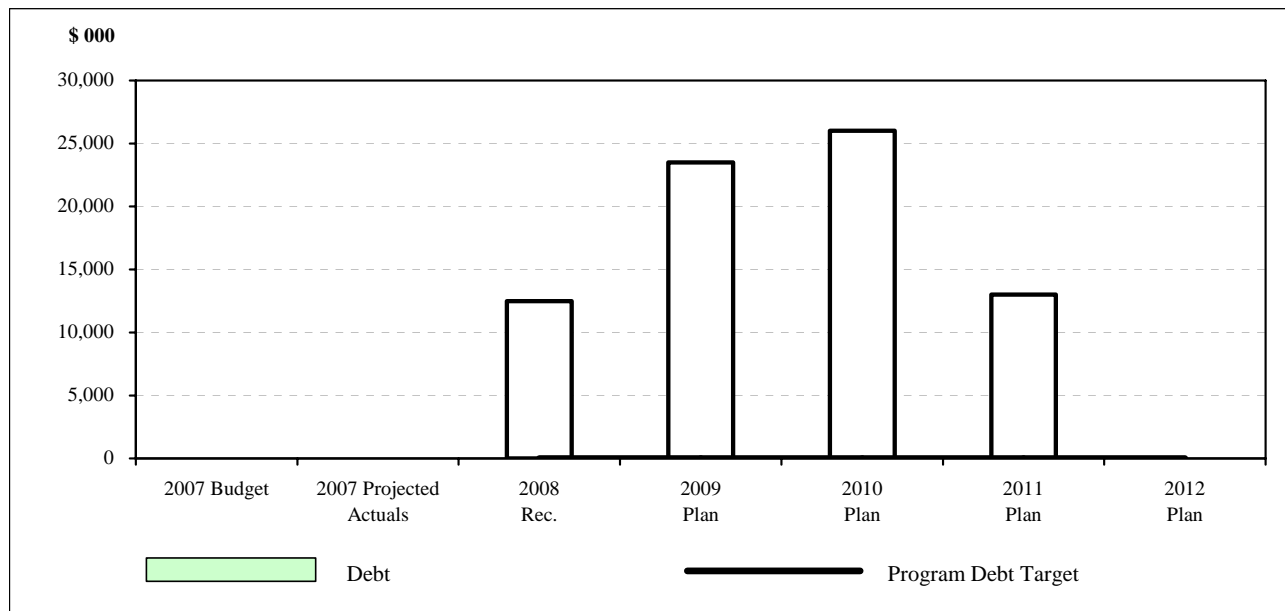
2007 Capital Variance Review

As this is a new Capital Budget in 2008, the 2007 Capital Variance Review is not applicable.

Cost Containment Impact

As this is a new capital budget, there were no cost containment considerations in 2007.

5-Year Capital Plan (2008-2012)



		5-Year Plan					
2007		2008	2009	2010	2011	2012	2008-2012
Budget	Projected Actual						
Gross Expenditures:							
2007 Capital Budget & Future Year Commitments							
Recommended Changes to Commitments							
2008 New/Change in Scope and Future Year Commitments		12,500	23,500	26,000	13,000		75,000
2009 - 2012 Plan Estimates							0
1-Year Carry Forward to 2008							
Total Gross Annual Expenditures & Plan		12,500	23,500	26,000	13,000		75,000
Program Debt Target		0	0	0	0	0	0
Financing:							
Recommended Debt							
Other Financing Sources:							
Reserves/Reserve Funds							
Development Charges							
Federal		2,500	1,750	4,750	6,000		15,000
Provincial		2,500	1,750	4,750	6,000		15,000
Other Revenue		7,500	20,000	16,500	1,000		45,000
Total Financing		12,500	23,500	26,000	13,000		75,000
By Category:							
Health & Safety							
Legislated							
SOGR							
Service Improvement							
Growth Related		12,500	23,500	26,000	13,000		75,000
Total By Category		12,500	23,500	26,000	13,000		75,000
Yearly SOGR Backlog Estimate (not addressed by current plan)							
Accumulated Backlog Estimate (end of year)		As this is a new capital budget, there is no SOGR backlog.					
Operating Impact on Program Costs		Unknown at this time					
Debt Service Costs							

5-Year Capital Plan Overview

Overview

- In a report presented to the Policy and Finance Committee on July 25, 26 and 27, 2006, City Council approved the proposed redevelopment of the Sony Centre for the Performing Arts, formerly known as the Hummingbird Centre for the Performing Arts. The proposed agreement includes two principal redevelopment options (A & B) for the Sony Centre.
- If Sony Centre raises \$60 million by December 31, 2007 and receives Council approval, it can proceed with the \$75 million redevelopment project, under Option A. This option allows for:
 - i. The sale of a portion of land on the Sony Centre site to Castlepoint for the construction of a residential condominium building;
 - ii. The construction of the Arts & Heritage Awareness Centre (AHA! Centre); and
 - iii. The restoration of the existing theatre.
- If sufficient funds are not raised, the agreement defaults to Option B and Sony Centre will undertake the following:
 - i. The sale of a portion of land on the Sony Centre site to Castlepoint for the construction of a residential condominium building;
 - ii. The restoration of the existing theatre; and
 - iii. The transfer of an additional portion of land in the proposed location of the AHA! Centre to Castlepoint by way of an eighty-nine year lease for retail/commercial use.
- Under Option A, the redevelopment of the Sony Centre, will include the renovation of the theatre and the construction of the new cultural centre called the Arts & Heritage Awareness Centre or the AHA! Centre, located within the podium of the residential condominium building. The AHA! Centre concept includes a new residential and tourist attraction named Arts Lab; a destination restaurant; an interactive collective video gaming facility; a convention style catering space; and a resident/tourist promotional link to the cultural attractions in the Greater Toronto Area and beyond.
- Under Option B, only the theatre will be renovated and the proposed location of the AHA! Centre will be leased to Castlepoint as retail/commercial space. The estimated cost of restoring the theatre is \$7 million and the anticipated time to complete is 15 months. The planned cash flow will be \$3.5 million in 2008 with future year commitments of \$3.5 million in 2009. Funding for the renovation of the theatre will be provided by contributions from the sale of air rights granted by the City to Castlepoint of \$15 million.
- Sony Centre's Recommended 5-Year Capital Plan assumes Option A implementation, as outlined in Report 6, Clause 59. This is a one-time capital budget for the Sony Centre which consists of 1 project and 5 sub-projects totalling \$75 million in funding over the next 4 years. The 2008 Recommended Capital Budget of \$75 million requires cash flows of \$12.5 million in 2008 and future year commitments of \$23.5 million in 2009, \$26 million in 2010 and \$13 million in 2011.

- Funding for the 2008 Recommended Capital Budget of \$75 million under Option A will be provided by provincial grants of \$15 million, federal grants of \$15 million, naming and private philanthropy funding of \$30 million, and contributions from the sale of air rights granted by the City to Castlepoint of \$15 million.
- There is no debt funding required for this project. The City's contribution will be the actual land sold to Castlepoint, allowing the construction of a residential condominium building on the southwest corner of the site.

Multi-Year Debt Affordability Target

There is no debt funding required from the City for the redevelopment project under either redevelopment options.

Recommended Changes to the 2007 – 2011 Capital Plan

There are no recommended changes since Sony Centre did not have a 2007-2011 Capital Plan.

Program Capacity and Readiness to Proceed

The Sony Centre maintains that it is on track to raise the funds for Option A of the agreement and is ready to commence the project in 2008. 90% of Castlepoint's condominium units have been sold to date, and Sony Centre continues capital fundraising efforts with the Federal and Provincial governments and the private sector. It is reported that the project is well received, however to date no specific financial commitments have been made by either the Federal or Provincial governments.

Backlog of Projects – Unmet Needs

As this is a new project, there is no state-of-good repair backlog.

Capital Project Highlights

Summary of Major Capital Initiatives

	\$000s						
	2008 Rec. Budget	2009 Plan	2010 Plan	2011 Plan	2012 Plan	Total 2008 -2012	Total 2013 -2017
Redevelopment of the Sony Centre	12,500	23,500	26,000	13,000		75,000	
Total	12,500	23,500	26,000	13,000		75,000	

The 5-Year Capital Plan assumes that the Sony Centre will raise \$60 million in funding required to proceed with the \$75 million redevelopment project of the Sony Centre under Option A. Over the next four years, the redevelopment will include the renovation of the theatre and the addition of an "Arts &

Heritage Awareness” Centre (AHA! Centre), located at the base of the proposed residential condominium building. The AHA! Centre will have attractions available to the public and tourists at the 1 Front Street East site. The Centre will feature an interactive artistic venue; a destination restaurant; an interactive collective video gaming facility; a convention style catering space; and a resident/tourist promotional link to the cultural attractions in the Greater Toronto Area and beyond.

The 5-Year Capital Plan will require cash flows of \$12.5 million in 2008 and future year commitments of \$23.5 million in 2009, \$26 million in 2010 and \$13 million in 2011. Funding for the \$75 million project will be provided by provincial grants of \$15 million, federal grants of \$15 million, naming and private philanthropy funding of \$30 million, and contributions from the sale of air rights granted by the City to Castlepoint of \$15 million. There is no debt funding requested by Sony Centre for this project. The City’s contribution will be the actual land sold to Castlepoint, allowing the construction of a residential condominium building on the southwest corner of the site.

However, if complete funding is not secured by year-end, the agreement defaults to option B which allows for the restoration of the theatre. The space for the proposed location of the AHA! Centre will no longer house the AHA! Centre, instead it will be leased to Castlepoint for retail/commercial use. The total project cost will drop from \$75 million (Option A) to \$7 million (Option B) to reflect the cost of the renovations. The expected construction time is 15 months and the planned cash flow will be \$3.5 million in 2008 with future year commitments of \$3.5 million in 2009. Funding will be provided by Castlepoint to restore the existing theatres.

Program Operating Impacts

Under Option A, total construction time for the complete redevelopment project is expected to last 4 years. Construction is expected to commence June 30, 2008, at which time the theatre will shutdown operations for 15 months. As part of the operating impact of the shut down, the 2008 Recommended Operating Budget will be reduced by \$4.753 million gross, with an overall zero impact on the net expenditure of \$1.171 million. Any additional operating costs arising from the shutdown will be absorbed by revenues generated in the first 6 months of 2008 prior to the shutdown. The operating impact of the shutdown and post construction fit out period between 2009 and 2011 are not known at this time, since details of the scaled-down operations have yet to be provided. It is recommended that Sony Centre report on the operating impact of the shutdown and post construction fit out period between 2009 and 2011 in the 2009 Capital Budget process.

Total 2008 Recommended Cash Flow & Future Year Commitments
(\$000s)

	2008 Previously Approved Cash Flow Commitments	2008 New Cash Flow Recommended	2008 Total Cash Flow Recommended	2008 Debt Target	2007 Carry Forwards	Total 2008 Cash Flow (Incl 2007 C/Fwd)	2009	2010	2011	2012	2013-2017	Total Cost
Expenditures												
Previously Approved												
Change in Scope												
New		12,500	12,500			12,500	23,500	26,000	13,000			75,000
New w/Future Year												
Total Expenditure		12,500	12,500			12,500	23,500	26,000	13,000			75,000
Financing												
Debt				0								
Subsidy (SCPI)												
Prov. Subsidy/Grant		2,500	2,500			2,500	1,750	4,750	6,000			15,000
Development Charges												
Other		7,500	7,500			7,500	20,000	16,500	1,000			45,000
Federal Grants		2,500	2,500			2,500	1,750	4,750	6,000			15,000
Reserves/Res Funds												
Total Financing		12,500	12,500	0		12,500	23,500	26,000	13,000			75,000

Comments / Issues:

- The 2008 Recommended Capital Budget of \$75.0 million requires cash flows of \$12.5 million in 2008 and future year commitments of \$23.5 million in 2009, \$26.0 million in 2010 and \$13.0 million in 2011.
- Total funding for 2008-2011 is provided by provincial grants of \$15 million, federal grants of \$15 million, naming and private philanthropy funding of \$30 million, and contributions from Castelepoint for the sale of air rights granted by the City of \$15 million.

2008 Recommended Capital Budget

2008 Recommended Capital Budget versus Debt Target

There is no debt funding required for the redevelopment capital project; therefore, Sony Centre does not have a Council approved debt target. Funding for the 2008 Recommended Capital Budget of \$12.5 million will be provided by provincial grants of \$2.5 million, federal grants of \$2.5 million, and contributions from Castelepoint for the sale of air rights granted by the City of \$7.5 million.

Recommended Capital Budget by Category

The 2008 Recommended Capital Budget consists of 1 project – the redevelopment of the Sony Centre - costing \$75 million over the next four years. This endeavour is a growth related project that will augment the theatre's existing services and operations that will result in the provision of substantial operating surpluses for future capital maintenance and refurbishment.

PART II: ISSUES FOR DISCUSSION

2008 Capital Budget Issues

- The proposed redevelopment agreement includes two principal options (A & B) available to the theatre. Option A requires Sony Centre to raise \$60 million by December 31, 2007 from federal, provincial and private sector sources to fund the \$75 million capital project cost. If Sony Centre is successful in raising the funds and receives Council approval, they will proceed with Option A.
- The redevelopment of the Sony Centre under Option A, involves the renovation of the theatre and the construction of the new cultural centre called the Arts & Heritage Awareness Centre or the AHA! Centre, located within the podium of the residential condominium building.
- For the purposes of the 2008 Capital Budget process, Sony Centre has assumed that they will successfully secure third-party funding of \$60 million by December 31, 2007, in order to proceed with Option A. The indicators point to a likelihood of this scenario. Sony Centre is currently working toward securing the funding commitments required to move forward. In the event that complete funding is not secured by December 31, 2007, the agreement will default to Option B.
- Under Option B, the theatres will be restored, but the AHA! Centre will not be constructed. Instead, the proposed location of the AHA! Centre will be leased to Castlepoint for retail/commercial purposes. Under this scenario, the project cost will drop from \$75 million (Option A) to \$7 million (Option B) to reflect the cost of the renovations. The duration of the project will be 15 months instead of 4 years. The planned cash flow will be \$3.5 million in 2008 with future year commitments of \$3.5 million in 2009. The \$15 million proceeds from the sale of a portion of land on the Sony Centre site to Castlepoint for the construction of a residential condominium building represents the City's contribution toward the restoration of the existing theatre. As such, the undertaking of Option B will result in changes to the 2008 gross Capital Budget and future year cash flow commitments. Therefore, it is recommended that Sony Centre for the Performing Arts report back to Budget Committee by November 14, 2007 on the status of Board fundraising for determination as to whether the City wishes to proceed with Option A or B.

5-Year Capital Plan Issues

Issues Referred to the Budget Process

Issues Referred to 2008 Capital Budget Process

There are no issues referred to the 2008 Capital Budget Process

Outstanding Issues from Prior Years

As this is a new project, there are no outstanding issues from prior years.

Appendix 1

2008 Recommended Capital Budget; 2009 to 2012 Plan and 2013 to 2017 Estimates

Appendix 2

2008 Recommended Cash Flow and Future Year Commitments

Appendix 3
2008 Recommended Capital Projects
with Financing Details

Appendix 4
Reserve / Reserve Fund Review
(\$000s)

Not Applicable