Town of Markham – Markham Arena Opportunity

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Section 1

Situation Overview

Background Information

- The Town was approached by an investor group ("Equity Investors" or "Developers") with the possibility of constructing an arena in Markham Centre ("Markham Arena", or the "Project")
- Raymond James ("RJ") was engaged by the Town of Markham ("Markham" or the "Town") in December 2010 to assist in evaluating financing and capital structure alternatives for the Project (this report is not intended for other uses)
- Conversations with Equity Investors and the Town began in August 2010
- Equity Investors are currently utilizing the following advisors:

Advisor Name	Role
BBB Architects & Stadium Consultants International ("BBB")	Architectural Design Consultants
Canaccord Genuity Corp. ("CanGen")	Financial Advisor to the Equity Investors
Global Spectrum, L.P. ("GS")	Arena Venue Management Consultants
PCL Constructors Canada, Inc. ("PCL")	Construction Firm

- In December 2010, RJ began discussions with advisors to the Equity Investors.
  - Since its engagement, RJ has held numerous conference calls and reviewed available diligence prepared by the Equity Investors, their advisors and the Town
- RJ has relied on the information provided by the Town, the Equity Investors and/or its representatives, and has assumed such information is complete and accurate. Raymond James does not take responsibility for such estimates and projections, or the basis on which they were prepared. Nothing contained herein is an expression of view on valuation

RJ Objectives

- Markham has been given an opportunity, whereby the Equity Investors would invest $175 million used towards the development of a marquee destination in the Town
- RJ was engaged to assist Markham in evaluating the options for raising the additional capital required to construct the Markham Arena
- The Markham Arena proposal from the Equity Investors assumes a $350 million total development cost, 50% of which the Equity Investors assume is funded by Markham or other sources of capital raised by Markham
- RJ's objectives in assessing the opportunity include:
  - Analyzing the cost of completion estimates for the Project
  - Analyzing the pro-forma financials of the Project
  - Addressing the potential financing alternatives
  - Addressing the potential capital structures
  - Evaluating the funding sources and financial qualifications of the Equity Investors
- This report assumes there is no Major League tenant residing in the Markham Arena

Current Proposal from Equity Investors ("Proposal")

Term	Description
Markham Arena Construction Cost	▪ $350 million ▪ Includes the hard and soft construction costs plus Harmonized Sales Tax ("HST") and other costs ▪ Fixed cost contract
Equity Contribution	▪ $175 million raised by the Equity Investors
Portion Funded / Supported by Markham	▪ The Equity Investor group has asked that the remaining funds equal to $175 million be raised by the Town in the form of debt
Additional Infrastructure Costs	▪ All infrastructure projects necessary to support the Markham Arena are expected to be facilitated and funded by the Town
Project Cash Flow Waterfall	▪ Equity Investors would receive access to the cash flows from operations ▪ A $1 million annual payment would be made to the Town (may have the ability to increase such payments if a Major League or other substantial tenant is attracted)
Capital Expenditure Reserves	▪ Assumes costs are not funded by the Equity Investors
Tax Payments	▪ No tax payments assumed to be due from the Project to the Town or other municipalities on an ongoing basis
Legal Structure	▪ Proposal is not specific, however based on discussions with Markham external counsel, a Municipal Capital Facility or a Municipal Services Corporation would likely be required based on the current discussions with the Equity Investors

Section 2

Cost of Completion

Summary Observations

- The Equity Investors' estimated total development costs are $350 million comprised of (i) $208 million hard construction costs, (ii) $91 million soft construction costs and (iii) $51 million non-construction related costs
- PCL's estimated total construction costs of $299 million for a 19,500 seat arena appears reasonable based on the company's experience with building similar arenas
  - Firm cost contract provides some cost over-run protection (paid on a monthly basis until completion)
  - Construction period would start as soon as practical and run through the last quarter of 2013
- Hard construction costs of $208 million are reflective of current market conditions
  - Based on certain comparables, PCL's estimated $297/ft^2 of hard costs appears reasonable
  - However, certain modifications can be made to slightly reduce these construction costs
- Soft construction costs of $91 million are generally in line with the Town's estimate excluding $14 million of development charges, bringing the total soft costs to $105 million
- The Equity Investors assumed $51 million of non-construction related costs appears understated and may be approximately $61 million, which includes $39 million of HST and a general contingency of $22 million (1)
- Additionally, $42 million of identified infrastructure costs were excluded from PCL's cost estimates

Total Project Costs		
Hard Costs	$	208
Soft Costs	$	105
Non-Construction Related Costs	$	61
Other Infrastructure Costs	$	42
Total Project Costs	**$**	**416**

Source: PCL Presentation to the Town, Town Memos and Correspondence with the Town
(1) Includes an estimated $10 million for a one year interest reserve

Additional Infrastructure Costs

- Based on the Town's current estimates, there is approximately $42 million of additional infrastructure costs necessary to support the project
  - Costs are incremental; not anticipated to be incurred by Town absent the Project
  - Costs are directly attributable to arena construction, but not included in PCL construction budget
  - Equity Investors are not proposing to cover any of these costs

Additional Infrastructure Costs *($'s in MMs)*			Typical Funding Source
Parking	$	23.8	Equity Costs
407 Pedestrian/Shuttle Concourse		0.5	Equity Costs
Go Sports Facility Pedestrian Bridge		1.0	Equity Costs
Local Road Costs		2.5	Equity Costs
Sanitary Watermain Upgrade		3.7	Equity Costs
Storm Water Management (Onsite)		1.5	Equity Costs
Total Project Costs	**$**	**33.0**	
407/Warden Ramp Reconfiguration		3.0	Development Charges(1)
Road From Warden to Parking Lot		6.0	Development Charges(1)
Additional Infrastructure Costs	**$**	**42.0**	

Source: Town Memo "Re: Markham Centre" to John Livey, CAO dated 12/2/2010 & meetings with the Town
(1) For illustrative purposes the cost associated with the service road form Warden to the parking lot are included, although typically funded with development charges

Section 3

Pro-Forma Financial Forecast

Pro-Forma Financial Forecast

Annualized Profit & Loss ("P&L") from Standalone Arena

- Global Spectrum is a venue management company engaged by the Equity Investors to manage the proposed Markham Arena
- Global Spectrum provided a forecast of the Project's stabilized EBITDA contribution of $3.1 million, which does not appear to be based on unreasonable assumptions given our diligence to date
- A supplemental forecast provided to the Town by Equity Investors indicated a $10 - $11 million annual EBITDA contribution opportunity, which RJ determined to be unfounded
- The forecast did not account for any capital reserves, estimated at $0.5 million/year(1)

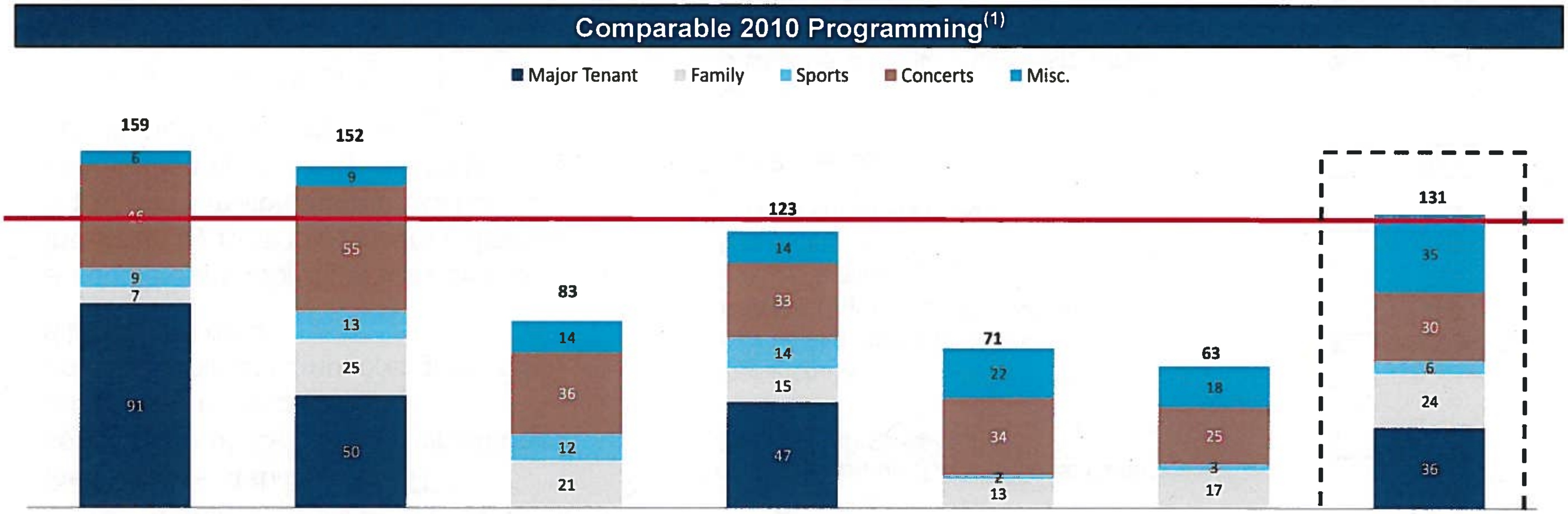
Project Level Summary P&L - Global Spectrum Pro-Forma *($'s in MMs)*		
Number of Events		**131**
Attendance		**767,724**
Rental Revenue	$	1.9
Ticket Revenue		2.0
Ancillary Revenue (Concessions, Catering, etc.)		1.8
Total Event Revenue	**$**	**5.7**
Other Income		
Advertising (Net after Comm.)	$	1.2
Naming Rights (net after Comm.)		0.8
Luxury Seating		2.8
Miscellaneous		0.4
Total Other Revenue		**5.1**
Total Revenue	**$**	**10.8**
Expenses		
Salaries & Benefits (Full & Part-Time)	$	(3.2)
Materials, Supplies & Services		(4.5)
Total Expenses	**$**	**(7.7)**
Earnings Before Interest, Taxes, Depreciation & Amortization ("Project EBITDA")	**$**	**3.1**

Source: Global Spectrum Pro-Forma, presented to Town 11/10/2010

(1) This is typically represented as 5% of annual gross revenue or 5% of combined hard and soft construction costs over the life of the project, assumed to be 30 years (in this case both measurements are approximately $0.5 million)

Observations – Comparable Events

- Global Spectrum's forecast of 131 events is within the range of comparable arenas provided

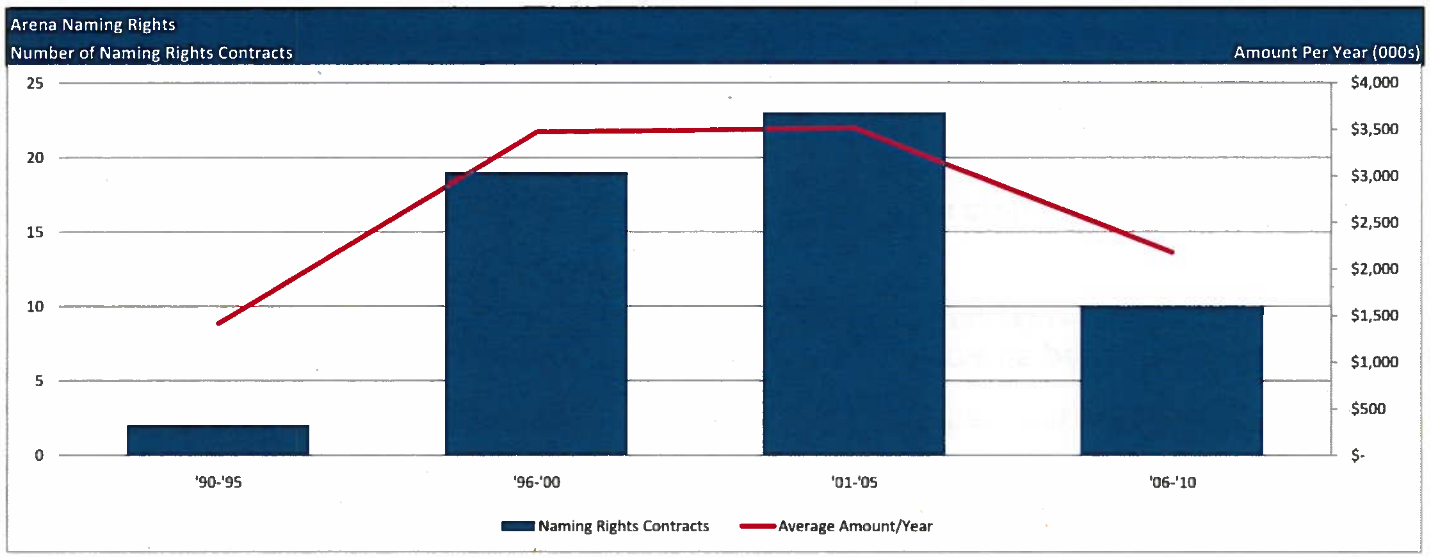


Name:	Air Canada Centre	Bell Centre	Sprint Center	MTS Centre	BOK Center(1)	Intrust Bank	Markham Arena
Location:	Toronto	Montreal	Kansas City	Winnipeg	Tulsa	Wichita	Makham
Major League Team	Yes	Yes	No	No	No	No	No

Source: Company Websites
RJ Source: Canaccord
(1) BOK Center for 2009
Note: Markham projections provided by Global Spectrum, major tenant is not a Major League team

Observations - Naming Rights Detail

- There is a wide range of annual revenues associated with naming rights
  - The Sprint Center in Kansas City is a large scale arena without a Major League team; however, the arena was awarded a 25 year naming rights contract at $2.5 million per year
  - Two recent large metropolitan arenas currently have obtained $20 million/year bids for 20 year contracts (e.g. Barclays Center, New York and the L.A. Project- Farmers Insurance)
  - Naming rights contracts fell from their peak pricing, but appear to be on the rebound
  - Current naming right contracts are averaging approximately $2.5 million/year
  - Based on this information, it appears that there is upside potential to Global Spectrum budget of $800K



Source: Public Resources

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Summary Observations

- Project EBITDA and key assumptions may be achievable based on the comparable data provided
- Solely based on Markham's population, the Markham Arena falls below its peers in terms of population per seat, however when considering the larger York Region or other similar Metro areas (a more appropriate metric), the results are within the range of its peers (see page 37)
- 131 event assumption is not based on any existing commitment from promoters or contracts. Mix of events and attendance could change significantly
  - Meaningful risk to cash flows and operating profitability
  - Potential ramp-up period before 131 event schedule is normalized
  - Nearby comparable facilities that can accommodate over 15,000 attendees include the Air Canada Centre, Copps Coliseum and Rogers Centre
  - An arena venue in Markham may be a more accessible alternative to those living in the York Region than existing venues in the Greater Toronto Area
- Potential upside in cash flows
  - Improved naming right contracts
  - Incremental advertising revenue
  - Greater utilization of luxury seating
- Opportunity for the Town to negotiate ability to utilize non-event days and evenings to supplement cash flow

Section 4

Sources and Uses

Sources & Uses Summary

- As detailed previously, the total construction costs are estimated at $416 million
- Based on a $175 million equity investment, the funding requirements expected to be borne by the Town are approximately $241 million

Sources & Uses At Closing
($'s in MMs)

Sources of Cash			Uses of Cash		
Equity Investor Contribution	$	175	Hard Costs[1]	$	208
Markham- Initial Funding Ask from Equity Investor		175	Soft Costs[2]		105
Markham- Additional Funding Needs[3]		66	HST/Other[1]		61
			Other Infrastructure Costs		42
Total Sources	**$**	**416**	**Total Uses**	**$**	**416**

(1) Based on discussions/documents provided by PCL, Canaccord, and/or the Equity investors
(2) Based on meetings/correspondence with the Town, includes additional $14 million of Development Charges not accounted for in the PCL forecast
(3) Additional funding gap based on the above is assumed, by the Equity Investors, to be funded by a party other than the Equity Investors (i.e. Markham and its investors)

Annual Funding Summary - Based on the Proposal

- Based on Proposal, available annual cash flow to support a debt raise includes:
  - Proposed $1 million payment from operating cash flow
  - Plus: estimated additional parking revenue of $1 million / year
  - Less: capital reserves of $0.5 million / annum
- Based on the above cash flow, the total annual funding shortfall prior to including amortization is approximately $10 million[1]
- Assuming a 20 year term (with straight line amortization) the annual funding shortfall is approximately $17 million[1]
- In summary, the Town's initial funding cost, not funded by the Equity Investors, is estimated at $241 million with an annual funding obligation of $10 - $17 million (with and without principal amortization, respectively)
  - Lack of amortization would create significant refinancing risk
- Opportunities and risks exist that may increase or decrease both the total Project construction costs as well as the annual cash flows available to service debt, as discussed in following section

[1] Assumes 5% interest rate

Section 5

Financing & Structuring Alternatives

Overview - Financing Alternatives Based on Proposal

RJ assessed availability of financing from the following sources based on economics of the Proposal:

3rd Party Financing *(Alternative 1)*	▪ Arena to be funded with no support from Markham ▪ Access debt capital markets (bank/bond market) ▪ Despite attractive equity contribution by Equity Investors, 3rd party financing is not available due to lack of stable cash flow stream
Markham Guarantee of 3rd Party Financing *(Alternative 2)*	▪ Markham to provide a limited or complete guarantee of the debt ▪ Guarantee could come in various forms/sizes (typical guarantee, pledge of certain assets) ▪ Practically, Markham would need to guarantee principal and interest and would be responsible for making the debt service payments
York Debentures *(Alternative 3)*	▪ Markham makes request for debentures to the Regional Municipality of York ▪ Investors receive credit support from York Region, and York Region looks to Markham to fufill the obligations to the investor ▪ Practically, Markham would be supporting the guarantee of principal and interest and would be making the debt service payments
Developer Debt with Limited Markham Guarantee *(Alternative 4)*	▪ A combo alternative was also considered whereby the Developer raised the debt and, given the lack of cash flows, the Town would provide a limited guarantee to help reduce the interest rate to more favorable market terms ▪ As discussed above, 3rd party financing is not available without a full guarantee of debt and interest as well as a source to fund debt service

Add'l Alternative: Negotiated Transaction and 3rd Party Funding Sources

- The Proposal does not provide a credit package necessary to access a market-based loan due to significant anticipated ongoing cash flow obligations and risks
- The following outlines a "Negotiated Transaction" alternative that Markham may consider pursuing to enhance the feasibility of this opportunity from a finance perspective:

Negotiated Transaction
(Alternative 5)

- Negotiate more standard cash flow waterfall
- Additional contributions/concessions from the Equity Investors or other potential parties of interest
- Reduce / phase project scope and associated costs
- Enhanced ability to access 3rd party debt, but more likely utilize Alternative 2[1] or Alternative 3 to raise debt

[1] Alternative 2, under a Negotiated Transaction, may provide incremental structuring flexibility vis-à-vis Alternative 3 (e.g. repayment schedule, drawdown mechanics, etc.)

Negotiated Transaction – Overview

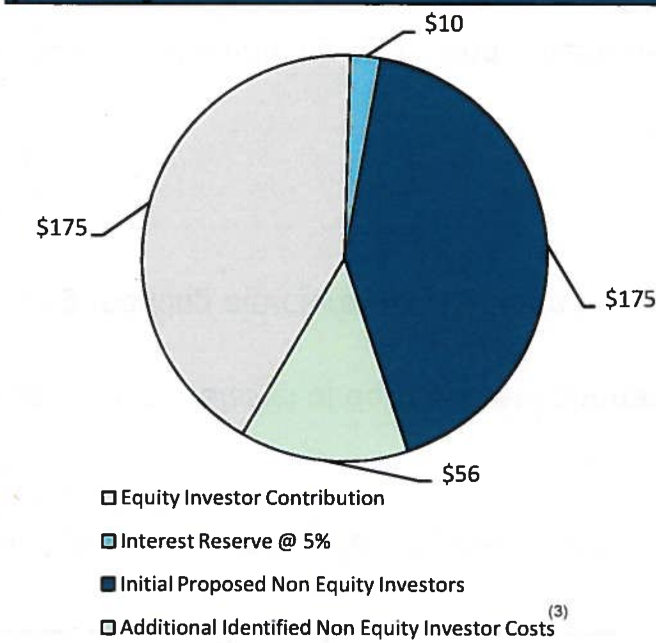
- Multiple opportunities are available to the Town to reduce the initial Project funding requirements and consequently the ongoing debt service amounts. Such benefits could come from:
  - Credit enhancements provided by Markham
    - Contributions to the initial funding (e.g. community use funds, deferral of development charges, etc.)
    - Utilization of initiatives funded from other programs (e.g. parking structures that may be developed with an award from the Pan Am Games)
    - Future revenue streams (e.g. bonusing payments)
  - Additional contributions/concessions from Equity Investors
    - Less expensive build out of the Markham Arena
    - Contractual rights to all of certain cash flow streams (particularly naming rights and advertising revenue)
    - Additional equity contribution
  - Contributions from alternative funding sources
    - Additional contributions could be made from Provincial, Federal or other sources

Negotiated Transaction - Potential Contributions and Deferrals

- It may be possible to reduce total Project costs of $416.0[1][2] million by an identified $34.0 million from one-time cash contributions, deferrals or waivers of amounts due to the Town and/or the Region
  - Adjustments for such potential benefits to the Project result in an estimated $382.0 million of net costs to be raised in support of the Project or $207.0 million of additional financing from Markham

Project Costs ($'s in MMs)		
Hard Costs	$	207.9
Soft Costs		104.8
Non-Construction Related Costs		61.3
Other Infrastructure Costs		42.0
Total Capital Costs	**$**	**416.0**
Less: Potential Cost Deferrals		
Development Charges Deferral	$	(16.5)
Service Road from Warden to Parking Lot		(6.0)
407/Warden Ramp Reconfiguration		(3.0)
District Energy Program[2]		(8.5)
Potential Deferrals Contributions from Town	**$**	**(34.0)**
Total Funding Estimate	**$**	**382.0**
Equity Investor Funding	$	175.0
Non Equity Investor Funding		207.0
Total Funding Estimate	**$**	**382.0**

Breakdown of Contributions to The Project
($'s in MMs)



(1) Includes estimated interest reserve net of interest income under a Negotiated Transaction
(2) There are differences in view between PCL and the Town in this regard. Further work to be performed
(3) Represents the total potential contributions/deferrals from the Town plus the $2.5 million development charges included in the Equity Investor's Proposal

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Negotiated Transaction – Cash Flow, Debt Capacity and Funding Gap

- The potential annual cash flows broadly associated with the Project on a stabilized basis, including concessions from both the Town and the Equity Investors are illustrated below

Project and Associated Cash Flows[1] *($'s in MMs)*		
Project EBITDA[2]	$	3.1
Capital Reserves [3]		(0.5)
Parking Revenue[4]		1.2
Annual Project Cash Flows		**3.8**
Annual District Energy Costs[5]		(0.6)
Tax Increment Financing-Like (Within Markham Centre)[6]		2.7
Voluntary Builder Contribution on all Units in Markham Centre[6]		2.5
Section 37 Bonusing Within Markham Centre[6]		0.7
Town-Based Annualized Enhancements		**5.3**
Net Cash Flow Available to Service Debt	**$**	**9.0**

- The implied debt amount that may be raised based on the above cash flows and the Town and/or Region's credit is $118 million resulting in a funding shortfall ("Funding Gap") of $89 million[7]
  - Any shortfalls in the assumed available net cash flow in a given year would have a corresponding dollar-for-dollar shortfall to the debt service payment obligations
  - Implied debt raise is not a market based approach (i.e. debt providers would not attribute similar value to cash flow stream utilized in this alternative)

[1]Cash flow schedule assumes that the negotiated deferrals and contributions are made to their full extent, based on the identified items
[2]EBITDA includes the $1 million payment to the Town
[3]This is typically represented as 5% of annual gross revenue or 5% of combined hard and soft construction costs over the life of the project, assumed to be 30 years (in this case both measurements are approximately $0.5 million)
[4]Source: Correspondence with Town Staff, shown net of certain parking revenues shown in Global Spectrum Pro Forma
[5]Source: Correspondence/Feedback from Town Staff (Note: to the extent the total initial capital savings is less than $8.5 million the associated costs above would decrease)
[6]Source: Correspondence/Feedback from Town Staff
[7]The $118 million assumes a 5% interest rate, as does the $89 million in addition to a 20 year amortization period

Negotiated Transaction - Summary Observations

- As it stands, the Proposal does not provide for market-based debt, however there is potential to negotiate an improved, more palatable agreement for the Town
  - Given the structure of cash flows, 3rd Party debt would not be available absent significant credit support and payment guarantees from Town
- A Negotiated Transaction may provide sufficient cash flows on a stabilized basis to justify a debt raise
- Assuming all assumptions in the Negotiated Transaction are achieved, there is an $89 million Funding Gap
- Other parties of interest could justify bridging the Funding Gap based on economic benefits(1) and other benefits not quantifiable at the current time
- The Funding Gap could be bridged with additional equity (developers, provincial and federal)
  - On an average, annualized basis, funding of the Funding Gap would require $5.2 million / year
- Other ideas that may be explored with the existing constituents include:

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- Pursuit of grants and donations
- Pursue lease / grant of land acquired for parking lot
- Potential structure which may avoid HST obligations (approx. $39 million)(3)

Equity Investors

- Building an arena with a smaller construction budget
- Contributions to future capital expenditure and reserve requirements
- Pre-sale of luxury boxes
- Commitments to development surrounding Markham Arena

(1) Please refer to the report being prepared by Director of Economic Development for the Town, Stephen Chait, on the Economic Benefits of the Project
(2) Assumes 5% interest rate and a 20 year amortization period
(3) Based on PCL's assumed construction cost estimates

Section 6

Next Steps & Recommendations

Recommendations

- Equity Investor group composition and investment proportions are not yet fully formed. RJ has obtained some verbal assurances of financial wherewithal from two of the potential investors, and an investment firm on their behalf, but further financial qualification diligence is needed
  - Absent other motivations, the Project does not appear to provide adequate equity like returns to the proposed Equity Investors, creating additional execution risk
  - Require substantial equity investment from lead proponent of Equity Investor group
- The Proposal would not permit a debt raise from a 3rd party capital provider on a stand-alone basis
  - The debt can be raised by a 3rd party given Markham credit enhancement or via the York Region
- Structural protections to the benefit of the Town, such as a first lien / foreclosure right should be negotiated
- The debt under the Proposal would place significant annual cash flow burden on Markham and carries significant risk
  - At this point, from a pure financial point of view, the Town does not appear to be earning an adequate return for its involvement in extending or facilitating the debt raise
- A $175 million equity investment to help fund a marquee destination in the Town is attractive and may be worth pursuing alternatives with respect to the project's feasibility
- There are numerous factors that impact a) the Project's costs and b) the Project's cash flows, that could be negotiated and/or revised to mitigate the burden and risk to the Town
  - A Negotiated Transaction, as illustrated, will be difficult to achieve given multiple parties and interests
  - Might still leave a Funding Gap of $89 million (assuming 20 year amortizing period and 5% rate)
- Based on the Town's draft economic study, there may be justification for provincial support to fund this gap[(1)]
  - On an average, annualized basis, funding of the Funding Gap would require $5.2 million / year[(2)]

[(1)]Please refer to the report being prepared by Director of Economic Development for the Town, Stephen Chait, on the Economic Benefits of the Project
[(2)]Assumes 5% interest rate and a 20 year amortization period

Next Steps

- Obtain Town Council approval to move forward with evaluation of the opportunity
  - Do not provide any substantial commitments before significant progress on various improvements to the Proposal have been negotiated
- Engage Raymond James to continue to "quarterback" assessment of Project, assist in negotiations with the Equity Investors and pursue necessary debt capital to consummate any agreements or transactions
- Complete financial qualification review of Equity Investors
- Negotiate letter of intent / term sheet with the Equity Investors
  - Assess and finalize the legal / funding structures
  - Determine actual tangible costs / benefits (i.e. cash in/outflow) of the Project
  - Determine the tangible and intangible benefits of the Project
  - Document timeline and milestones
  - Socialize/obtain approvals from York Region and others that may be required