

# Brantford & District Civic Centre

Commentary on the Facility  
Lease / License Agreement Term  
Sheet with the Hamilton Bulldogs

*January 30, 2023*



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# Purpose of the Report (1 of 1)

## Background

- KKR Advisors Ltd. (“KKR Advisors”) was retained by the City of Brantford (the “City”) to assist the City in its negotiations with the Hamilton Bulldogs (the “Team” or the “Bulldogs”) regarding a potential facility lease / license agreement that would allow the Team to play its Ontario Hockey League home games in the Brantford & District Civic Centre (the “Civic Centre”).

## Report purpose

- The purpose of this report is to provide commentary on the negotiated Term Sheet between the City and the Bulldogs, based on KKR Advisors’ prior experiences negotiating and reviewing facility lease / license agreements.

# About KKR Advisors Ltd. (1 of 2)

## About KKR Advisors

- KKR Advisors is an advisory firm providing sports, recreation and entertainment facility development, financial and negotiation advisory services.
- KKR Advisors' principals have advised on more than \$7.0 billion in new and renovated facilities in Canada and the United States, including on the development, financing and / or tenancy arrangements for:
  - 22 Canadian Hockey League arenas (3 QMJHL, 15 OHL, 4 WHL);
  - 2 American Hockey League arenas;
  - 3 National Hockey League arenas;
  - 1 ECHL area (US);
  - 4 CFL stadiums;
  - 3 MLS stadiums;
  - 6 convention, conference, trade show and meeting facilities
  - 8 Canadian university sport facilities;
  - 11 National and International sporting events; and
  - 20+ municipal / community recreation facilities.

### Quebec Major Junior Hockey League

Moncton	Saint John	Quebec City
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### Ontario Hockey League

Ottawa	St. Catharines	Windsor
Kingston	Niagara Falls ( <i>proposed</i> )	Owen Sound
Oshawa	Guelph	North Bay
Brampton	Kitchener	Greater Sudbury
Burlington ( <i>proposed</i> )	London	Sault Ste. Marie

### Western Hockey League

Fort McMurray ( <i>proposed</i> )	Grande Prairie ( <i>proposed</i> )	Dawson Creek ( <i>proposed</i> )
Kelowna		

### American Hockey League

Toronto	Thunder Bay ( <i>proposed</i> )
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### National Hockey League

Ottawa	Toronto	Hamilton ( <i>proposed</i> )
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### Canadian Football League

Winnipeg	Hamilton	Toronto
Ottawa		

### Major League Soccer

Toronto	Ottawa	Montreal
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Assignments led by Ronald Bidulka while employed with Arthur Andersen LLP, Deloitte & Touche LLP, PricewaterhouseCoopers LLP and KKR Advisors Ltd.

# About KKR Advisors Ltd. (2 of 2)

## About KKR Advisors (continued)

- KKR Advisors' principals have led, advised on, and reviewed numerous sports team tenancy agreements, including directly leading negotiations of sports team tenancy agreements in two OHL facilities and supporting the negotiations of multiple sports team tenancy agreements in other arenas and stadiums in Canada.
- KKR Advisors' principals have also negotiated, advised on, and reviewed third-party venue management contracts, food and beverage / concessions arrangements, and building sponsorship arrangements.

# Term Sheet Provisions (1 of 5)

## What is a Term Sheet

- A Term Sheet, similar to a Memorandum of Understanding, is a negotiated document which outlines the main financial terms and conditions that would be included within a formal facility lease / license agreement.
- A Term Sheet is not a legally binding commitment on the part of the City or the Bulldogs but instead evidences the parties' mutual intention to negotiate a facility lease / license agreement based on the terms included in the Term Sheet.
- The formal facility lease / license agreement will include additional terms and conditions which will more formally set out and define the arrangements between the City and Bulldogs for the Team to play its OHL hockey games in the Civic Centre.

## Negotiated Term Sheet

- The Term Sheet with the Bulldogs identifies agreed-to conditions with respect to, among other matters:
  - Length of the agreement
  - Use and priority access
  - Leasehold improvements
  - Box office
  - Rent
  - Complimentary tickets
  - Game day staffing
  - Advertising
  - Building and corporate sponsorships
  - Food and beverage concessions
  - Bulldogs Foundation
  - Marketing support to be provided by the City
  - New Sports and Entertainment Facility

# Term Sheet Provisions (2 of 5)

Term Sheet Component	Term Sheet Provision	Market Commentary
1. Term	Three (3) years plus option to extend for three additional one (1) year terms	Term consistent with planned renovation of First Ontario Centre and deemed appropriate
2. Non-Exclusive Use of Civic Centre by Bulldogs	Provides use of Civic Centre for the Bulldogs' home games; additionally provides the Team the ability to utilize the Civic Centre for practices (provided no conflicts with pre-scheduled bookings)	Term Sheet provision is consistent with market standards
3. Priority Access to Available Dates	Term Sheet provides the Bulldogs access to Fridays and Saturdays, as priority days, and Wednesdays, Thursdays and Sundays, as secondary priority days, for home games (excluding dates where an event has previously been scheduled).	Term Sheet provision is consistent with market standards
4. (a) OHL Team Leasehold Improvements	<p>Obliges the Bulldogs to undertake, and pay for certain Leasehold Improvements, the purpose of which are to upgrade the Civic Centre to facilitate the playing of Ontario Hockey League games (including improvements to lighting, scoreboard, WIFI and sound systems, improvements to dressing rooms and related areas needed for an OHL Team, and improvements to the Civic Centre's concessions and washrooms)</p> <p>Term Sheet additionally outlines that building additions are to be separately metred and that the Team pays all costs associated with that space (including utilities), and that a minimum of 6 dressing rooms remain available for community hockey usage</p> <p>Term Sheet provides that the full Facility Lease / License Agreement will include various terms and conditions regarding the installation of the Leasehold Improvements</p>	Term Sheet provision is an uncommon arrangement in that capital improvements made to an arena are usually undertaken, paid for and financed by the municipality and not the sports team tenant

# Term Sheet Provisions (3 of 5)

Term Sheet Component	Term Sheet Provision	Market Commentary
4. (b) Financing of Leasehold Improvements	<p>Obliges the Bulldogs to pay for all costs (including hard and soft costs, fees and insurance, bonding and all required furniture, fixtures and equipment)</p> <p>City to provide a Leasehold Improvement Allowance of up to \$3.0 million. The amount provided by City is repayable if (a) the Bulldogs do not extend the lease after the initial three year term (100% if no extension exercised, 66.7% if second one-year extension not exercised, 33.3% if third one-year extension not exercised), or (b) another OHL team does not commence play in the Civic Centre in the season immediately following the initial three-year term</p> <p>Term Sheet additionally sets out that all Leasehold Improvements are to remain within or attached to the Civic Centre at the end of the lease / license agreement without compensation paid by the City</p>	<p>Term Sheet provision is an uncommon arrangement in that capital improvements made to an arena are usually undertaken, paid for and financed by the municipality and not a sports team tenant</p> <p>If Bulldogs do not extend their lease (whether for one, two or three additional years), all or a portion of the City's contribution is repaid by the Bulldogs (which is view as a beneficial arrangement for the City)</p> <p>At termination of the lease / license agreement, all improvements remain in the building without compensation being paid by the City (a beneficial arrangement for the City)</p>
5. Box Office	Team provided exclusive right to sell game tickets through the Civic Centre's box office. Team to pay \$15.00 per square foot (approximately \$4,500 per year) to rent the office space associated with the box office	<p>Term Sheet provision is consistent with market standards</p> <p>Team paying rent for associated office space is an uncommon arrangement</p>
6. Fee for Non-Exclusive Use ("Rent")	Team to pay rent equal to \$1.00 per ticket sold	Sports team tenants generally pay a percentage of ticket sales (most common for newer facilities) or a fixed amount, whether per game or per season (most common in older facilities) - the inclusion of the Team paying rent is consistent with market standards (KKR Advisors notes that the \$1.00 per ticket is identical to the amount charged in another CHL arena)



# Term Sheet Provisions (4 of 5)

Term Sheet Component	Term Sheet Provision	Market Commentary
7. Complimentary Tickets	Team allowed to provide up to 500 complimentary tickets per game; complimentary tickets over 500 subject to rent payment of \$1.00 per ticket	Term Sheet provision is consistent with market standards
8. Game Staffing - City	City to provide, at its cost (a) ice preparation prior to and during games, (b) 2 Zambonis and drivers each game, and (c) pre-game and post-game clean up	Term Sheet provision is consistent with market standards; in some cases, such costs are charged-back to the hockey team (most common for newer facilities), in others, the municipality is responsible for (and pays for) certain game day and staffing costs
9. Game Staffing - Team	Team to provide, at its cost, all other personnel and services required for OHL game day operations (including security, EMS, ticket takers, ushers, game entertainment, in-game shovel crews, concession staff, etc.)	Term Sheet provision is consistent with market standards (in some cases, the municipality is responsible for paying some of these costs)
10. Advertising	<p>Team provided with the right to sell and retain all revenue generated from the sale of advertising in the Civic Centre</p> <p>City to have approval rights re the designation of acceptable advertisers for a public facility</p> <p>City given right to 9 video ad spots on the main scoreboard at no cost</p>	Term Sheet provision is a somewhat uncommon arrangement in that generally (but not always) some form of revenue sharing exists (in some cases, the sport team tenant is provided the majority of advertising revenue); when viewed in conjunction with other arrangements, the Term Sheet provision is deemed appropriate
11. Building and Corporate Sponsorships	<p>Team provided with the right to sell and retain all revenue generated from the sale of building and corporate sponsorships, including Civic Centre naming rights</p> <p>City to have full and final approval authority to any prospective Civic Centre naming rights sponsor - naming sponsor required to keep "Civic Centre" in its name and City to receive 25% of gross revenue (net only of taxes)</p>	Term Sheet provision is a somewhat uncommon arrangement in that generally (but not always) some form of revenue sharing exists (in some cases, the sport team tenant is provided with the rights to all building and corporate sponsorship revenue); when viewed in conjunction with other arrangements, the Term Sheet provision is deemed appropriate

# Term Sheet Provisions (5 of 5)

Term Sheet Component	Term Sheet Provision	Market Commentary
12. Food and Beverage Concessions	Team provided with the right to sell and retain all revenue generated from the same of concessions during Bulldogs games  City to approve appointment of concession operator and the management contract; City can enter into a similar arrangement for concession sales during other events	Term Sheet provision is a somewhat uncommon arrangement in that generally (but not always) some form of revenue sharing exists; when viewed in conjunction with other arrangements, Term Sheet provision is deemed appropriate (particularly in regard to the cost of concession improvements is the responsibility of the Bulldogs)
13. Bulldogs Foundation	Bulldogs charitable foundation commits to working with the City to identify and implement Brantford-focused social programs consistent with its main purpose of promoting healthy, active and empowered youth	Term Sheet provision is consistent with market standards
14. Marketing Support Provided by City	City to place announcements and advertisements on its website and various social media platforms re upcoming home games, season ticket launches, ticket sales, etc.	Term Sheet provision is consistent with market standards
15. New Sports and Entertainment Facility	City agrees to consider the development of a new sports and entertainment facility in Brantford with a capacity of 5,000 spectators and the capability to host major junior hockey	Term Sheet provision does not constitute a commitment by the City to construct a new facility, only that the City will consider such a project

# Commentary on Proposed Term Sheet (1 of 5)

## Basis for Lease / License Agreement Negotiations

- While facility lease / license agreements are common arrangements between a sports and entertainment facility / municipality and a sports team tenant / licensee, no two agreements are exactly the same.
- While sharing the purpose of detailing the terms and conditions governing the sports team's use of the facility, facility lease / license agreements differ in many facets, including:
  - How rent is determined;
  - How revenues are shared;
  - How certain facility costs are shared; and
  - How building improvements are paid for.
- For example:
  - Some teams pay rent based on a percentage of ticket sales (generally up to 10%);
  - Some teams pay rent based on a percentage of ticket sales after total ticket sales achieve a certain threshold (whether total tickets sold or total ticket revenue);
  - Some teams pay a fixed amount per year (paid monthly); and
  - Some teams pay a fixed amount per game.
- How a facility lease / license agreement is ultimately structured is generally dependent upon a number of factors including:
  - The size of the arena (number of fixed seats);
  - The functional nature of the arena from a revenue generating perspective;
  - The newness of the arena particularly from an amenity and spectator attractiveness perspective; and
  - The nature and composition of the local and regional market within which the arena is located.
- An additional consideration is with respect to the cost of improvements, whether associated with the construction of a new sports and entertainment facility or modernizations made to an existing arena. In almost all instances, the cost of these improvements are made and financed by the arena's owner (usually a municipality).

# Commentary on Proposed Term Sheet (2 of 5)

## Basis for Lease / License Agreement Negotiations (continued)

- Where the municipality pays for these improvements, the municipality is generally able to argue for a higher rent and a larger share of building revenues; where a sports team tenant pays for some of these improvements, the sports team tenant is generally able to argue for a lower rent and a higher share of building revenues, particularly from revenues directly attributable to improvements it pays for / finances.
- It is typically within these parameters that a sports team tenant / licensee and the arena owner / municipality will seek to come to a mutually beneficial arrangement.

## Commentary on the proposed Bulldogs Term Sheet

- The Term Sheet governing the potential facility lease / license agreement with the Bulldogs contains four critical elements:
  1. The Bulldogs will be responsible for financing and undertaking certain leasehold improvements to the Civic Centre (estimated to cost in the range of \$7.6 million of which the City will contribute a maximum of \$3.0 million).

While some of the proposed leasehold improvements will be for the exclusive benefit of the Bulldogs, a number of the leasehold improvements will provide longer-term benefits to the Civic Centre, including a new electronic scoreboard and improvements to the Civic Centre's lighting within the arena bowl / seating area, WIFI, sound system, concessions and washrooms. At the termination of the facility lease / license agreement or any extensions thereto, all improvements vest in the City at no cost.

As noted above, such costs are typically the responsibility of the municipality, as building owner; in this instance, the Bulldogs will be responsible for the majority of the leasehold improvement costs.

***While an uncommon provision compared to other facility lease / license agreements, this provision is concluded to comprise a beneficial arrangement for the City as the Bulldogs will be committing capital to the improvement of the Civic Centre.***

# Commentary on Proposed Term Sheet (3 of 5)

## Commentary on the proposed Bulldogs Term Sheet (continued)

2. If the Bulldogs do not extend the facility lease / license agreement beyond its initial three-year term, or if another OHL team does not commence play in the Civic Centre within 12 months following the initial three-year term, the City's leasehold improvement contribution becomes repayable by the Bulldogs to the City (100% is repayable if the Team does not extend the lease / license agreement after the initial three-year term, 66.6% is repayable if the Team does not extend the lease / license agreement after the first one-year extension, and 33.3% is repayable if the Team does not extend the lease / license agreement after the second one-year extension).

***This provision is similarly uncommon compared to other facility lease / license agreements and is additionally concluded to comprises a beneficial arrangement for the City. In this regard, the City would benefit from the capital investment made by the Team; if the Team does not agree to extend the lease / license agreement (whether after the initial three-year term or after either***

***one –year extension thereto), the City would additionally benefit from the repayment of all or a portion of the leasehold improvement allowance it provided.***

3. While the Term Sheet provides the Bulldogs all revenue generated from advertising, corporate sponsorships and concessions during Bulldog games, and 75% of revenues derived from building naming rights (arrangements that are somewhat uncommon in that some form of revenue sharing typically, but not always, exists), such arrangements need to be considered in conjunction with (a) other provisions contained in the Term Sheet, and (b) costs which may otherwise be incurred by the City if it were to have assumed responsibility for selling naming rights, corporate sponsorships, advertising and concessions.

In this regard, it is noted that:

- Building improvements are typically the responsibility of the municipality, as building owner, to fund;

# Commentary on Proposed Term Sheet (4 of 5)

## Commentary on the proposed Bulldogs Term Sheet (continued)

- When capital is invested by others, the party paying for those improvements is usually provided rights to revenue generated from those features (a common arrangement in venue management contracts) allowing that party to obtain a return of and a return on that investment;
- Given the age, spectator capacity, functional obsolescence and more limited / restricted revenue generating opportunities of the Civic Centre (particularly when compared to newer facilities), the ability to achieve the aforementioned return of / return on invested capital is more limited;
- While revenues associated with the sale of building naming rights are typically “building revenue”, it is not uncommon for those revenues to be provided to or shared with the sports team tenant.
- Typically, responsibility for operating concessions and selling building advertising inventory, corporate sponsorships and naming rights rests with the

municipality, including costs associated with staffing, marketing and finalizing terms of all commercial rights agreements (advertising, corporate sponsorships, naming rights, etc.).

***Taken together, the provisions contained in the Term Sheet with respect to advertising, corporate sponsorship, naming rights and concession revenue are considered to be not unreasonable arrangements. In addition, the City’s ability to retain 25% of revenue generated from the sale of corporate naming rights to the Civic Centre (in addition to having approval authority) is viewed as a beneficial arrangement for the City.***

4. In playing its home games in the Civic Centre, the Bulldogs will pay rent based on \$1.00 per ticket sold (including seasons tickets and single game tickets). The Bulldogs will also pay rent for office space in the Civic Centre and the Team will also be responsible for paying the utility costs associated with their dressing room space.

# Commentary on Proposed Term Sheet (5 of 5)

## Commentary on the proposed Bulldogs Term Sheet (continued)

Per estimates prepared by the City, it is projected that with an average per game paid attendance of more than 2,000 (i.e., excluding complimentary tickets), the rent paid by the Bulldogs (\$2,000 per game over 36 regular season games plus potential pre-season and playoff games), the rent received by the City from the Team would offset the additional costs incurred by the City for providing its game day services (Item 8 in the Term Sheet; ice preparation prior to, during and after games, two Zamboni drivers, and pre- and post-game arena cleanup).

In addition to rent, the City would also receive approximately \$4,500 in rent (from the office space associated with the box office) and game day parking revenue at the Market Parkade (estimated by the City to approximate \$86,000 per year).

***The provision contained in the Term Sheet with respect to rent is considered to be not unreasonable, particularly when viewed in conjunction with other Term Sheet provisions and in consideration of the age, spectator capacity, functional obsolescence and more limited / restricted revenue generating opportunities of the Civic Centre.***



# Summary (1 of 1)

## Overall Summary

- The proposed Term Sheet between the City of Brantford and the Hamilton Bulldogs regarding a potential facility lease / license agreement that would allow the Team to play its OHL home games in the Civic Centre is concluded to contain a number of beneficial arrangements for the City:
  - The Bulldogs will be responsible for financing and undertaking certain leasehold improvements to the Civic Centre (estimated to cost in the range of \$7.6 million of which the City will contribute a maximum of \$3.0 million). This arrangement is concluded to comprise a beneficial arrangement for the City.
  - While obligated to provide a leasehold improvement allowance of up to \$3.0 million, the City's contribution is repayable if the Bulldogs do not agree to extend the lease / license agreement beyond its initial three-year term. This arrangement is concluded to comprise a beneficial arrangement for the City.
  - When viewed in conjunction with other provisions contained in the Term Sheet, and with consideration to the age, spectator capacity, functional obsolescence and limited revenue generating opportunities associated with the Civic Centre, the arrangements pertaining to advertising, corporate sponsorships and concession revenue are concluded to be reasonable. The City's ability to receive 25% of proceeds received from facility naming rights is concluded to comprise a beneficial arrangement for the City.
- When viewed in conjunction with other provisions contained in the Term Sheet, and with consideration to the age, spectator capacity, functional obsolescence and limited revenue generating opportunities associated with the Civic Centre, the Term Sheet provision related to rent is concluded to be reasonable.
- Based on the foregoing, it is concluded that the provisions contained within the Term Sheet between the City of Brantford and the Hamilton Bulldogs governing a potential facility lease / license agreement allowing the Team to play its OHL home games in the Civic Centre, is a mutually beneficial arrangement.



# General Assumptions and Limiting Conditions

1. The use of any projected information (“Projections”) made in conjunction with this Report may not be appropriate for use outside of their intended purpose. The Projections, if included, will not reflect actual attendance, development cost, economic, and / or financial / fiscal results. The inclusion of scenarios produced in conjunction with this analysis may contain hypotheses and assumptions which are based on a set of conditions or anticipated courses of action that may not be unreasonable, are consistent with the purpose of the Projections, but which will not materialize as set out therein. The hypotheses represent plausible circumstances, but need not be, and may not have been fully supported.

Since future events are not subject to precise projections, some assumptions will not materialize in the exact form presented by our analysis. In addition, other unanticipated events and circumstances may occur which could influence future attendance, use, utilization and / or programming of the Brantford Civic Centre or the Hamilton Bulldogs. Therefore, actual attendance, use, utilization, and / or programming of the Brantford Civic Centre will vary from any Projections set out therein. While there is no recourse to predicting these matters with certainty apart from informed and reasoned judgments, it must be stated that future events will lead to variations which may materially alter the actual operating results. KKR Advisors Ltd. does not warrant that actual results achieved from the Hamilton Bulldogs playing home games in the Brantford Civic Centre will be the same, in whole or in part, as those shown in any Projections. The Projections are based on hypotheses and there is a significant risk that actual results will vary, perhaps materially, from the results projected.

2. Information furnished by others upon which all or portions of this report are based, including, among others, the City of Brantford and the Hamilton Bulldogs, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information.
3. Our report and work product cannot be included, or referred to, in any prospectus, securities and exchange commission filing or other public investment document.
4. The intended use of this report is commentary on a proposed Term Sheet for a Facility Lease / License Agreement to allow the Hamilton Bulldogs to play their Ontario Hockey League games in the Brantford Civic Centre. This document does not purport to provide legal advice and it should not be interpreted as providing legal advice. The reader is encouraged to seek independent legal advice.
5. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization have been, or can readily be obtained, or renewed to support uses upon which this report is based.
6. No investigation has been made of, and no responsibility is assumed for, the legal description or for legal matters including title or encumbrances.
7. Full compliance with all applicable federal, provincial and local zoning, use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated.
8. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions which occur subsequent to the date of this report.
9. Any financial structures contained or referred to within this report is predicated on the market conditions prevailing as of the date of this report.
10. Areas and dimensions of any property referenced in this report were obtained from sources believed to be reliable. Maps or sketches, if included in this report, are only to assist the reader in visualizing the property / site and no responsibility is assumed for their accuracy. No independent surveys were conducted.
11. It is assumed that there are no hidden or unapparent conditions of the site, subsoil, or structures that affect future use and / or value. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
12. No soil analysis or geological studies were ordered or made in conjunction with this report, nor was an investigation made of any water, oil, gas, coal, or other subsurface mineral and use rights or conditions.
13. We have not been engaged nor are we qualified to detect the existence of hazardous material which may or may not be present on or near the property. The presence of potentially hazardous substances such as asbestos, urea-formaldehyde foam insulation, industrial wastes, etc. may affect the value and future use of a property and the viability of

# General Assumptions and Limiting Conditions

using the property for its intended purpose. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field if further information is desired.

14. Neither KKR Advisors Ltd. nor any individuals signing or associated with this report shall be required by reason of this report to give further consultation, to provide testimony or appear in court or other legal proceedings, unless specific arrangements thereof have been made.
15. This report has been made only for the purpose stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including without limitation any conclusions, the identity of KKR Advisors Ltd. or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties by any means without the prior written consent and approval of KKR Advisors Ltd.

