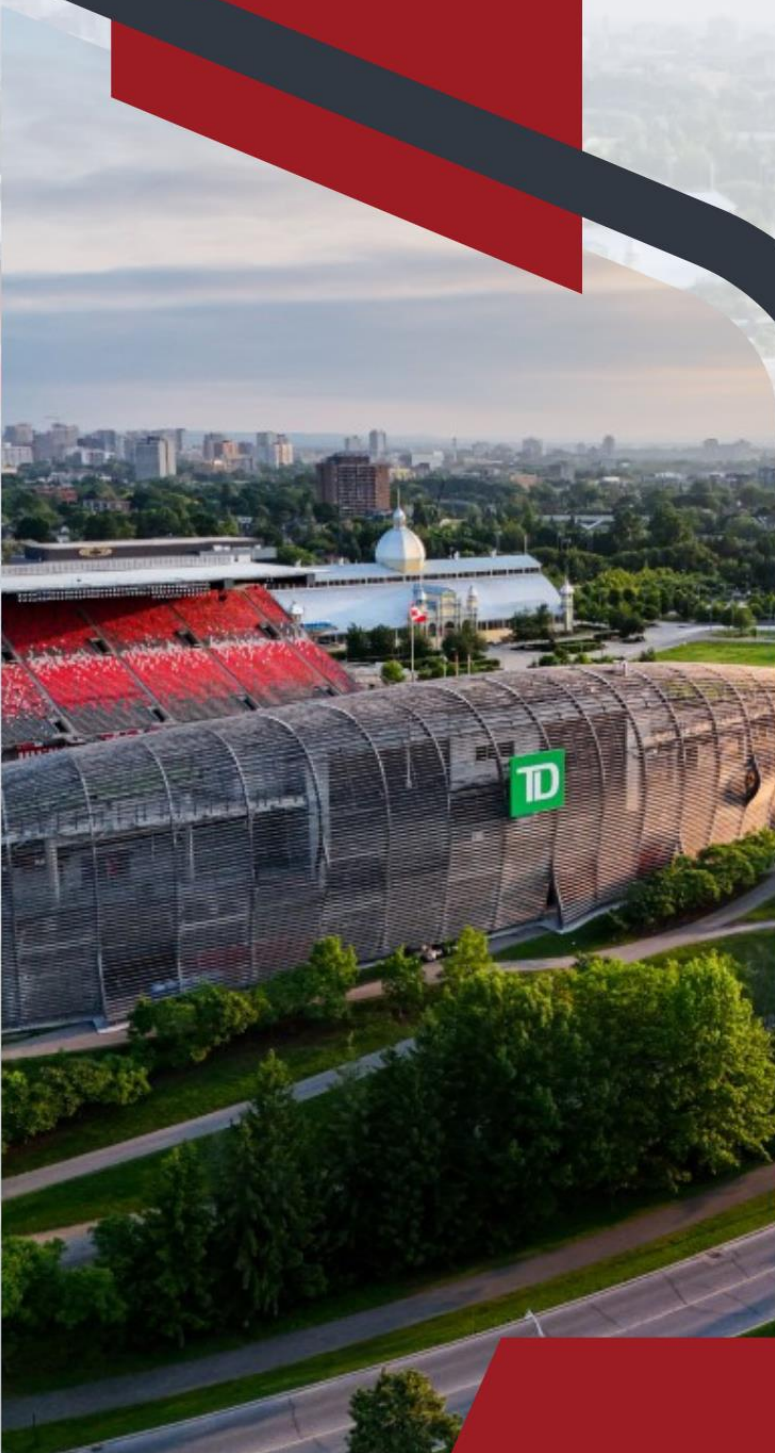




**Office of the  
Auditor General**  
City of Ottawa

# **FOLLOW-UP – AUDIT OF LANSDOWNE SPRINT 1**



**NOVEMBER 2025**

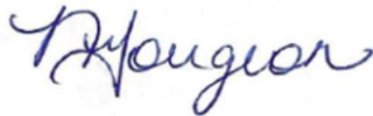
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## Acknowledgement

The team responsible for these follow-up procedures was comprised of Atul Arora, Audit Principal from the Office of the Auditor General (OAG) and BDO Canada LLP, an independent external consultant, under the supervision of Joanne Gorenstein, Deputy Auditor General and my direction. My colleagues and I would like to thank those individuals who contributed to this project.

Respectfully,

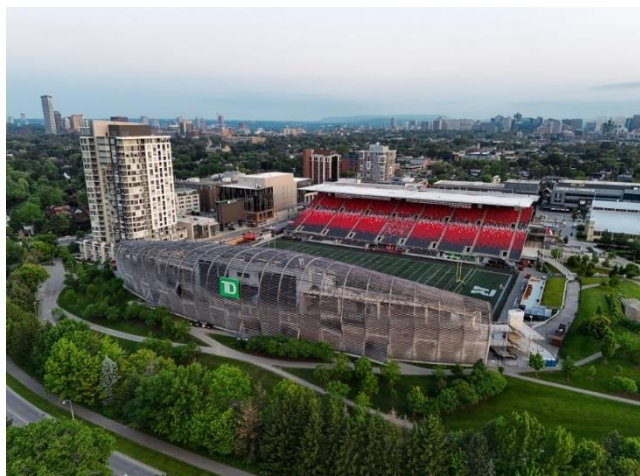


Nathalie Gougeon, CPA, CA, CIA, CRMA  
Auditor General

## A. Background and Context

### Lansdowne Redevelopment

The City of Ottawa (“the City”) and Ottawa Sports and Entertainment Group (“OSEG”) formed a public-private partnership (“Partnership”) in October 2012 to revitalize Lansdowne Park. The Partnership Agreement was based on a [closed financial system](#) that captures the [equity contributions](#) of both partners, capital costs and cashflows, and defines equity contributions from the City and OSEG to be used solely for the purposes of the total project. Net



Lansdowne Park, 2025 (Photo Credit: City of Ottawa)

cashflows from this closed financial system were to be distributed to the City and OSEG based on a “[waterfall](#)” of priorities as set out in the Partnership Agreement. The primary benefit of this Partnership Agreement for the City was not having to contribute money for asset lifecycle maintenance or operating deficits for the stadium, parking, retail or sports teams throughout the Partnership Agreement.

The Partnership oversaw the renewal and revitalization of Lansdowne Park with new south stadium stands, new mixed-use retail, reimagined public realm spaces and subterranean parking. The City has stated that these changes not only attracted more sports and entertainment visitors, but added foot traffic through the addition of residential, shopping, entertainment and parking offerings.

We understand that despite attracting more visitors, the financial estimates of this Partnership Agreement did not materialize as projected. As of March 2022, OSEG has had to contribute \$160 million to the Partnership, which is \$100 million more than initially projected in 2012. As represented by the City, in its current form, the Partnership Agreement is not sustainable for OSEG and there are no expected returns from the waterfall to be paid to the City for the term of the Partnership Agreement.

In July 2021, a revised Partnership Agreement Framework and Redevelopment Plan was agreed to by City Council ([ACS2021-PIE-GEN-0004](#)), to ensure the sustainability and long-term financial viability of the Partnership. The Lansdowne 2.0 Redevelopment Project (Lansdowne 2.0), if approved, includes:

- Construction of a new Event Centre (to replace the existing Arena at TD)

Place)

- Replacement of the North Side Stands (including the creation of 140 underground parking spaces)
- Creation of a new retail [podium](#), and
- Development of two residential towers, alongside enhancements to public spaces.

In November 2023, Council provided approval to proceed with Lansdowne 2.0 redevelopment planning, as outlined in the *Lansdowne Partnership Plan – Authorization to Proceed to the Next Steps in the Redevelopment Report* (“2023 Staff Report”) ([ACS2023-PRE-GEN-0009](#)). The 2023 Staff Report included an estimated construction cost of \$419.1 million with a combination of sources of funding, including the sale of the subterranean and property [air rights](#) (“air rights”), [debenture premiums](#), capital budget and issuance of new debt. In April 2024, Council approved the specific path forward on new facility designs, and the air rights disposal and development, as well as the issuance of a \$20 million line of credit to be used for cash flow purposes to the end of construction, guaranteed by the City, but to be repaid by the Partnership as part of the retail mortgage ([ACS2024-PRE-GEN-0002](#)).

In support of the 2023 Staff Report, the City hired a third-party consultant (Ernst & Young or “EY”) for analysis of OSEG’s financial projections and the City’s funding strategy<sup>1</sup>.

Coinciding with the redevelopment planning, negotiations have continued between the City and OSEG to amend the Partnership Agreement. Discussions between both parties began in the spring of 2024 and, as per the City, a final draft has been prepared as of the drafting of our report. The key changes to the Partnership Agreement, which is referred to as the Amended and Restated LPP Agreements (“Amended Agreement”), include:

- Extension of the waterfall from to 2075
- Elimination of City deemed equity and OSEG minimum equity and interest
- Waterfall distributions of net cash flows to the partners proportionately based on equity contribution
- Addition of an annual base rent of \$500,000 for the stadium and a ticket surcharge amount payable to the City
- Addition of a second \$20 million line of credit to help manage any negative cash flows post construction; to be guaranteed 100% by OSEG, and
- Establishment of the methodology for coverage of business interruption costs associated with the redevelopment project – with each partner

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<sup>1</sup> [EY Lansdowne 2.0 Financial Due Diligence Summary Report; Sept 13, 2023.](#)



responsible for 50% of the business interruption costs as defined in the Amended Agreement.

Since April 2024, the City has completed the detailed facility design for the Events Centre and North Side Stands, received site plan approval for the new facilities, tendered the construction design to pre-qualified general contractors, entered into a post-tender negotiation with EBC Inc. (“EBC”) and tendered the air rights development component of the project to Mirabella Development Corporation (“Mirabella”).

### **Agile Audit of Lansdowne 2.0**

Recognizing the scale and complexity of this initiative from the outset, the OAG adopted an [agile audit](#) approach to provide real-time assurance and support informed decision-making throughout the project lifecycle.

The [Agile Audit of Lansdowne 2.0 – Sprint 1 Financial Due Diligence](#) (“Sprint 1” or “2024 Audit”) undertaken by the OAG focused on evaluating the financial due diligence supporting the 2023 Staff Report. Our 2024 Audit, which was presented to the Audit Committee in June 2024, assessed the reasonableness of key financial assumptions, validated the robustness of financial models, and identified risks impacting the project’s financial sustainability.

Key findings from our 2024 Audit highlighted that construction cost estimates were optimistic, noting that they could be understated by approximately \$74.3 million (17.7%) for the Event Centre and North Side Stands, and \$2.7 million (14.5%) for the new parking structure. Risks were also identified in contingency allowances and utilities cost estimates. Additionally, while our report recognized that many of the assumptions that supported the financial projections were reasonable and supported by detailed analysis and evidence, there were specific assumptions, including the Ottawa Redblacks (“Redblacks”) revenue growth and overall expense growth rates, that had a significant impact on the potential downstream waterfall distributions. Our 2024 Audit quantified the risk associated with not achieving these assumptions and the impact of more modest assumptions ranged from \$10 to \$30 million, per risk scenario, in decreased waterfall distributions available to the City over the life of the Partnership Agreement.

Our 2024 Audit also emphasized the inherent risks of long-term projections and highlighted areas requiring closer monitoring, including economic conditions, construction delays, and team performance variability.

Recommendation #2 from our 2024 Audit recommended the City take into consideration recent actual results and modest future assumptions to update the financial projections for the Partnership to present to Council for the next decision point.

## **Recent Project Developments**

Since the completion of our 2024 Audit, the Lansdowne 2.0 project has progressed and, based on the activities noted above, the City has updated its funding strategy and financial model. The model considers the changes to the Partnership Agreement, the results of the competitive processes for the construction of the Events Centre, North Side Stands, additional parking and the sale of air rights, which include the construction of the retail podium and Grand Entrance. Additionally, projections were updated to reflect new information, such as revised construction schedules, updated retail leasing data, and the availability of two (2) additional years of actual results for key revenue and expense streams, including the Redblacks and stadium revenue. While a third party was not engaged to conduct due diligence on many of the revised projections, the original adjustments made to the projections as a result of EY's report were applied and, in some cases, the City made further conservative adjustments based on recent actual results. The City did; however, leverage internal and external subject matter experts to provide independent verification of specific financial elements, including the retail projections (conducted by EY).

## **B. OAG Agile Audit – Follow-up to Sprint 1**

As per our standard follow-up process, once a recommendation is assessed as complete by management, the OAG undertakes steps to confirm that management actions have been completed and based on risk level, may perform further tests.

The OAG recognized that the City would be addressing the second recommendation from our 2024 Audit as part of the *Lansdowne 2.0 Redevelopment and Authorization to Proceed with Legal Close and Implementation Plan* ("2025 Staff Report") ([ACS2025-IWS-IS-0003](#)), rising to City Council in November 2025 to seek approval for the continuation of the redevelopment plan, including the funding strategy to support it. As such, we chose to focus our follow-up work on the funding strategy and updated waterfall financial projections, to highlight any risk areas for consideration by Council. This required our office to conduct additional detailed procedures to validate that the risks that the original recommendation were intended to mitigate have in fact been mitigated.

***Caution to Reader: It should be noted that our follow-up work contained in this report is not intended to provide audit level assurance. While an audit provides a high/reasonable level of assurance, follow-up procedures, such as those performed in support of this report, offer a more limited level of assurance.***

## C. Summary

It is important to emphasize that our report does not draw any conclusion as to the importance or priority given to Lansdowne 2.0 or make suggestions as to the future direction of this project. Such suggestions would be outside the OAG's mandate. Our report is meant to highlight the risks that we believe exist with specific project-related costs and financial assumptions as well as opportunity costs. This information is meant to aid Council in making an informed decision.

The primary purpose of our work was to perform follow-up procedures on Recommendation #2 from our 2024 Audit. As a result of our follow-up work, this recommendation has been assessed as complete. While we can confirm that the actions taken by the City align with those committed to as part of our 2024 Audit, the follow-up work we performed on the updated assumptions and estimates highlight ongoing, and in some instances, new risks that we believed were important to highlight.

Overall, specific assumptions that were embedded in the original cost estimates associated with Lansdowne 2.0 redevelopment are now known or have been updated. However, given the expected duration, size and interdependencies associated with the Lansdowne 2.0 construction project and the current level of economic uncertainty, there is a risk that the City's contingency of 10% for the project may not be sufficient to cover all unforeseen costs. If this risk was to materialize, it could require the City to take on additional debt.

Our follow-up work continues to flag risks with the underlying assumptions associated with the financial projections for the waterfall; specifically related to Redblacks revenue and expense growth as well as overall expense growth. Ultimately, should the results fall short from the financial projections over the course of the Partnership Agreement, distributions from the waterfall will not be available to the City.

While the City has outlined a number of benefits stemming from the Lansdowne 2.0 redevelopment, specific elements of the funding strategy represent [opportunity costs](#), which could be allocated to other City priorities or activities. This includes the allocation from reserve funds and proceeds from the [Municipal Accommodation Tax](#) (MAT) to fund the project and future debt repayments. Similarly, the City is allocating an annual amount from the budget specifically to repay the debt associated with Lansdowne 2.0, representing an opportunity cost as this could be used for other City priorities.

Finally, while additional funds will be allocated to affordable housing, the approach taken by the City to internally reallocate a portion of the proceeds of the sale of the air rights



has reduced this contribution by \$5 million, which may not align with Council's expectations.

As noted above, the work performed was limited to follow-up procedures on the updated costs and financial projections related to the Lansdowne 2.0 project. The risks and opportunity costs identified are focused entirely on these financial elements and did not assess the benefits or other costs of the project as these were not included in the scope of our 2024 Audit.

## D. Findings and Recommendations

### 1. Assumptions Impacting Construction Cost Estimates

#### 1.1 Construction Contingency

##### OAG 2024 Audit

In our 2024 Audit, we highlighted that the estimates for the cost of construction of the Event Centre and North Side Stands were on the lower end of the City's acceptable ranges for contingencies and utilities construction costs, which reflected a more optimistic scenario considering the inherent risks related to construction, including the delayed construction horizon and already increasing construction costs.



North Side Stands (Photo Credit: City of Ottawa)

Our 2024 Audit quantified the potential understatement:

- For the Event Centre and North Side Stands, the [Class C](#) cost estimates could be understated by \$74.3 million ( $\approx 17.7\%$  of the \$419.1 million construction cost), and
- For the underground parking (140-stall), the Class C estimate could be understated by \$2.7 million ( $\approx 14.5\%$ ).

It is important to note that our estimates included key risk factors such as price escalations, contract claims and disputes, schedule delays, scope changes, etc. These estimates were meant to reflect what a project of this size and scope in the current volatile

market conditions **could cost at completion** (i.e. currently estimated to be 2030). These costs will not be known to the City until the end of the project.

### **2025 Staff Report**

Since the 2023 Staff Report, a tender price has been received, such that the overall estimated project cost is now \$418.8 million for the Event Centre and North Side Stands and \$19.2 million for the parking (see **Table 1** below).

**Table 1 – Construction Costs for the Event Centre and North Side Stands, and the Underground Parking**

<b>Category</b>	<b>Event Centre and North Side Stands (in \$ millions)</b>	<b>Underground Parking (in \$ millions)</b>
Construction Costs	305.5	16.6
Soft Costs	76.3	0.9
Contingency (10%) <sup>2</sup>	36.1	1.7
Escalation	0.9	-
<b>Total</b>	<b>418.8</b>	<b>19.2</b>

The current cost estimates are approximately those of the last estimate provided to Council in 2023. However, while [hard construction costs](#) are fixed, [soft costs](#), [escalation](#), and integration with the Mirabella development remain subject to change, leaving residual uncertainty in the overall cost exposure.

### **Current Contingency**

In construction projects, contingency is an estimate included within the project budget to address unexpected events, risks, or changes that may arise during the project lifecycle but cannot be specifically predicted in the planning phase.

In the 2025 Staff Report, the City's 10% contingency allowance (\$36.1 million for the Event Centre and North Side Stands; \$1.7 million for the underground parking) aligns with the City's Estimating Guide. However, we believe the contingency represents the

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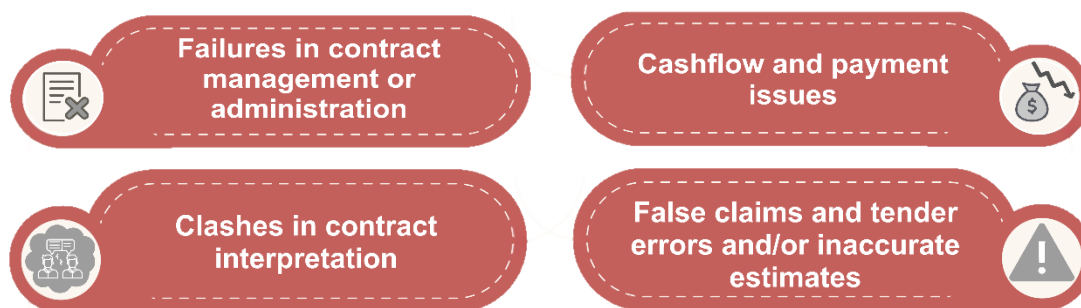
<sup>2</sup> The 10% contingency for the Event Centre and North Side Stands is applied to \$361.0 million, representing the combined total of construction and soft costs, less \$20.5 million already incurred to date.

minimum buffer for a project of this magnitude and duration. While an established tender price with EBC has fixed the hard construction costs, the contingency must be able to absorb a wide range of residual risks over a five-year construction period, including escalation, tariff exposure, and interdependent development.

### **Historical Comparisons**

Most large-scale projects have construction periods of three or more years and may span up to 10-15 years when including the funding, approval and design phases of the project. The longer the project, the greater the uncertainty about future events. According to the construction industry<sup>3</sup>, the most prevalent contract-related issues within North America are as follows:

**Figure 1: Most prevalent contract-related issues for large-scale construction projects**



Given the historical trend and the inherent complexities associated with large-scale construction projects, it is essential to ensure that all foreseeable risks are thoroughly accounted for within the project budget.

Similar Canadian public projects have shown cost overruns, often due to schedule elongation, scope evolution and [interdependency](#) delays. The BMO Field Expansion in Toronto is a prime example; a 2-year, \$120 million renovation and expansion ended-up 25% over budget<sup>45</sup>. This project was significantly shorter in duration, amplifying the inherent exposure of Lansdowne 2.0's construction period to these risks.

### **Cost Escalation Risks**

Within the draft construction contract ("contract"), EBC bears the risk of market escalation after contract award. However, the contract allows for wage and material cost escalation

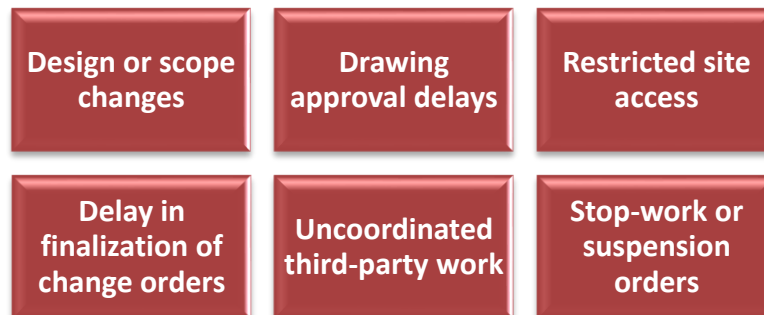
<sup>3</sup> HKA Global Limited. (2024). CRUX Insight 2024: Changing the narrative (Seventh annual report)

<sup>4</sup> City of Toronto. (2014). Staff report action required: Federal / Provincial matching investment for stadium project; page 1. [City of Toronto Staff Report - Renovation and Expansion of BMO Field](#)

<sup>5</sup> Major League Soccer. (2016). Toronto officials celebrate "new and spectacular" BMO Field; para 6. [Toronto officials celebrate "new and spectacular" BMO Field | MLSsoccer.com](#)

arising from City-caused delays. **Figure 2** outlines examples where the City's actions or inaction could directly or indirectly trigger compensable delays.

**Figure 2: Potential Causes of Cost Escalation**



As outlined in **Figure 2** above, one of the key common risks for cost escalation stems from design and scope changes that materialize from unclear or evolving requirements. The procurement process highlighted this challenge; the bid deadline was extended by approximately 2.5 months and generated over 1,500 bidder questions seeking clarification of, and in some instances modifications to, both technical requirements and contract terms. This high volume of inquiries could indicate that certain requirements may not have been clear for consistent interpretation at the time of tender. Should these persist into construction, they could lead to change orders and escalation claims, increasing cost to the City.

These factors introduce escalation exposure to the City in the event of project delays attributable to City actions or approvals. While cost escalation is a common risk in all large-scale projects, it is exacerbated by the length and complexity of Lansdowne 2.0.

### **Tariff Risks**

In addition to the factors described above, the current geopolitical environment exacerbates the cost escalation risk. Tariffs imposed by the United States (U.S.) on steel, aluminum, and other essential materials have the potential to increase costs and disrupt supply chains within Canadian construction projects. Even minor adjustments to tariffs may result in budget overruns, project delays, claims and disputes.

As construction businesses address the current U.S. tariff impacts, the future risks remain uncertain. Efficient tariff management continues to play an important role in the Canadian economic environment for maintaining financial stability.

The City has indicated that they have established a strategy to address and mitigate the effects of potential trade tariffs on its procurement processes and project delivery. Key measures shared with us include:

- enhancing buy-local initiatives
- actively engaging with industry stakeholders and other levels of government, and
- updating procurement protocols to reduce supply chain risks.

We understand from the City that the tender price reflects the current market rates for construction materials and equipment. However, Canada has integrated supply chains for construction materials, including cross-border manufacturing. Consequently, Canadian markets are directly affected by future tariff-related price changes and shifts in trade flows. The contract with EBC transfers the risk of new or increased tariffs back to the City and establishes the process by which EBC may claim impacts resulting from new taxes, customs duties, and tariffs imposed after bid closing. This exposes the City to future market price escalation risk that is higher than historical trends.

### **Interdependency Risks**

The success of Lansdowne 2.0 depends heavily on the coordination of multiple workstreams, and integration between the City's construction project and Mirabella's residential and retail development. Since numerous elements have structural, access, or servicing dependencies, any misalignment or delay in a single component can lead



**Lansdowne 2.0 Redevelopment (Photo Credit: City of Ottawa)**

to increased costs and schedule risk throughout the project. Examples of key interdependency risks include:

- The Event Centre (November 2025 – July 2028) and North Side Stands/underground parking (November 2028 – November 2030) are designed as one functioning facility and share systems like the underground loading zone. A delay in the Event Centre will have a direct impact on the schedule and delivery of the North Side Stands



- Progress on the City's construction schedule is directly linked to Mirabella's ability to advance its residential development. Delays in completing the North Side Stands could prevent the air rights sale from closing and trigger penalties payable by the City (see [Section 2.1](#) below), and
- The Great Lawn area will be used for construction staging through July 2028, limiting site access and necessitating careful coordination to reopen public spaces as early as feasible.

## 1.2 Business Interruption Costs

Included in the soft costs for the construction of the Events Centre and North Side Stands is \$16.0 million of business interruption costs. As noted in the Background and Context section of this report, one of the key amendments to the Partnership Agreement was how the business interruption costs, resulting from the redevelopment, would be addressed. These costs represent a shared financial obligation between the City and OSEG, directly impacting the City's overall construction cost and associated equity contributions. The 2023 Staff Report included OSEG's estimate of these costs at \$23.2 million, which, at the time, were subject to EY's due diligence review.

As part of our 2024 Audit, we concluded that these costs were based on reasonable assumptions and analyses. While the City agreed to cover 50% of business interruption costs (estimated to be \$12 million at the time), the responsibility and the calculation methods for these costs remained under negotiation. This posed potential financial risks to the City if actual costs exceeded estimates.

The Amended Agreement indicates allowable business interruption costs; examples include:

- reduced revenues for events attributable to the construction of the North Side Stands
- lost retail revenue during the demolition and construction of the new retail component, and
- out-of-pocket incremental costs of operations of the retail/stadium components incurred as a result of Lansdowne 2.0.

The Amended Agreement further provides a high-level calculation of business interruption costs, primarily based on establishing a benchmark for revenues from events and retail leases and subtracting actual revenues during the construction period to arrive at the business interruption costs. Despite establishing the approach to calculating the business interruption costs, the Amended Agreement does not define the specific benchmark; which is to be established in the future.

The total estimated business interruption costs have been calculated at approximately \$32 million, of which, the City's portion is \$16.0 million. Depending on the ultimate benchmark agreed upon and the actual results, there could be significant differences in the amounts owing by the City as compared to the current estimate. This could impact the overall construction cost to the City and could impact the amount of debt the City would have to issue. It should be noted that any incremental business interruption costs would be considered City equity in the Partnership.

### 1.3 Other Construction Costs

#### Retail Podium

Outside of the contract with EBC for the Event Centre, North Side Stands and parking, there are costs to the City of constructing the retail podium, which will house the additional retail space envisioned as part of the redevelopment project. The two-storey retail podium forms the base of the residential towers and will be constructed by Mirabella, with ownership of the podium remaining with the City. The total estimated cost of the retail podium is \$45.9 million, and is comprised of the following:



**Grand Entrance and Retail Podium (Photo Credit: City of Ottawa)**

**Table 2 – Breakdown of Estimated Cost of the Retail Podium**

Category	Estimated Cost (in \$ millions)
Core and Shell (basic foundational structure)	29.3
Fit-Up (customization of interior space for individual tenants)	9.9
Additional Integration/Design Costs	6.7
<b>Total</b>	<b>45.9</b>

Given the early stage of design of the retail podium, this estimate remains at a [Class D](#), representing elevated risk exposure relative to other components. As a result, a 40% contingency has been established for each of the above components of the estimate. This demonstrates that this component of the construction is still an early estimate and subject to potential changes as design and integration planning continues.

### **Summary – Construction Costs**

The overall construction cost of \$418.8 million for the Event Centre and North Side Stands remains aligned with the original Council-approved authority but is subject to material downside risk if escalation, tariffs, or interdependency delays arise concurrently.

Given these concurrent pressures, maintaining only a 10% contingency exposes the project to the risk of budget insufficiency should multiple risk events overlap. A contingency of this size may not fully capture cumulative escalation over five years of construction combined with tariff or coordination impacts.

Additionally, there are early estimates and assumptions embedded within some of the construction costs that could impact the overall cost to the City.

### **RECOMMENDATION 1 – MANAGEMENT OF RISKS ASSOCIATED WITH CONSTRUCTION CONTINGENCY**

The General Manager, Infrastructure and Water Services Department (IWSD) should ensure the City has established approaches to manage the risk to the Lansdowne 2.0 construction cost/contingency and provide timely (at a minimum annually) updates to Council on the financial status (i.e. budget to actual and status of contingency) of the project.

### **MANAGEMENT RESPONSE 1**

Management agrees with this recommendation. IWSD employs a risk management-based approach to oversight and management of capital projects utilizing robust Project Management Systems and controls and will provide semi-annual status updates to Council. Updates will include construction progress and the financial status, including status on the construction costs and contingency of the project, commencing in 2026. In addition, regular capital financial status reports and updates are provided throughout the year as part of the Quarterly Status Reports presented to Finance and Corporate Services Committee and Council.

## 2. Assumptions Impacting the Funding Strategy for Construction Costs

One of the key components of the 2025 Staff Report includes the proposed approach to funding the \$418.8 million estimated construction cost. **Table 3** below outlines the planned funding sources for the construction:

**Table 3 – Funding Sources for Construction Costs of the Event Centre and the North Side Stands<sup>6</sup>**

<b>Funding Source</b>	<b>2023 Funding Amount (in \$ millions)</b>	<b>2025 Funding Amount (in \$ millions)</b>
Sale Price of Subterranean and Property Air Rights	39.0	65.0
Allocation of Air Rights Proceeds to Podium Integration and City Parking for Residential Towers	-	(16.7)
Contribution to Affordable Housing	(3.9)	(14.4)
Debenture Premium from Lansdowne 1.0	33.0	32.3
Funding from Reserves	18.3	15.6
Municipal Accommodation Taxes (2028-2030)	-	6.0
Provincial/Federal Funding	20.0	-
Debt (40-Year Term @ 4.25%)	312.7	331.0
<b>Total</b>	<b>419.1</b>	<b>418.8</b>
Annual Costs	16.4	17.4

Overall, the construction cost estimates (\$419.1 million in 2023 and \$418.8 million in 2025), contained within the 2023 Staff Report and the 2025 Staff Report, have remained relatively consistent. However, the estimated debt requirement has increased from \$312.7 million to \$331.0 million (an increase of \$18.3 million or 5.9%). As additional net proceeds from the sale of air rights will be realized, there is a larger contribution to affordable housing and, to be conservative, the City has removed their estimate for

<sup>6</sup> This table, as represented by Table 10 in the 2025 Staff Report, includes the funding sources for the construction of the Events Centre and North Side Stands only. It does not include the funding sources for the underground parking, which will be funded from a combination of proceeds from air rights and debt.

funding from other levels of government. This has resulted in a corresponding increase to the annual repayment amount from \$16.4 million (2023) to \$17.4 million (2025).

In the sections below, the OAG has highlighted risks or concerns with specific funding sources and the associated assumptions and calculations.

## 2.1 Air Rights

Outside of the planned debt to be issued, the second most significant contributor to funding the project is the cash flows from the sale of air rights to a developer to develop two residential towers located above the North Side Stands.



**Residential Towers and Retail Podium (Photo Credit: City of Ottawa)**

In the 2023 Staff Report, the appraised value of air rights was \$39 million. Since then, the City initiated a [Request for Offer](#), which resulted in the selection of Mirabella as the preferred developer, with an offer of \$65 million. Given that the offer was much higher than originally estimated, the gross air rights contribution to the total project funding increased by \$26 million.

The City has a drafted purchase and sale agreement with Mirabella, which is pending Council's approval to proceed. The transaction is structured with a long closing horizon (approximately five years) to allow for demolition, environmental remediation, and the construction of the North Side Stands before the sale can close. The closing date will be the earlier of the following two dates: three (3) months following Substantial Completion of the North Side Stands or July 31, 2031. Given the long closing period, penalties have been embedded in the draft purchase and sale agreement, triggered by failure to meet key milestones. The critical date for the City is December 29, 2028, by which time the City must confirm the feasibility of completing the North Side Stands and obtain a [Record of Site Condition](#). While there are opportunities to extend this deadline, if the City does not proceed or terminates the arrangement because the North Side Stands completion condition is not satisfied, a \$1 million payment to Mirabella will be required. After December 29, 2028, if the City fails to complete the transaction for any other reason by the final closing deadline (July 31, 2031), the penalty increases to \$13 million, reflecting Mirabella's higher level of investment by that stage (e.g., completion of design, site plan approval, and associated soft costs).



Although a lower likelihood of materializing, should Mirabella be the one to withdraw from the transaction, the associated contributions to the City would be at risk. The success of the residential component of the redevelopment is central to the overall Lansdowne 2.0 business case and funding strategy for construction costs. It directly contributes to funding construction costs, including the Event Centre and North Side Stands (\$33.9 million), the retail podium (\$6.7 million) and the underground parking (\$10 million). Further, without the proceeds from the sale of the air rights, there would be no corresponding contribution to affordable housing (see [Section 2.2](#) below).

Managing the risk associated with construction timelines is critical to mitigate the risk of penalties incurred by the City as the residential development represents a key interdependency of the construction of the North Side Stands by EBC.

## 2.2 Allocation of Air Rights

The City has allocated a total of \$16.7 million of proceeds from the sale of air rights to cover the cost of the podium integration and City parking for residential towers; comprised of:

- \$6.7 million of direct integration costs required by the City to integrate Mirabella's retail podium design into the overall design of the redevelopment project. These City costs are referenced in [Section 1.1](#) above, and
- \$10.0 million allocation assigned by the City to the additional City parking being built as part of the redevelopment (140 stalls available to the residential units).

While the total of \$16.7 million is an internal allocation of the proceeds of the air rights, it has a number of impacts, as described below.

### **Affordable Housing**

A November 2023 motion ([ACS2023-PRE-GEN-0009](#)) from Council was passed directing 25% of the first \$39 million and 50% of any proceeds beyond the first \$39 million from the sale of air rights to be allocated to the Affordable Housing Reserve Fund.

Based on net proceeds of \$58.3 million (\$65 million less the \$6.7 million of integration costs), this would result in a contribution of \$19.4 million towards affordable housing. However, the allocation of \$10 million to parking has reduced this contribution by \$5.0 million, down to \$14.4 million which may not be aligned with Council's expectations. The comparison of the impact on the affordable housing contribution of the allocation is provided in **Table 4** below.

**Table 4 – Comparison of Affordable Housing Contribution with and without Allocation of Proceeds of Air Rights to Fund Parking Construction**

Scenario	Net Proceeds Available for Allocation	Affordable Housing Contribution Formula	Affordable Housing Contribution
Without Allocation of Proceeds to Parking	\$58.3M (\$65.0M – \$6.7M)	25% of first \$39M + 50% of remaining <b>\$19.3M</b>	\$19.4M
With Allocation of Proceeds to Parking	\$48.3M (\$58.3M – \$10.0M)	25% of first \$39M + 50% of remaining <b>\$9.3M</b>	\$14.4M

### **Parking Costs**

While the internal allocation of \$10 million of the proceeds from the sale of the air rights does not change the overall amount of debt the City plans to issue, it does impact the operating costs of the parking over the term of the debt. In the 2023 Staff Report, the City was predicting an annual loss of \$600,000 from operating the parking structure, which would be funded by the City's parking reserve. With this new internal allocation, the assumed operating and lifecycle costs will now equate to the expected revenues to be generated from the parking (i.e. break even) and no amount is expected to be required from the parking reserve. Should the costs of operating and maintaining the parking exceed the expected revenues, the parking could end up operating at a loss and potentially require subsidization from the parking reserve.

## **2.3 Funding from Reserves**

The contribution from the City's existing reserves, which was included in the original 2023 funding strategy, has been reduced from \$18.3 million to \$15.6 million in the 2025 strategy (as outlined in **Table 3** above).

Of this amount, \$13.8 million will draw from the City-wide capital reserve. This allocation of capital reserves represents a commitment of funds that could otherwise have been directed toward other capital projects or municipal needs.

The City's stormwater reserves will also contribute \$1.8 million to the project. This funding will cover an associated sewer discharge fee incurred as part of the redevelopment. The use of stormwater reserves for this purpose represents a reallocation of funds that could have been used for other stormwater management initiatives or infrastructure improvements.

Cumulatively, these funding sources represent \$15.6 million of allocation from City reserves to the Lansdowne 2.0 project. While this allocation does reduce the amount of debt the City will be required to take on, it represents an opportunity cost to the City as this funding could have been used to meet other municipal needs. It should be noted that if the Lansdowne 2.0 redevelopment is not approved to proceed, the \$22.0 million spent to date would be funded from the existing capital reserve.

### **Summary – Funding Strategy**

Although the funding sources proposed to fund the project are reasonable, our analysis raised concerns about the calculation of the contribution to affordable housing as it may not align with Council's expectations. Further, the contributions from existing City reserves represent opportunity costs associated with the project.

### **RECOMMENDATION 2 – CLARIFY THE EXPECTATIONS OF CITY COUNCIL**

The City Manager should confirm with City Council whether the internal allocation is appropriate for purposes of calculating the contribution to affordable housing and aligned with the intent of the original motion.

### **MANAGEMENT RESPONSE 2**

Management agrees with this recommendation. The Lansdowne 2.0 Redevelopment - Authorization to Proceed with Legal Close and Implementation Plan ([ACS2025-IWS-IS-0003](#)) report includes a recommendation (2 iii and iv) with respect to the allocation of air rights revenues and the calculation contributing to affordable housing. Council will make the final determination on this at the November 7, 2025 Council meeting.

### **DISCLAIMER:**

*Please note that for the purpose of quantifying the financial risk in this report, the OAG leveraged the City's financial model. Our scope did not include auditing the integrity of this financial model. This is applicable to all scenarios discussed below. Additionally, all scenarios have been run independently from each other (i.e. impacts have not been aggregated) and calculated on a net present value basis, where applicable.*

### 3. Assumptions Impacting Repayment of Debt

Given that the City is proposing the issuance of a 40-year bond of \$331.0 million<sup>7</sup> to pay for the redevelopment costs, it has identified an equal amount of funding sources that could be used to repay the debt. This includes proceeds from net new residential and hotel tax uplift, return of City equity from the waterfall (based on projected net cash flows generated from the Partnership) and various City investments. The details are outlined in **Table 5** below:

**Table 5 – Funding Sources for the 40-year bond of \$331.0 million**

Category	2023 (in \$ millions)	2025 (in \$ millions)
Property Tax Uplift	65.1	69.1
Municipal Accommodation Tax (Post 2030)	9.4	38.1
<b>Subtotal - Additional Taxes</b>	<b>74.5</b>	<b>107.2</b>
Ticket Surcharge	12.9	15.0
Rent Paid to the City	9.2	7.7
Return of City Equity from Waterfall	120.7	118.4
<b>Subtotal - Partnership</b>	<b>142.8</b>	<b>141.1</b>
City Investment	95.4	82.7
<b>Total</b>	<b>312.7</b>	<b>331.0</b>

Our follow-up work focused on the assumptions underlying the most significant sources of funds for debt repayment for reasonability. The most significant contributor is the planned return of City equity from the waterfall based on the net cash flows expected to be generated from the operations of the Partnership over the life of the debt. The review of significant assumptions underlying the projected net cash flows from the Partnership operations are discussed in [Section 4](#) of our report.

The City has indicated that the primary approach to fund the \$17.4 million in annual debt repayment is to build up a budget available specifically for repayment of the Lansdowne

<sup>7</sup> This represents the proposed debt to be issued to fund the Event Centre and North Side Stands. An additional \$9.2 million will be issued to fund the construction of the City's underground parking under the North Side Stands.

2.0 debt. Between 2024 and 2036, an additional \$1.3 million budget pressure will be added. By 2070, **\$331 million** (\$694 million, the face value of annual debt repayment amounts) will have been budgeted for debt repayment. The rationale for this is that even if all the expected sources of funds for debt repayment do not come to fruition, the City has a strategy to fund the debt. While this assures the City that there is a guaranteed source to fund the debt, this represents an opportunity cost as those funds could be used for other City services. However, establishing this budget enables all resulting excess from the other sources of funds (as outlined in **Table 5**) to be available for City services.

### 3.1 Additional Tax Revenues

The [Residential and Hotel Property Tax Uplift](#), the MAT, and the [Commercial Property Tax Uplift](#) are funding sources available for repayment of debt. As part of the 2025 Staff Report, the City has made updates to its estimates as summarized in **Table 6**. Contribution of the listed sources rose from 23.8% to 32.4%, suggesting these sources have become more important in the overall funding mix.

**Table 6: Present value revenue of tax-related funding sources and variance from 2023 to 2025**

Funding Source	2023 (in \$ millions)	2025 (in \$ millions)
Residential and Hotel Property Tax Uplift	63.5	68.9
Municipal Accommodation Tax (MAT)	9.4	38.1
Commercial Property Tax Uplift	1.7	0.2
<b>Total</b>	<b>74.6</b>	<b>107.2</b>

#### **Residential and Hotel Property Tax Uplift**

The City plans to allocate 75% of annual municipal property tax revenue generated from the project's new residential and hotel developments toward funding annual debt repayment. Changes in assumptions from the 2023 estimate of additional property taxes to 2025 is primarily due to the following:

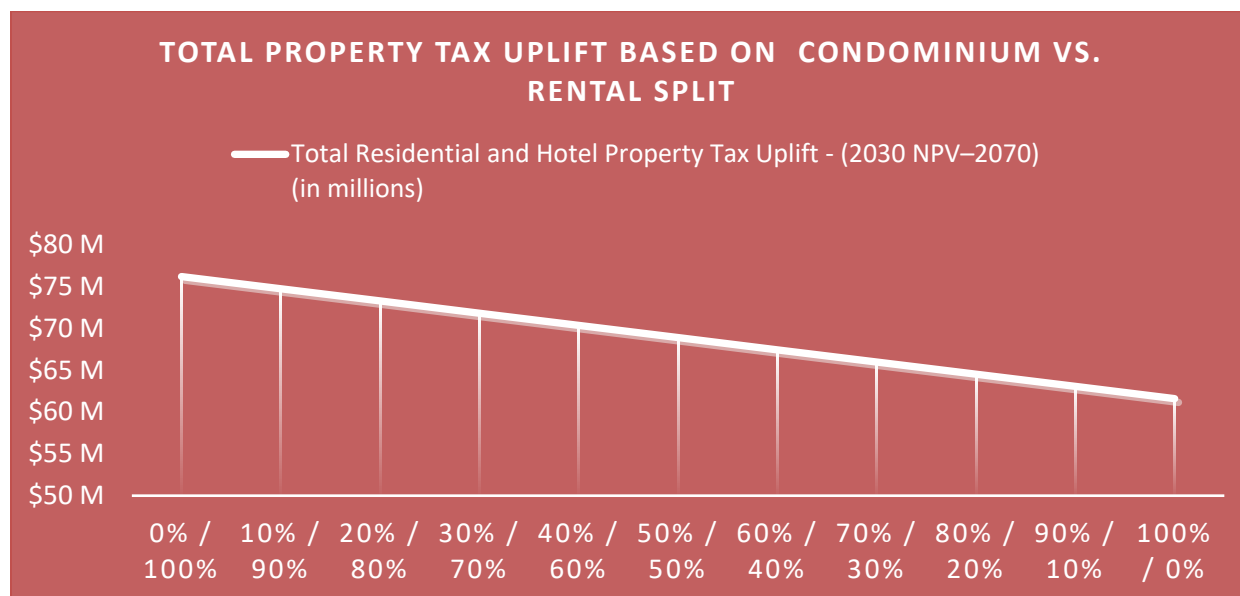
- Refinement of the hotel and residential unit count based on more recent design submissions from Mirabella (750 to approximately 770 units), and
- Change of the mix of residential units – 50:50 split of rental and condominium (2023 - 33% condominium vs. 67% rental). The City has indicated this reflects Mirabella's current preference towards condominium development.



Compared to earlier projections, property tax revenue is higher, based on increased portion of condominiums in the unit mix and increased hotel units. It is important to note that these remain estimates based on discussions with Mirabella. It is not yet known what unit mix will ultimately be designed or how market conditions at that time will influence this decision. Based on the redevelopment plan, construction for the residential towers would only start in 2032.

Given the condominium vs. rental market in the future is unknown, we have illustrated in **Figure 3** the sensitivity and the impact of different condominium and rental development splits (in 10% increments) on the resulting property tax uplift revenue estimates, based on their [Net Present Value](#) (NPV).

**Figure 3: Graph of the [Sensitivity Analysis](#) on the Condominium/Rental Mix**



Based on the analysis, there is a risk attached to overestimating the condominium portion of the development. In a scenario where the condominium market is weaker, and Mirabella lands on a mix of 30% condominium, as opposed to the 50% currently estimated, projected revenues for residential and hotel property tax uplift would decrease by 4.2% (a \$2.9 million reduction in revenues available for debt repayment)<sup>8</sup>.

### **Municipal Accommodation Tax**

The City's MAT is a tax payable to the City on short-term accommodations such as hotels, motels and short-term rentals. It is currently set at 5%. Proceeds from this tax are intended

<sup>8</sup> Based on the Amended Agreement, if property tax revenues are lower than projected and there are resulting shortfalls of funds available, other sources of funding may be considered as additional City equity contributions, increasing the City's percentage of waterfall distributions.

for tourism promotion in Ottawa and related priorities. The City has a current agreement with its partners, the Ottawa Tourism and Convention Authority Inc. and the Ottawa-Gatineau Hotel Association, to administer and manage the MAT.

The financial projection of the City contemplates an allocation of the proceeds from this tax specifically to the Lansdowne project; both to contribute to the funding of the redevelopment and to support debt repayment over the life of the bond.

In the 2025 financial projection, the City has allocated \$6 million towards funding the redevelopment project. The intended source of these funds is a proposed increase to the MAT of 1% as of January 1, 2026. If approved, this increase is estimated to increase MAT revenues by approximately \$5 million annually. A proposal, which has been agreed to in principle with the City's partners, is to allocate \$2 million per year of that increase to Lansdowne 2.0 redevelopment. For three (3) years (2028-2030), the \$2 million would be used for funding the construction; effectively reducing the amount of debt needed to fund the project by \$6 million. Thereafter, the \$2 million per year would be made available for debt repayment. The calculated net present value of this is \$38.1 million.

Assuming Council approves the increase in the MAT rate, the assumptions underlying these figures are reasonable; however, the use of the proceeds of this tax to fund the construction and the ongoing debt repayment does present an opportunity cost to the City. The City could have decided to increase the MAT rate irrespective of Lansdowne redevelopment and the proceeds of that increase could have been allocated to other tourism related projects and priorities.

### **City Additional Investment**

After consideration of the various sources to fund the City's debt from redevelopment (as described in the sections above), there is \$82.7 million of City investment required (\$4.3 million per year). This required investment is considered an opportunity cost, as these funds could otherwise be used to advance other municipal services or priorities.

### **Summary – Debt Repayment**

Although the funding sources to support debt repayment are reasonable, for some of the most significant contributors, there are still underlying assumptions that have risk attached. Specifically, the unknown unit mix and the fluctuations in the market could impact the underlying assumptions of the residential property tax uplift projections. If these risks materialize, the City would have less funds available to repay the debt taken on as a result of the redevelopment of Lansdowne 2.0. Additionally, there are other funding sources that have been earmarked by the City which could be considered

opportunity costs as these funds, without having to pay for the Lansdowne 2.0 debt repayment, could be used for other City priorities.

#### 4. Assumptions Impacting the Financial Projections for Waterfall Strategy

The City has indicated that the investment in Lansdowne 2.0, coupled with the amendments to the Partnership Agreement, are expected to generate positive cash flows over the life of the Partnership; which, to date, has not occurred. While there are a number of sources of cash for the Partnership, the majority is represented by the projected net cash flows coming from operations. **Table 7** below shows the sources of projected net cash flow from the Partnership operations:

**Table 7 – Projected Net Cash Flows from Partnership Operations<sup>9</sup>**

Partnership Operations	2023 (in \$ millions; to 2066) <sup>10</sup>	2025 (in \$ millions; to 2075)
Retail	821.8	1,176.7
Redblacks	150.7	163.4
67s	(4.5)	(8.3)
Stadium/Events Centre/Other	(142.1)	(224.9)
<b>Total</b>	<b>825.9</b>	<b>1,106.9</b>

The most significant contributor to net cash flows to the Partnership result from the retail, representing existing and net new retail stemming from the redevelopment. Consistent with the 2023 Staff Report, the City engaged EY to provide retail projections based on their subject matter expertise.

Additionally, expected short-term and long-term growth in revenues for the Redblacks over the life of the Partnership also contribute positively to the projected net cash flows. In 2023, EY, as part of their due diligence engagement, amended specific assumptions

<sup>9</sup> In the 2023 Staff Report, the assumption was that the Partnership Agreement would be extended to 2066; whereas currently, the assumption is that it will be extended to 2075. A component of the resulting increase in operations cash flows is the increased duration of the Amended Agreement.

<sup>10</sup> The 2023 amounts shown in this table have been updated from those originally presented by the OAG in our 2024 Audit Report to reflect internal re-allocation adjustments provided by OSEG. The revised figures are intended to align directly with the presentation format used in 2025.

related to the operating business lines to provide a more realistic picture. For specific 2025 OSEG projections, the City has undertaken a similar exercise to take a more conservative approach to net cash flows.

In our 2024 Audit, we highlighted some potential risks with specific assumptions underpinning the financial projections leading to a positive outlook for net cash flows stemming from Operations. In addition, we quantified the potential risk associated with not achieving the assumptions embedded in the projections. We indicated that the impact of more modest assumptions ranged from \$10 million to \$30 million per risk scenario in waterfall distributions available to the City over the life of the Partnership Agreement.

As highlighted in our 2024 Audit, it is critical to flag that the duration of the Partnership Agreement is a key risk to the waterfall distributions (i.e. it becomes challenging to accurately forecast revenues and expenses so far into the future). This risk is heightened since our 2024 Audit as the life of the Partnership Agreement is proposed to be extended from 2066 to 2075.

As part of our follow-up work, the OAG has reviewed the City's updated assumptions and projections, assessed their alignment with available data and historical trends, and highlighted areas of continued risk that could have a significant impact to the City's waterfall distributions if the projections are not realized. The one business line we did not focus on was the Ottawa 67s as they are not expected to have a significant impact to the waterfall distributions over the life of the Partnership Agreement.

#### **4.1 Retail**

Retail revenue and expense assumptions are a critical component of the financial model, as they represent the vast majority of the projected net cash flows and drive the overall financial viability of the Lansdowne 2.0 redevelopment project.

Based on the analyses conducted by EY in 2025, Lansdowne retail leasing has historically achieved market rental rates, which provided a solid foundation for EY to project future revenue and expense growth. The City's financial model incorporates EY's validated inputs for both the existing and redeveloped portions of Lansdowne retail.

Overall, from the limited procedures we performed, the retail revenue and expense assumptions which drive the financial projections of the waterfall appear to be reasonable and reflective of current market conditions, as supported by EY's analyses.

## 4.2 Redblacks Revenue

As part of the 2024 Audit, the OAG identified Redblacks revenue as a significant driver of overall financial performance within the Lansdowne 2.0 financial projections. As such, the reliability of these revenue assumptions directly affects the City's expected returns from the waterfall. The primary driver of revenues for the Redblacks is ticket sales, which are earned through attendance and ticket prices.



Lansdowne Park, 2022 (Photo Credit: City of Ottawa)

Fluctuations in Redblacks performance, attendance, or continuity of operations could materially impact the amount and timing of distributions through the life of the Partnership Agreement.

The extension of the Partnership Agreement by an additional 9 years (now ending in 2075 versus 2066), has resulted in an overall increase in projected total distributions to the City stemming from Redblacks operations. As noted in **Table 7** above, total projected net cash flows amount to \$163.4 million, an increase of 8.4% (\$150.7 million) from the 2023 Staff Report.

### Short-Term Revenue Growth Rates

In our 2024 Audit, we identified a risk that the assumed short- and medium-term revenue growth rates for the Redblacks', embedded in the financial projections may prove optimistic. These assumptions averaged 5.9% annual growth over the short-term (2023-24 to 2028-29), followed by 3% growth over the medium-term (2029-30 to 2031-32). We concluded there was a risk that historical performance for the Redblacks did not support the projected future growth rates assumed.

This risk has since materialized to a certain extent based on the actual results from the past two years, which have demonstrated that the Redblacks' revenue growth has fallen short of the 2023 projections. Between 2022-23 and 2024-25, the average annual growth rate was 5.07%. As this demonstrates an overall trend of growth, given the Redblacks' previous season performance<sup>11</sup>, and the fact that the actual revenue growth rate for 2024-25 was only 0.67%, risk continues to exist relative to short-term growth rates.

<sup>11</sup> The Ottawa Redblacks finished 6th place out of 9 teams in the final standings for the 2024-25 season and 9th place in both the 2023-24 and 2022-23 seasons.



Consistent with the recommendations stemming from our 2024 Audit, the City took a more conservative approach to Redblacks revenue growth projections, for the short-term, as compared to those provided by OSEG. Even with the City's adjusted financial projections, the short-term revenue growth rate (between 2025-26 to 2028-29) has increased to 9.85%, and both the medium (2029-30 to 2031-32) and long-term (2032-33 to 2075-76) growth rates of 3% and 2% respectively, have remained the same as the 2023 Staff Report.

Historical results do not support a revised short-term growth rate assumption of 9.85% as demonstrated by the following actual average revenue growth rates:

- 5.07% between the years 2022-23 and 2024-25
- 4.84% between the years 2014 and 2018-19<sup>12,13</sup>

The City indicated that the significant increase in short-term growth expectations was to align revenues to pre-COVID levels. However, the OAG notes that this also introduces a heightened level of risk, as these aggressive growth assumptions may not adequately consider potential impacts of team performance, market volatility and other operational challenges.

Given the historical results relative to the projected revenue growth, the OAG quantified the risk of lower short-term revenue growth. If revenue projections over the short-term remained at 5.07%, which was the recent average annual growth rate experienced between 2022-23 and 2024-25, the impact would be an estimated decrease of **\$53 million in waterfall distributions to the City**.

### 4.3 Potential Loss of Redblacks

The continuity of the Canadian Football League (CFL) franchise represents a key dependency for Redblacks ticket revenue. In October 2025, OSEG verbally indicated their willingness to extend the Redblacks' contract to 2042. While this provides more certainty over the medium-term, there continues to be a risk of the Redblacks exiting Ottawa at some point after 2042 over the investment horizon (2075). While the current financial projections do not account for a scenario in which the Redblacks cease operations, such a scenario could materially reduce forecasted revenues and as a result, City returns from the waterfall.

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<sup>12</sup> References to historical fiscal years prior to 2018 are presented on a calendar year basis. Effective in 2018, the Partnership changed its financial year-end from December 31 to March 31 to better align the fiscal year end with the timing of sporting team seasons and related activities. As a result, 2018-19 covers a 15-month period.

<sup>13</sup> Years 2019-20 to 2021-22 were excluded from this analysis to avoid distortion caused by the atypical operational and financial impacts of the COVID-19 pandemic.

Consistent with our 2024 Audit, we revisited the potential scenario in which the Redblacks depart at the end of 2042. Our calculation assumed a reduction in Redblacks revenues and related expenses from 2042-43 to 2075-76, along with a reduction to a portion of sponsorship revenues in the Stadium/Events Centre business line assumed to be linked to the Redblacks. If this risk were to materialize, the impact would be an estimated **\$18 million decrease in waterfall distributions to the City.**

#### 4.4 Operating Expenses

Similar to revenues, the financial projections include short-term and long-term expense growth rates for the different business lines. These have been updated to reflect the current environment. Average growth rates between updated projections and those projected in 2023 are summarized in **Table 8** below:

**Table 8 – Average Operating Expense Growth Rates Between 2023 Projections and 2025 Projections**

Business Line	Short-Term 2025-26 to 2028-29 Average Annual Growth Rates		Medium- and Long-Term 2029-30 to 2066-67/2075-76 <sup>14</sup> Average Growth Rate	
	2023 (projected)	2025 (projected)	2023 (projected)	2025 (projected)
Redblacks	2.50%	2.50%	2.00%	2.00%
67s	2.25%	3.87%	2.00%	2.00%
Stadium/Event Centre	2.25%	4.82%	2.00%	2.00%
<b>Overall Average</b>	<b>2.37%</b>	<b>3.65%</b>	<b>2.00%</b>	<b>2.00%</b>

In 2023, EY flagged that the expense growth assumptions across all business units were “one of the most sensitive OSEG model inputs”<sup>15</sup>. Our 2024 Report highlighted that the historical trends of operating growth rates did not necessarily support a long-term growth rate of operating expenses of 2%. As a result, we calculated that if long-term expense growth rates could only be stabilized at 2.25% (instead of the assumed 2.0%), this would result in **\$30.2 million decreased waterfall distributions to the City.**

Our analysis for 2025 was focused on the operating expense growth assumptions underlying the Redblacks and the Stadium/Event Centre business lines to assess whether projected amounts are reasonable. Retail operating expenses were excluded

<sup>14</sup> 2023 projections ended in 2066-67, whereas 2025 projections extended to 2075-76.

<sup>15</sup> [EY Lansdowne 2.0 Financial Due Diligence Summary Report; Sept 13, 2023](#); page 17

from this analysis as a result of the analysis performed by EY referenced in [Section 4.1](#) above.

### **Short-Term Operating Expense Growth Rates**

The following discusses the changes to short-term operating expense growth rates for these two business lines included in the updated financial projections:

- **Stadium/Events Centre** – short-term average annual growth rate increased from 2.25% in the 2023 Staff Report to 4.82% in the 2025 Staff Report. As noted by the City, this increase reflects more conservative assumptions for existing expense sources, as well as additions to the business line's expenses (e.g. new [tenant teams](#) such as the Ottawa Charge and Ottawa Rapid FC).
- **Redblacks** – short-term average annual growth rate for the Redblacks' operating expenses remained consistent at 2.5% between the 2023 Staff Report and the 2025 Staff Report. However, between 2022-23 and 2024-25, the actual average annual growth rate for Redblacks operating expenses was 7.03%<sup>16</sup>. Given high historical growth rates in recent years, there is a risk that the assumed short-term growth rates are optimistic and may not be achieved.

If this risk were to materialize, and the Redblacks short-term average annual operating expense growth rates between 2025-26 and 2028-29 were more closely aligned with recent historical actuals, at an assumed growth rate of 5%, the impact would be an estimated **decrease of \$30.9 million in waterfall distributions to the City**. This significant reduction to waterfall distributions highlights the compounding impact of higher operating expenses over the life of the Partnership Agreement based on more conservative short-term assumptions, and the sensitive nature of Redblacks operating expenses.

### **Long-Term Operating Expense Growth Rates**

Consistent with the assumptions from the 2023 Staff Report, the City applied a long-term operating expense growth rate of 2% across all business lines from 2029-30 to 2075-76. The OAG assessed this rate in relation to both the assumptions from the 2023 Staff Report and actual historical growth.

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<sup>16</sup> We understand from the City that an internal adjustment to Redblacks revenues in the 2024-25 audited financial statements of approximately \$2.5M has not been included in the associated projections going forward from 2025-26.

The actual average operating expense growth rates between 2015 and 2018-19 were 10% and 17% for the Redblacks and Stadium/Event Centre, respectively. More recently, the average operating expense growth rate between 2022-23 and 2024-25 were 7% and 9% for the same business lines. While these averages reflect a positive trend, they remain significantly above the long-term projected rate of 2%, increasing the risk that operating costs cannot be stabilized at 2% over the long-term.

If this risk were to materialize, and the long-term operating expense growth rate for the Redblacks and the Stadium/Event Centre could only be stabilized at 2.25%, the impact would be an estimated decrease of **\$31 million in waterfall distributions to the City**. The OAG notes that should the growth rate continue at its current pace in the long-term (i.e. higher than 2.25%), this impact would be significantly higher, further exacerbating the negative effect on the City's expected distributions.

#### 4.5 Stadium/Event Centre and Other Revenue

The Stadium/Event Centre and Other Revenue business line represents revenues and costs associated with:

- tenant teams
- concerts and other events
- general sponsorship
- concessions
- parking, and
- merchandise.

Several significant changes have occurred since the 2023 Staff Report impacting this business line, including the addition of new tenant teams such as the Ottawa Charge and Ottawa Rapid FC. However, as noted in **Table 7** above, over the life of the amended Partnership Agreement, the Stadium/Events Centre business line is not expected to contribute a positive cash flow. As



Event Centre (Photo Credit: City of Ottawa)

a result, the OAG conducted a limited review of the underlying assumptions supporting the financial projections. This approach was taken to account for the risk that any

additional losses in this business line would further impact the negative impact on the financial waterfall and the City's expected distributions.

While the City has taken a more conservative approach to assumptions related to concerts and event revenues as compared to those in the 2023 Staff Report, overall projections for revenues has increased due to factors such as Ottawa Charge revenues, the additional years of the Partnership Agreement and updated/new agreements for concessions and merchandising.

As the assumptions underlying the Stadium/Events Centre appear reasonable, the OAG did not quantify the risk of not meeting projected net cash flows of this business line. However, if revenues are lower than projected and expenses are higher than projected, over the life of the Partnership Agreement, it will have a compounding effect and negative impacts to the waterfall could be higher than currently projected.

### **Summary – Financial Projections**

The main risk associated with the projected operating cash flows from the waterfall is the time horizon of the projections. As the City's projections go out to 2075 (the amended end of the Partnership Agreement), it is challenging to assess the reasonability of assumptions over such a long time period. We acknowledge that, in several cases, the City amended OSEG's updated assumptions related to the Partnership's business lines to provide a more realistic picture. Despite this, we continue to highlight risks with specific assumptions underlying the financial projections, specifically related to Redblacks revenues and expenses. Should these risks materialize, the City would not have access to as much waterfall distributions as projected.

### **RECOMMENDATION 3 – UPDATE FINANCIAL PROJECTIONS AND REPORT TO COUNCIL**

The General Manager, Finance and Corporate Services Department and Chief Financial Officer should annually review and update the financial projections for the Partnership. The results and the potential impact on waterfall distributions available to the City should be reported annually to Council for their information.

### **MANAGEMENT RESPONSE 3**

Management agrees with this recommendation. Since 2015, staff have reviewed and reported on the updated financial projections for the Partnership. As part of the 2020 Auditor General's report on the Audit of Lansdowne Accounting/Waterfall, staff have put in place a rigorous process for reviewing the revised projections annually and providing a comparison to the original 1.0 projections and previous years' projections.

Staff will continue to report out to Council through the Finance and Corporate Services Committee on an annual basis, in keeping with the reporting requirements of the Lansdowne Partnership Agreement and the Public Private Partnership ([ACS2013-CMR-FIN-0008](#)). The annual report will continue to include financial results and updated pro formas projections, if Lansdowne 2.0 is approved by Council. The report will also include the potential impact of the annual revised projections of the waterfall distributions available to the City.



## Glossary

Term	Description
<a href="#"><u>Agile Audit</u></a>	An agile audit approach provides periodic reports, performed in iterative cycles (or sprints) of an audit on a continual basis with a focus on areas of greatest risk to the City.
<a href="#"><u>Air Rights</u></a>	Air rights are a type of development right which permit the control and development of a specific amount of unused air space above real property.
<a href="#"><u>Class C</u></a>	As per the City's Capital Cost Estimate Classification System, Class C refers to planning level estimate which is based on a "ballpark" estimate used for planning purposes that is prepared based on functional requirements/environmental assessments with limited site information. There should be a 20% to 30% contingency applied, and the level of accuracy is +/- 20%.
<a href="#"><u>Class D</u></a>	As per the City's Capital Cost Estimate Classification System, Class D refers to conceptual level estimate which is based on a rough order-of-magnitude estimate used for comparison based on historical costs for similar work. There should be a 40% to 50% contingency applied, and the level of accuracy is +/- 25%.
<a href="#"><u>Closed Financial System</u></a>	Defines equity contributions from the City and OSEG to be used solely for the purposes of the total project and cash-flows from operations to provide the basis for distribution to the City and to OSEG.
<a href="#"><u>Commercial Property Tax Uplift</u></a>	The measurement of a property tax increase due to new commercial development. Property tax uplift can occur when a property is developed or redeveloped and its assessed valued increases. "Uplift" is the difference in tax on the property before and after development.
<a href="#"><u>Debenture Premiums</u></a>	When debentures are issued at a price that is higher than their nominal (face) value.

Term	Description
<a href="#"><u>Equity Contributions</u></a>	Financial investments made by individuals or entities into an organization.
<a href="#"><u>Escalation</u></a>	Provision in the cost estimate for increases in the cost of equipment, material, labor, etc., due to continuing price changes over the time. Escalation is used to estimate the future cost of a project or to bring historical costs to the present.
<a href="#"><u>Hard Construction Costs</u></a>	Direct, tangible costs associated with the physical construction of a project, including materials, labour and equipment.
<a href="#"><u>Interdependency</u></a>	The mutual reliance between various workstreams and projects, where the successful execution of one component is contingent upon the timely and coordinated progress of others.
<a href="#"><u>Municipal Accommodation Tax</u></a>	A tax payable to the City on short-term accommodations that is collected by the accommodation provider. Proceeds from this tax are intended to support tourism in the City.
<a href="#"><u>Net Present Value</u></a>	The total value of an investment in today's dollars, after accounting for the idea that money today is worth more than money in the future.
<a href="#"><u>Opportunity Cost</u></a>	The value of an alternative that is forgone when making a choice between multiple options.
<a href="#"><u>Podium</u></a>	A raised, multi-storey base of a building that contains retail shops on its lower levels, with residential or commercial towers rising above.

Term	Description
<a href="#"><u>Record of Site Condition</u></a>	A formal document filed with Ontario's Environmental Site Registry that confirms the environmental condition of a property, based on site assessments by a qualified professional. It demonstrates that the land meets provincial standards for its intended use and records any contamination or remediation completed.
<a href="#"><u>Request for Offer</u></a>	A formal procurement method to invite suppliers to submit offers to provide specific goods or services.
<a href="#"><u>Residential and Hotel Property Tax Uplift</u></a>	The measurement of a property tax increase due to new residential and/or hotel development. Property tax uplift can occur when a property is developed or redeveloped and its assessed value increases. "Uplift" is the difference in tax on the property before and after development.
<a href="#"><u>Sensitivity Analysis</u></a>	A method used to understand how changes in input variables affect an output or model.
<a href="#"><u>Soft Costs</u></a>	Costs that are not considered direct construction costs such as architectural and engineering.
<a href="#"><u>Tenant Teams</u></a>	Sports organizations that lease space from OSEG such as Ottawa Charge, Ottawa Rapid FC, Atlético Ottawa, and Ottawa BlackJacks.
<a href="#"><u>Waterfall</u></a>	A closed, tiered financial system for distributing cash flow profits among partners with each tier or level having a different priority for receiving returns.