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Corporation of the Town of Markham
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Attention Andy Taylor - CAO

Sensitivity Analysis re Model Developed by the Town of Markham regarding the possible Markham participation in "Project Live"

In November 2011, BDR NorthAmerica Inc. ("BDR") was retained by the Town of Markham ("Markham") to undertake a due diligence preliminary peer review with respect to the above referenced Project.

We understand that the Model is a "work in progress" as we have reviewed various iterations as the Project evolves. The purpose of the Model is to provide estimates as to how much capacity there might be in terms of potential cash flows related to the Project that Markham might receive in order to retire the debt incurred as part of the Markham financial contribution to the Project.

We understand that the capital cost of the project is estimated to be about $320 million. We are told that the "private "sector is expected to contribute about 50% of the overall project capital costs and that the Markham contribution might be as high as $160 million.

On December 14, 2011 we tabled a draft opinion as to a peer review of the model.

On February 21, 2012, at a meeting held with Town staff, we were "updated" as to a) the evolution of the project and b) the resultant changes to the model.

Several changes/updates have been made to the Model as a result of further discussions and negotiations between the parties such as a change in the allocation and timing of parking revenues. In addition, the Voluntary Contribution section has been expanded from three series of cash flow to five series as follows:

Type	Dec 2011	Feb 2012
High Density	Markham Centre	Now MC Remington and Non Remington
	Non Markham Centre	Also now Non MC Remington and Non Remington
Low Density		

We note especially the reduced Voluntary Contribution from Low Density now expected in the latest model runs. From $53 MM to $28 MM? It seems that it was decided that the contributions from Low Density could only be expected for five years and not the 30 year period contained in earlier models.

A "Base Case" has been established using seven of the eight funding sources noted in our letter dated December 14, 2011. Under the Base Case scenario the Town can expect to easily service debt of about $171 million.

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A further division has been made between Non Growth Related Funding Source and Growth Related Funding Source (see below). In addition, the model now differentiates funds which are available to the Town immediately as opposed to over time (ie) certain pre-payments by Remington and certain Section 37 funding sources not from Remington.

#	Funding Source	Non Growth Related Funding Source	Growth Related Funding Source	Other
1	Lease	✓		
2	Parking	✓		
3	TIF	✓	✓	
4	Other (Tax Increases)			✓
5	MC Parks	✓		
6	Voluntary Contributions		✓	
7	Section 37 Funding	✓	✓	
8	Remington	✓		

We note that, as a result of certain negotiations the magnitude of the various sources (in the base case) has changed as follows:

#	Type	Borrowing Capacity (Est.) Dec 2011	Borrowing Capacity (Est.) Feb 2012
1	Voluntary Contributions	$79 MM	$70 MM
2	TIF	$39 MM	$41.7 MM
3	Other (Tax increase)	$16 MM	$0
4	Lease	$14 MM	$36.1 MM
5	MC Parks	$13 MM	$0
6	S37	$10 MM	$7.0 MM
7	Parking	$7 MM	$4.1 MM
8	Cash in lieu (Remington)	$12 MM	$8.0 MM
	Total	$197 MM	$176 MM

We note that:

a) *There is a significant increase in the non-growth item called Lease payments. However within that category is an assumption of $1.6 million annually for "ticket tax on non-hockey related revenues". Should a sensitivity factor be applied to this number?*
b) *In the earlier models, there was a cash flow item called MC Parks which was expected to produce about $13 million. We assume that this source of funding was either ruled out or subsumed under another cash flow source.*

In December 2011 it was assumed that only items #2, 4, 6 and 7 aggregating some $180 million of borrowing capability would be utilized as funding sources. *(why the difference from the $191 million above? Perhaps not important in the overall scheme – perhaps the change in the calculation of borrowing capacity?)* Now only #3 (and perhaps #5) is excluded as a potential funding source in the base case.

We were asked to participate in the consideration of various sensitivities from the Base Case that might be applied to test certain factors which might make it more or less difficult for the Town to service the expected related debt.

While there are many variables in the model which could be subjected to sensitivity testing it seems that the most important cases to consider are the potential variances in the expected growth rates.

It seems logical to test an assumption that growth related cash flows may be significantly lower than expected (ie) say on average some 25% lower than anticipated.

Under the scenario of a 25% decrease in expected cash flows to the Town, the Town would only be in a position to repay debt in the amount of about $140 million by 2031, so that there will be a deficit to fund every year and a $50 million debt left over at the end of the 20 year period.

Several mitigating strategies can be employed to reduce this "deficit" such as;

a) increasing the term of the Voluntary Contribution funding from the current expected five year period out to seven or even 10 years.
b) In combination or alternatively the repayment period could be extended by say five years to 2037.
c) Alternatively or in combination possibly the rates could be increased or change over time.

We also tested an assumption that the growth related cash flows may be some 50% lower than anticipated.

Under this scenario, the Town would only be in a position to repay debt in the amount of about $110 million by 2031 so that there will be a deficit to fund every year and a $50 million debt left over at the end of the 20 year period.

Several mitigating strategies can be employed to reduce this "deficit" such as

a) increasing the term of the voluntary contribution funding from the current expected five year period out to 10 years.
b) In combination or alternatively the repayment period could be extended by say five years to 2037.
c) Alternatively or in combination possibly the rates could be increased or change over time.

However it does not appear to BDR that this is a reasonable sensitivity scenario for Markham to consider seriously.

We trust that these comments are useful in the context of evaluating the financial alternatives to fund the Markham contribution to this Project.

Yours truly,

BDR NorthAmerica Inc.

By:

John McNeil
President