

11.



PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Halifax Regional Council
July 4, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Carol Macomber
Carol Macomber, A/Director, Community, Culture & Economic Development

Cathie O'Toole
Cathie O'Toole, CGA, A/Director, Finance

DATE: June 26, 2006

SUBJECT: Financial Performance HRM's Major Facilities

INFORMATION REPORT

ORIGIN

This is the semi-annual Information Report on the financial performance of HRM's Major Facilities. This report also serves to meet the budget approval obligations of HRM that form part of the various management agreements.

BACKGROUND

Over the past year and a half, staff have endeavoured to prepare a report every 6 months or so on the financial performance of the Major Facilities. This originated with the performance failure of one of the facilities 4 years ago, and the increasing concern coming from the General Managers of the other facilities about their future financial outlooks. A number of factors have been contributing to the increased financial pressures on the facilities, including the aging condition of the facilities and the limited available capital dollars from HRM, the reliance on bingo revenues at several facilities and the impact of a steady decline in recent years, increasing competition between themselves and other markets, legacy impacts of prior weak expansion plans and/or shortfalls in fundraising campaigns, and the significant rise in energy, insurance, wage and other expense items. The following table summarizes the facilities included in this review, and their approximate size for comparison purposes.

Table 1

Facility	Category (As listed in IRF Master Plan)	Type of Agreement	Operating Subsidy from HRM	Other Subsidies	Facility Size (square feet)
Dartmouth Sportsplex	Category 1 Multi - District, Multi -Use	Management Agreement	\$0		115,900
Halifax Forum	Category 3 Events	Management Agreement	\$0		71,500
Alderney Landing	Category 3 Cultural/Events	Management Agreement	\$175,000 ⁽¹⁾	\$90,000 ⁽²⁾	32,000
St Margaret's Centre	Category 1 Multi - District, Multi -Use	Management Agreement	\$0		100,000
Cole Harbour Place	Category 1 Multi - District, Multi -Use	Lease Agreement	\$0 ⁽³⁾		200,000
Metro Centre	Category 3 Events	Tri-partite Operating Agreement	\$0 ⁽⁴⁾		205,000
Sackville Sports Stadium	Category 1 Multi - District, Multi -Use	Operated by HRM on interim basis ⁽⁵⁾	\$200,000 ⁽⁶⁾		118,300

⁽¹⁾ Alderney Landing receives an operating subsidy of \$175,000.

⁽²⁾ Alderney Landing also retains the net parking revenues estimated at \$90,000 for a nearby parking lot that formerly went to subsidize the ferry operations.

⁽³⁾ HRM leases space within the facility. See discussions on revenues and expenses at CHP for further details.

⁽⁴⁾ Under the Tri-partite agreement between HRM, the Province and WTCC to operate the Metro Centre, HRM retained ownership of the Metro Centre and does not provide direct operating subsidies, however, any annual operating deficit/surplus accrues to HRM.

⁽⁵⁾ Operations at the Sackville Sports Stadium are currently being overseen by HRM directly, with the original intent to eventually have a Management Agreement negotiated with a new community board.

⁽⁶⁾ The SSS had been receiving an operating subsidy of \$77,900. However, in May 2003 Council approved an increase to \$200,000 for a three year period as part of the operational review.

Historically, HRM has entered into agreements with communities with the basic philosophy that the facilities would operate under a 100% cost recovery basis. Each facility was also expected to recover it's portion of outstanding capital debt, after taking into account municipal and other government level contributions as well as any fundraising.

As additional background, a summary of the capital debt obligations for each facility is provided below.

Existing Capital Debt Outstanding to HRM (as of February 28, 2006):

Table 2

	Capital Debt - Outstanding Balance	Years Remaining	2006/07 Annual Facility Payments (P+I)
Dartmouth Sportsplex	\$548,994	8.5 years	\$75,000 ⁽¹⁾
Halifax Forum Community Association	\$1,662,500	18.5 years	\$170,034
Cole Harbour Place	\$ 1,203,481 \$ 450,000 ⁽²⁾	11 years 10 years	\$145,500 \$ 63,452
Sackville Sports Stadium	\$4,450,000 ⁽³⁾	17+ years	\$480,000
Alderney Landing	\$1,114,000 ⁽⁴⁾	TBD	TBD
Metro Centre	\$2,367,920	8 years	\$1,548,290 ⁽⁵⁾
St Margaret's Centre	\$2,964,500 ⁽⁶⁾	20 years	\$275,928

(1) On May 3, 2005, Council agreed to reduce the annual debt repayment from \$181,618 to \$75,000 to enable the Dartmouth Sportsplex to meet its operational requirements without incurring a deficit. This would increase the debt repayment period from 4 years to 9.03 years.

(2) On August 2, 2005, Council approved a loan of \$450,000 to Cole Harbour Place for leasehold improvements. The debt payments are expected to be recovered from the additional revenue generated from the new tenants.

(3) The Sackville Sports Stadium is currently operating under an approved debt deferral arrangement, with the expectation that debt payments will begin again as soon as the facility is financially restabilized

(4) The outstanding debt for Alderney Landing became due April 1, 2005. The approved 2005/06 operating budget and proposed 2006/07 operating budget presented by the Board to HRM staff did not include any capacity for debt repayments. Staff have struck a working group with Alderney Landing Board to review options to establish debt repayment schedules.

(5) This amount is subject to review as the Metro Centre has indicated that the final debt payment will occur in 2006/07. If this is the case, discussion between HRM and Metro Centre management will be required with regard to allocation of the additional operating capacity created as HRM is the owner of any surplus.

(6) At the April 9, 2004 Council Session a loan to a maximum of \$2,964,500 was approved. The total is included in the Spring 2006 debenture issue. The St. Margaret's Bay Centre Board have indicated they do not have the operating capacity to make the full debt payments. They have committed to a contribution of about \$58,000 to the debt payment due in 2006/07 with the balance of the \$276,000 payment being funded from a new area rate of \$0.01/\$100 of taxable assessment. The new area rate will be applied to all residential, resource, commercial and business occupancy property in Districts 22 and 23 with the exception of the area that is charged the Prospect Road recreation area rate. The Centre is expected to make further contributions towards the debt payments in future years to ensure the area rate does not increase.

Currently, the Sackville Sports Stadium, St. Margaret's Bay Centre and Alderney Landing have debt payments due but do not have a sufficient financial operating plan that allows them to meet their debt payment obligations. Council previously approved a backup plan for the St. Margaret's Bay Centre to allow the implementation of an area rate to assist the facility. A couple of the other facilities recently met with staff and expressed concerns about their own long range forecasting and the possibility of difficulties balancing their budgets in the coming years, due to rising costs, reducing revenue streams and the effects it is having on their debt obligations. They have implemented program adjustments and are currently actively evaluating additional program shifts to introduce new opportunities. However, there are limitations and therefore justification to be concerned about additional potential financial risks against their operations. In some instances, debt payments are larger than first anticipated due to some of the original business plans relying on larger amounts of fundraising from within the affected communities than what actually transpired at the end of the day.

Both Finance and CCED are currently reviewing possible options that could form the basis to begin to develop a long term action strategy to address these potential difficulties.

DISCUSSION

The following information was gathered in meetings with each facility. Final audited statements for 05/06 are not yet available so the information was based on known information and projections at the time.

Note that under the Risks Category each General Manager was asked to identify possible future risks and several identified new or potential new competition. Almost all the facilities with arenas felt there is a risk to their revenues for off-peak and summer ice rental hours should the Rocky Lake area development proposal proceed with multi-surface ice pads, which they indicate could result in them requiring operating assistance from HRM or having to increase their prime time rental rates. At this point, staff cannot validate their concern but prior information indicates one new ice surface can be accommodated. The subject of ice arenas also came up in the recent budget deliberations and staff will review this subject in greater detail in a separate report.

Dartmouth Sportsplex

	2005/06 Budget	2005/06 Actuals (Unaudited)	2006/07 Budget	Comments
Revenues	\$4,274,000	\$4,573,931	\$4,608,000	Bingo revenue has increased over prior year.
Expenditures	\$4,349,000	\$4,551,019	\$4,683,000	Increased cost for fuel, electricity and Minimum wage.
Net Operating Profit/(Loss)	(\$75,000)	\$22,912	(\$75,000)	Deficit equal to annual debt repayment which is paid from reserve.
Annual Debt Payment Due	\$75,000	\$75,000	\$75,000	Annual debt repayment reduced from \$181,618 to \$75,000 to enable the Dartmouth Sportsplex to meet it's operational requirements without incurring a deficit.
Risks	<ol style="list-style-type: none"> 1. Increasing energy costs, volatile bingo revenues. 2. Potential impact from competition (such as Rocky Lake development proposal on ice arena rentals). 			
Opportunities	<ol style="list-style-type: none"> 1. Additional revenue expected from Dartmouth Destroyers CEHL hockey team, and from extra summer camps. 2. New reusable bingo card system should substantially reduce costs. 			

Halifax Forum Complex

	2005/06 Budget	2005/06 Actuals (Unaudited)	2006/07 Budget	Comments
Revenues	\$3,213,916	\$3,162,448	\$3,089,000	
Expenditures	\$3,213,916	\$3,193,251	\$3,089,000	
Net Operating Profit/(Loss)	\$0	(\$30,803)	\$0	
Annual Debt Payment Due	\$175,000	\$175,000	\$175,000	
Risks	<ol style="list-style-type: none"> 1. Bingo revenues continue to be unstable. 2. Increases to fuel costs, minimum wage. 3. Capital requirements continue to lag behind due to lack of funding. 4. Potential impact from competition (such as Rocky Lake development proposal on ice arena rentals). 			

Opportunities	<ol style="list-style-type: none"> 1. Linking of bingo to 15 other halls across Nova Scotia through ALC. 2. New reusable bingo card system should substantially reduce costs. 3. Expanded Multi-purpose room has resulted in increased booking revenue.
---------------	--

Cole Harbour Place

	2005/06 Budget	2005/06 Actuals (Unaudited)	2006/07 Budget	Comments
Revenues	\$3,162,324	\$3,245,110	\$3,346,113	Memberships continue to grow.
Expenditures	\$3,162,324	\$3,245,110	\$3,346,113	Increased cost for fuel, electricity and Minimum wage.
Net Operating Profit/(Loss)	\$0	\$0	\$0	\$361,056 in Net profit transferred to reserve for equipment replacement.
Annual Debt Payment Due	\$132,000	\$132,000	\$208,952	New loan for \$450,000 for leasehold improvements.
Risks	1. Capital risk due to aging chiller, zamboni, roof over the rinks.			
Opportunities	1. New tenant leasing opportunities being explored.			

Sackville Sports Stadium

	2005/06 Budget	2005/06 Actuals (Unaudited)	2006/07 Budget	Comments
Revenues	\$2,688,968	\$2,794,436	\$3,056,752	Additional lease revenue from new tenants
Expenditures	\$2,561,925	\$2,753,764	\$2,800,150	Additional cost for leasehold improvements.
Net Operating Profit/(Loss)	\$127,043	\$40,672	\$256,602	2005/06 lower than budgeted profit is the result of leasehold improvements, the cost of which should be fully recovered in 2006/07.
Annual Debt Payment Due	\$0	\$0	\$0	Annual debt payments were deferred. Possibility of partial debt payments restarting within 1 year.

Risks	<ol style="list-style-type: none"> 1. Require an additional \$60-\$80,000 for leasehold improvements before remaining space can be leased. 2. Curling space still generating less revenue than costs, when including capital debt. Competitors are all private operations. 3. Potential impact from competition (such as Rocky Lake development proposal on ice arena rentals).
Opportunities	<ol style="list-style-type: none"> 1. Additional summer hockey camps are expected. 2. Leasing of curling rink in the summer for indoor soccer. 3. Additional signage revenues anticipated.

Metro Centre

	2005/06 Budget	2005/06 Actuals (Unaudited)	2006/07 Budget	Comments
Revenues	\$6,974,000	\$8,921,792	\$7,239,000	
Expenditures	\$7,322,024	\$8,919,071	(\$7,239,000)	
Net Operating Profit/(Loss)	(\$348,024)	\$2,721	\$0	
Annual Debt Payment Due	\$1,200,000	\$1,548,290	\$1,548,290	This amount is subject to review as the Metro Centre has indicated that the final debt payment will occur in 2006/07.
Risks	1. Revenue from Mooseheads varies with how well the team does, especially in the playoffs.			
Opportunities	<ol style="list-style-type: none"> 1. Operating capacity available from paying off loan 2. Have begun partnering/ revenue sharing in events rather than just collecting rental revenue. 			

Alderney Landing

	2005/06 Budget	2005/06 Actuals (Unaudited)	2006/07 Budget	Comments
Revenues	\$832,500	\$797,423	\$883,000	Increased revenues projected from new programming to make up for lose of Halifax Feast.
Expenditures	\$818,100	\$794,889	\$881,300	

**Financial Performance
HRM's Major Facilities**

Net Operating Profit/(Loss)	\$14,400	\$2,534	\$1,700	
Annual Debt Payment Due	TBD	TBD	TBD	Proposed 06/07 budget has no allowance for debt payments. Discussions taking place between HRM staff and Board to determine capacity to repay debt and an action plan.
Risks	<ol style="list-style-type: none"> 1. Lost Halifax Feast which generated \$30,000 in net profit. 2. Events Plaza programming is unreliable because of weather. 3. Currently unable to meet debt obligations to HRM. 4. Does not have the same revenue potential as a sports facility. 			
Opportunities	<ol style="list-style-type: none"> 1. Could access Federal Government funding if designated a cultural facility. 2. Eastern Front Theatre has paid off debt and should be able to provide firm performance dates. 3. Christmas Cabaret will provide additional revenue. 			

St. Margaret's Centre

	2005/06 Budget (01/05/05 to 31/03/06)	2005/06 Actuals (Unaudited) (01/05/05 to 31/03/06)	2006/07 Budget (01/04/06 to 31/03/07)	Comments
Revenues	\$910,483	\$1,046,991	\$1,176,400	
Expenditures	\$786,968	\$1,091,464	\$1,160,300	One-time start-up costs no longer required.
Net Operating Profit/(Loss)	\$123,515	(\$44,473)	\$16,100	
Annual Debt Payment Due	\$0	\$0	\$275,928 (\$58,028 from Board, \$217,900 from area rate)	Council approved a loan to a maximum of \$2,964,500. The debt payments will be funded from a 1 cent area rate plus contributions from the Board to keep the area rate from increasing.
Risks	<ol style="list-style-type: none"> 1. Fundraising falling short of targets contributing to inability to make debt payments on expansion project. Area rate required to cover shortfall. 2. Underground work for pool is required. 3. Older section of facility was built in 1988 and will require repairs. 			
Opportunities	<ol style="list-style-type: none"> 1. Junior "B" hockey and ice hockey rentals showing strong growth. 			

BUDGET IMPLICATIONS

There are no budget implications at this time.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

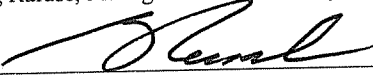
ALTERNATIVES

N/A

ATTACHMENTS

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Doug Rafuse, Manager Service Delivery, CCED, 490-6205

Report Reviewed by: 
Gordon Roussel, Financial Consultant, Finance, 490-6468