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Item No.
Audit & Finance Standing Committee
February 20, 2013

TO: Chair and Members of Audit & Finance Standing Committee

SUBMITTED BY: _____
Richard Butts, Chief Administrative Officer

Original Signed

Greg Keefe, Director of Finance and ICT/CFO

DATE: January 2, 2013

SUBJECT: Regional Facility Expansion Reserve Q145

ORIGIN

April 3, 2012 Regional Council motion during the 2012/13 Operating and Project Budget debate, approving that staff return with a proposed Business Case for a Multi-District Facilities Reserve before July 3, 2012.

LEGISLATIVE AUTHORITY

December 11, 2012 motion of Regional Council that any proposal to Halifax Regional Council, outside the annual budget or tender process, be referred to the Audit and Finance Standing Committee for review and recommendation to Regional Council including but not limited to; new programs or services not yet approved or funded; programs or services that are being substantially altered; proposed changes in any operating or project budget items; committing funds where there is insufficient approved budget; new or increased capital budget due to cost sharing; or creation or modification of reserves and withdrawals not approved in the approved budget.

Requirement of the HRM Reserve Policy is that no Reserve Funds will be expended without the CAO's recommendation and Council approval.

RECOMMENDATION – See page two.

RECOMMENDATION

It is recommended that Audit & Finance Standing Committee recommend that Halifax Regional Council:

1. Approve the establishment of the Regional Facility Expansion Reserve (Q145), as per the attached Reserve Business Case;
2. Approve the transfer of \$6M to the Regional Facility Expansion Reserve (Q145) funded \$5M from Snow and Ice Control Variable Operating Reserve (Q309), and \$1M from Operations Stabilization Reserve (Q308); and
3. Approve the transfer of \$1M from unallocated 2011/12 surplus; as per the financial implications section of this report; and
4. Approve that no withdrawals can be made from the reserve until Council has recognized and declared Phase 1 of the Multi District Facility Project (Accountability and Reporting) as substantively complete, with the presence of effective accountability and reporting processes.

BACKGROUND

HRM owns a number of regional facilities that service a wide geographic area and include Multi-District (MDF), Event, and some Indoor Sport facilities. These facilities typically include substantial infrastructure including but not limited to rinks, pools and gymnasiums. Such facilities are often operated on HRM's behalf by community boards with the intent of recovering all operating costs. Despite this, many of these facilities now face significant fiscal stress.

Many of these facilities were built over 30 years ago and may need to be redesigned to continue to meet community needs. However, on November 8, 2011, Council accepted the recommendation that no new construction or expansion of such facilities be approved "until accountability and reporting processes are updated".

DISCUSSION

Detailed facility condition assessments have been completed for the Regional Facilities which will better inform Regional Council on the state of the facilities and their future recapitalization funding needs. This work will assist with the development of a long-term capital plan. Given the current work being done through the Multi-District Facility project, it is anticipated that in order to address some of the problems identified, there may be a requirement for significant

capital investment for some facilities to better position them to deliver on programs expectations and desired outcomes. The investment may be in the form of a major expansion, enhancement, replacement, renovation, or new construction. Therefore, a capital reserve is proposed to provide for this investment. The proposed reserve business case is provided in Attachment 1.

Reserve Funding Sources

The Halifax Charter Section 120 requires that all funds from the sale of property be deposited into a capital reserve. Currently all property sales, with the exception of the sale of Business/Industrial Parks land or sale of land conveyed to HRM for parks, playgrounds or other similar public purposes under Section 283 of the Charter, are deposited into the Sale of Capital Assets (Sale of Land) Reserve (Q101). These deposits into Q101 would currently include amounts for recreational and community facilities included in the June 2008 Council approved Community Facility Master Plan (CFMP). While it is not the current practice to earmark funds from sales of property for specific purposes, there is strong rationale that net proceeds from the retiring of existing recreational or community property (declared surplus through a Council approved process) be used to support expansions to facilities of similar nature in order to maintain or enhance the recreational program delivery and achieve desired outcomes. As well, it is proposed that a minimum of 10% of other sales of property currently deposited to Q101, be redirected to this new reserve on an annual basis.

FINANCIAL IMPLICATIONS

If the Reserve Business Case is approved, an initial amount of \$7M will be transferred to the Regional Facility Expansion Reserve (Q145) in fiscal 2012/13, funded from the following accounts:

- \$5M from Snow and Ice Control Variable Operating Reserve (Q309);
- \$1M from Operations Stabilization Reserve (Q308); and,
- \$1M from unallocated 2011/12 surplus.

Ongoing funding will be provided from the following sources:

- Net Proceeds from the sale of real property held or used as a recreational or community facility (as identified in the 2008 CFMP and future updates to such) but declared surplus by Regional Council, commencing in fiscal 2012/13 and on an annual basis;
- A minimum of a 10% transfer from Sale of Land Reserve (Q101) from the sale of real property not held or used as a recreational or community facility to the extent funding is available, commencing in fiscal 2012/13 and on an annual basis; and,
- Appropriations from the Operating Budget (M310) as per future Approved Operating Budgets or as otherwise directed by Regional Council.

If approved, this report will increase contributions to the Reserves by \$1M.

Budget Summary Snow & Ice Reserve, Q309

Projected balance March 31/13 (as at Dec 31)

\$ 8,524,207

Withdrawal per recommendation	<u>\$(5,000,000)</u>
Projected balance March 31/13	\$ 3,524,207

Budget Summary Operating Stabilization Reserve, Q308

Projected balance March 31/13 (as at Dec 31)	\$ 4,660,915
Withdrawal per recommendation	<u>\$(1,000,000)</u>
Projected balance March 31/13	\$ 3,660,915

COMMUNITY ENGAGEMENT

None

ENVIRONMENTAL IMPLICATIONS

None

ALTERNATIVES

1. Regional Council may choose not to approve the proposed Regional Facility Expansion Reserve business case at this time. This is not the recommended option as the reserve would provide a strategy to funding future service improvement projects for Regional Facilities.

ATTACHMENTS

Attachment 1: Regional Facility Expansion Reserve Business Case

A copy of this report can be obtained online at <http://www.halifax.ca/boardscom/SCfinance/index.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Danielle Paris, Senior Financial Consultant, Financial Policy & Planning, 490-4397
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Report Approved by: Denise Schofield, Manager, Regional Recreation & Culture, 490-6252
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Report Approved by: Brad Anguish, Director of Community & Recreation Services, 490-4933

Original Signed

Financial Approval by: Greg Keefe, Director of Finance and ICT/CFO, 490-6308

Reserves Business Case

Halifax Regional Municipality • Finance Division • 490-3696 • Fax: 490-1358

Date: January 2, 2013
Contact: Director of Finance and ICT/CFO

Regional Facility Expansion Reserve – Q145

Purpose

The Regional Facility Expansion Reserve is intended to enable HRM to proactively plan for Service Improvement Projects that include major expansion, replacement, renovation, enhancement or new construction of certain Regional Facilities so as to meet changing demographic, service and recreational needs, as determined by Regional Council. This reserve is not meant to provide funds for operating costs, ongoing repairs and maintenance, or address recapitalization which is currently funded through other budget sources. Expenditures from the reserve must be supported by a solid business case.

A “Regional Facility” is defined (for the purpose of this business case) to include Multi-District (MDF), Event, and some Indoor Sport facilities, including the following HRM owned assets:, Alderney Landing , Canada Games Centre, Centennial Arena, Centennial Pool, , Cole Harbour Place, Dartmouth Sportsplex, Eastern Shore Community Centre, Halifax Forum, Sackville Sports Stadium and St. Margaret’s Centre, or any prospective facility that Regional Council chooses to designate as “Regional Facility” for purposes of this reserve. It should be noted that while BMO Centre and Halifax Metro Centre are considered regional facilities, for the purposes of this reserve they are not included as both currently have stand-alone reserves in place to fund capital improvements.

‘Real Property’ held or used as a recreational or community facility, is defined as those facilities identified in the June 2008 Council Approved Community Facility Master Plan (CFMP) and future updates to such.

Source of Funds

The Regional Facility Expansion Reserve will be funded from the following sources:
An initial transfer of funds will occur in fiscal 2012/13 as follows:
\$5M from Snow and Ice Control Variable Operating Reserve (Q309);
\$1M from Operations Stabilization Reserve (Q308); and
\$1M from Unallocated 2011/12 Surplus.

On an ongoing basis net proceeds, or a portion thereof, will be deposited to the reserve through: Net Proceeds from the sale of real property held or used as a recreational or community facility but declared surplus by Regional Council , commencing in fiscal 2012/13 and on an annual basis;

A minimum of a 10% transfer from Sale of Land Reserve (Q101) from the sale of real property not held or used as a recreational or community facility to the extent funding is available, commencing in fiscal 2012/13 and on an annual basis; and,

Appropriations from the Operating Budget (M310) as per future Approved Operating Budgets or as otherwise directed by Regional Council.

In addition, interest will be paid to the Reserve in accordance with the HRM Reserves Policy.

Application of Funds

The main funding source of this reserve will be from the sale of real property. Funds withdrawn from this reserve will be applied in accordance with the Halifax Charter Section 120, which states funds from the sale of property must be deposited into a capital reserve and used for either:

- a) Capital expenditures for which the municipality may borrow; or
- b) Repayment of the principal portion of capital debt.

Eligibility

To be eligible for funding from this reserve, there must first be a business case which will be reviewed jointly by the Director of Community and Recreation Services (CRS) and the Director of Finance and Information, Communications and Technology (FICT) and subsequently approved by the Chief Administrative Officer (CAO).

The Business Case must include at a minimum:

- The estimated capital costs by year
- The estimated operating budget for the first five years including:
 - Program Revenues
 - Program Expenditures
 - Principle and Interest Costs
 - Lifecycle and Maintenance Costs
 - Compensation Costs
 - All other Costs and Revenues
- A cost benefit analysis
- The impact on any operating subsidy
- Provisions for lifecycle reserves for the life of the asset
- The financial and operating impacts on other HRM facilities including other Regional Facilities
- An analysis as to how the proposed facility or facility changes aligns with HRM's mandate and Regional Council's proposed outcomes.

In addition:

- Funds must be used for capital; targeted towards replacement, renovation, expansion or enhancement of major structural components of existing facilities or new proposed facilities. Funds cannot be used for repairs and maintenance or machinery and equipment related expenditures. Those expenditures would continue to be funded through facility operating budgets or HRM's Project Budget process.
- All funds must be used in compliance with the Tangible Capital Asset (TCA) policy. This reserve shall not be permitted to loan or guarantee funds to other reserves, projects, facilities, organizations, societies, boards, associations or the like, or to temporarily allocate funds to non-reserve uses.

Time Line and Balances

This Reserve is intended to be temporary in nature. Once the Regional Facility service improvements are addressed such that service and programming needs are met, the Reserve should be discontinued. As such, the Reserve will cease to exist as of March 31st, 2023, unless extended by a vote of Regional Council.

A minimum reserve balance of \$500,000 will be maintained.

Approval Process

A business case, as outlined in the Application of Funds section, must be prepared for and reviewed by the Directors of Community and Recreation Services (CRS) and Finance and Information, Communications and Technology (FICT) in coordination with Planning and Infrastructure. The Directors must jointly recommend the proposal to the CAO. CAO approval is required prior to submission to Council.

Once the service improvement proposal is approved by Council, a request for withdrawal must be initiated by the Director of CRS, as part of the annual budget process, in coordination with Planning and Infrastructure and FICT to ensure that reserve funds are spent on approved projects. If funding from the reserve for a proposal is required after approval of the annual budget, Council must approve withdrawal of funds through a resolution of Council by way of a Council Report.

Finance (Accounting) is responsible for ensuring availability of funds and appropriateness of expenditures in accordance with the Reserve Policy prior to submission to council for their approval.

Attachments

5-Year Cash Flow Projection

Approval

CAO

Attachment

**Regional Facility Expansion Reserve
Source and Application of Funds**

	Estimated 2012/13	Estimated 2013/14	Estimated 2014/15	Estimated 2015/16	Estimated 2016/17
<i>Opening Balance</i>	0	7,160,000	9,832,000	12,332,000	13,957,000
Contribution					
<i>Initial Transfer from other sources</i>	7,000,000	0	0	0	0
<i>Net Proceeds from Sale of Recreational & Community Facilities</i>	0	1,300,000	0	0	2,400,000
<i>10% of Other Net Surplus Property Sale Proceeds from Q101</i>	120,000	300,000	1,400,000	500,000	500,000
<i>Appropriations from Operating</i>	0	1,000,000	1,000,000	1,000,000	1,000,000
<i>Sub-Total</i>	7,120,000	9,760,000	12,232,000	13,832,000	17,857,000
Withdrawals	0	0	0	0	0
Interest Earned	40,000	72,000	100,000	125,000	141,000
Closing Balance	\$7,160,000	\$9,832,000	\$12,332,000	\$13,957,000	\$17,998,000

Estimated Withdrawals are not yet available