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**Halifax Regional Council**  
**20 April 2004**

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**

  
George McLellan, Chief Administrative Officer

  
Dan English, Deputy Chief Administrative Officer

**DATE:** 9 April 2004

**SUBJECT:** St. Margaret's Bay Arena Expansion

**ORIGIN**

1998 Burke Oliver Report detailed the need for an additional ice surface at the St. Margaret's Bay Arena.

**RECOMMENDATION**

Subject to a favourable outcome from the community consultation scheduled for April 26, 2004 on the matter of the requirement of a future area rate in the event of a shortfall in the planned operating and capital plan for the project:

It is recommended that :

1. Council approve an increase of \$5,169,000 to the 2003/04 Approved Capital Budget under Capital Project # CBC00721 St. Margaret's Bay Arena, with funding to be provided as detailed in the Budget Implications section of this Report. This increase includes a loan to a maximum of \$2,964,500 from HRM to SMCA, repayable with interest by SMCA over a twenty year period, subject to approval by the Nova Scotia Department of Service Nova Scotia and Municipal Relations, and subject to the terms and conditions as detailed in the Budget Implications section of this Report;
2. Council approve the award of the construction tender to Lindsay Enterprises in the amount of \$6,914,000, inclusive of all applicable taxes; and
3. Council request staff to update the current Management Agreement with St. Margaret's Bay Arena Association to reflect their change of name to St. Margaret's Centre Association (SMCA), and to incorporate the conditions related to the repayable loan, and that the new management agreement be returned to Council for approval not later than August 2004.

## BACKGROUND

The present facility, consisting of one ice surface, changing rooms, offices, one large and small meeting rooms, and an outside pool, was completed in 1987.

HRM commissioned a study in 1998 to ascertain the need and optimum siting for a major recreation complex to serve Districts 2, 16, 21, 22, 23. Among other needs (additional ice surface in Bedford, Library in Tantallon, recreation facility in the Mainland), this report suggested that the St. Margaret's Bay Arena and Community Centre be strengthened and a new arena built. The requirement for an additional ice surface was subsequently confirmed through an arena capacity study in November 2001.

As part of the 01/02 HRM Capital Budget, \$1,500,000 was approved for this project. The SMCA Board has also secured a funding commitment to a maximum of \$1,500,000 from the Sport and Recreation Division of the Nova Scotia Office of Health Promotion. SMCA has secured an additional funding commitment to a maximum of \$1,500,000 from the ACOA Strategic Community Investment Fund Program.

## DISCUSSION

### **Scope of Work**

Over the past 18 months the SMCA Board has considered a number of options to advance the expansion of the facility. However, in light of the funds secured through the three levels of government and the initial success of their own fund raising thus far, staff is satisfied that the following scope of work for this project can proceed:

- additional ice surface;
- expanded ice plant;
- gymnasium;
- community meeting rooms;
- locker rooms; and
- offices.

### **Tender and Capital Summary**

This project was competitively tendered by SMCA. Thirteen general contractors responded to an expression of interest. Six contractors were short listed and invited to tender. Staff has reviewed the tender process and is satisfied that the process used meets the requirements of the HRM Procurement Policy. On 03 March 2004, bids were evaluated with the following results:

	Net	Incl. Net Hst
Lindsay Enterprises	\$6,496,350	\$ 6,914,000
Maxim Construction	\$6,711,517	\$ 7,143,000
Rideau Construction	\$6,780,483	\$ 7,216,400
PCL Constructors	\$6,812,053	\$ 7,250,000
Panigas	\$6,837,168	\$ 7,276,730
Ellis-Don	\$6,999,972	\$ 7,450,000

The following is the capital summary for the project:

ITEM	DETAIL	COST
Design	Includes design costs for above scope and construction phase services by architect.	\$ 466,000
Construction	Tender package for complete scope outlined above including \$ 100 K contingency	6,914,000
Site Services	Engineering, sewer, parking, exterior lighting	11,000
Contingency	Additional contingency allowance considered as part of capital outlay, bringing total contingency to 10 %.	581,500
Fund-Raising	Expenses incurred to date for fund raising	231,500
Project Management	Allowance for HRM Project Management	40,000
<b>Total</b>		<b>\$8,244,000</b>

**Operating Cash Flow** (to be circulated)

With SMCA, staff has prepared a 20 year operating cash flow for the expanded facility. This cash flow takes into consideration fund-raised pledges and donations planned but not yet realized, revenues and expenditures from the expanded facility, and annual debt service costs resulting from the final loan amount of the capital project.

SMCA's funding plan called for \$1,500,000 in pledges and donations. At the time of this report, a net of approximately \$110,000 (after fund-raising expenses) has been realized. Although SMCA remains optimistic about its ability to meet its fund raising plan, staff felt it was prudent to risk-adjust SMCA's plan to make the total capital and operating cash flows more conservative. This has been reflected in the capital and operational analysis.

Based on previous performance, it is noted that all past financial obligations to HRM from the SMCA were met, and all Terms and Conditions of the Management Agreement have been adhered to.

Additionally, staff has included an operating contingency in the 20-year cash flow projections, (calculated as 5% of the projected annual general operating expenses), to reduce risk associated with variances in estimated operating revenue and expenditures. Staff is also recommending that:

- SMCA begin annual contributions to a life cycle reserve in year 2005/06, calculated as 0.5% annually of the estimated facility replacement value.
- effective 2005/06, SMCA begin to pay for insurances estimated to be in the range of \$25,000 /annum. <sup>1</sup>

These elements have been incorporated into the 20 year operational cash flow.

Based on a construction completion of late fall 2004, and including the operating elements above, an annual operating deficit is forecast in 2006/07. Staff believe this deficit may be mitigated through better performance of the facility (both revenue and expenditure), the realization of fund raising targets, and if the project is delivered within the proposed budget. However, in the event that the forecast operating deficits cannot be eliminated, staff is recommending, as a condition of the proposed loan, that an area rate be imposed as the funding source. The rationale for this approach is

<sup>1</sup> This matter is under review as part of the policy framework for HRM facilities under management agreements

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that HRM's general rate contribution was made in support of the additional arena. The project scope over and above the second ice surface is considered to be at the request of the community and should, therefore, be funded by the community. At this point, based on the cash flow, staff believe the area rate is not expected to exceed \$0.01/\$100 of assessment, beginning in fiscal year 06/07 and continuing until the debt is fully repaid to HRM.

### BUDGET IMPLICATIONS

The proposed capital budget for the expansion totals \$8,244,000, with funding sources of \$3,075,000 currently approved under:

- Capital Project CB100222 - St Margaret's Arena Design (\$75,000 HRM contribution, of which \$45,000 remains available), and
- Capital Project CBC00721 - St Margaret's Bay Arena (\$1,500,000 HRM contribution; plus \$1,500,000 community fund-raising commitment, for a total of \$3,000,000 which remains available).

Budget Summary: CBC00721-St. Margaret's Bay Arena

Cumulative Unspent	\$3,000,000
Plus: Increase requested	\$5,169,000
Less: Award of Tender	<u>\$6,914,000</u>
	\$1,255,000

Proposed revisions to funding sources are as follows:

Funding Source	Description	Amount
HRM capital contribution to be funded from Debt	<b>No change.</b> As approved under 2000/01 HRM Capital Project #CB100222.	\$ 75,000
HRM capital contribution to be funded from Debt	<b>No change.</b> As approved under 2001/02 HRM Capital Project #CBC00721.	800,000
HRM capital contribution to be funded from Capital from Operating	<b>No change.</b> As approved under 2001/02 HRM Capital Project #CBC00721.	700,000
Cost-sharing contribution from SMCA community fund-raising	As approved under 2001/02 HRM Capital Project #CBC00721. <b>See proposed reduction below.</b>	1,500,000
<b>TOTAL Approved Budget - Capital Projects</b>	<b>CB100222 = \$75,000 and CBC00721 = \$3,000,000</b>	<b>\$3,075,000</b>
Cost-sharing contribution from SMCA community fund-raising	<b>Reduction.</b> To reflect fund-raising to date plus risk-adjusted estimates for 04/05 fund-raising.  Note that risk-adjusted fund-raising in 05/06 and beyond will be applied to debt reduction, rather than directly to the capital project.	(913,000)
Province of Nova Scotia, Office of Health Promotion, Sport & Recreation Division	<b>Increase.</b> Non-repayable grant to a maximum of \$1,500,000 (certain conditions apply).	1,500,000

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ACOA Strategic Community Investment Fund Program	<b>Increase.</b> Non-repayable grant to a maximum of \$1,500,000 (certain conditions apply).	1,500,000
SMCA contribution from operations	<b>Increase.</b> Contribution representing capital expenses paid to date from SMCA operating funds, which are not repayable to SMCA operating fund.	117,500
HRM Loan to SMCA	<b>Increase.</b> Repayable over 20 years, with interest at HRM debenture rate.	2,964,500
<b>Proposed Revised Budget - Capital Projects</b>	<b>CB100222 = \$75,000 and CBC00721 = \$8,169,000</b>	<b>\$8,244,000</b>

**Terms and conditions of project approval include the following:**

- SMCA must manage project scope within the approved capital budget;
- SMCA must continue to aggressively pursue pledges and collection of donations in order to meet or exceed their fund-raising targets;
- SMCA must aggressively pursue revenue opportunities in order to meet or exceed annual operational revenue targets;
- SMCA must diligently manage annual operating expenses with the approved budget;
- SMCA must apply any annual operating surpluses directly against debt reduction, to minimize the interest cost of the capital expansion; and
- SMCA and the residents of HRM Districts 22 and 23 (with the exception of those residents outside the defined catchment area as outlined in maps prepared for the April 26, 2004 community meeting), in the event of any project shortfall, must agree to approval of an area rate, (currently estimated within a range of \$0.0075 to \$0.01 per \$100 of assessment) to be imposed commencing April 2006.

**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**

Council could choose not to approve the loan and advise SMCA to proceed with the rink portion of the project only, as funds are available to complete this scope. This is not the recommended alternative as staff believe, with the conditions placed on the loan as outlined above, including the condition that any operating deficit be recovered through an area rate, that the necessary annual cash flows will exist for the facility.

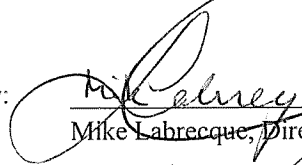
ATTACHMENTS

- Capital Project Summary and Assumptions
- Operational Assumptions
- Operational Cash Flows (to be circulated)

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.

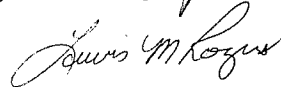
Report Prepared by: Mike Labrecque, Director, Real Property & Asset Management 490-4851

Report Approved by:



Mike Labrecque, Director, Real Property & Asset Management 490-4851

Report Approved by:



Lew Rogers, Director, Recreation, Culture & Tourism 490- 5978



Dale MacLennan, Director, Financial Services 490-6308

CAPITAL BUDGET FOR: ST. MARGARET'S CENTRE EXPANSION						
	2002/03	2003/04	2004/05	2005/06	2006/07	Totals
	Actual	Y1 Budget	Y2 Budget	Y3 Budget	Y4 Budget	
<b>Funding by Source</b>						
From Net Operating Surplus (Note 1)	117,500					117,500
Private Sector Donations (Note 2)	173,000	142,000	192,000			507,000
Private Sector Donations (Note 3)			80,000			80,000
Federal Government Funding (Note 4)				1,500,000		1,500,000
Provincial Government Funding (Note 5)			1,500,000			1,500,000
Miscellaneous (Note 6)						0
<b>Sub-total: Non-HRM Funding</b>	<b>290,500</b>	<b>142,000</b>	<b>1,772,000</b>	<b>1,500,000</b>	<b>0</b>	<b>3,704,500</b>
<b>HRM</b>						
Area rate (Note 7)						
General rate (Note 8)						
Loan/debenture (Note 9)				2,964,400		2,964,400
Councillors' Funds (Note 10)						
Special grant from business unit (Note 11)						
Grant in lieu of taxes (Note 12)						
Other grants (Note 13)	75,000	1,500,000				1,575,000
Miscellaneous (Note 14)						
<b>Sub-total: HRM Funding</b>	<b>75,000</b>	<b>1,500,000</b>	<b>0</b>	<b>2,964,400</b>	<b>0</b>	<b>4,539,400</b>
<b>Total Funding</b>	<b>365,500</b>	<b>1,642,000</b>	<b>1,772,000</b>	<b>4,464,400</b>	<b>0</b>	<b>8,243,900</b>
<b>Capital Cost Estimates</b>						
Design (Note 20)	30,000	133,800	302,200			466,000
Phase 1 & 2 Construction (Note 21)			6,814,000			6,814,000
New (2nd) Ice Surface / Arena Seating						0
Expanded Ice Plant						0
Changing Rooms						0
Locker Rooms						0
Men's / Women's Washrooms						0
Gymnasium						0
Site Services (including Engineering, Sewer, Parking, Exterior Lighting, etc)		11,000				11,000
Roof Collection System for Water						0
Not Included in Phase 1 Construction						
Possible New Well (Note 22)						0
Ice-cleaning Machine (Note 23)						0
Arena Fixtures (Note 24)						0
Furniture (Note 25)						0
Possible Future Phases (Note 26)						
Youth Centre						0
New Lion's Den						0
Community Meeting Rooms						0
Meeting/Conference Infrastructure						0
Offices						0
Add'l Insurance during Construction (Note 27)						0
Capital Contingency (Note 28)			681,400			681,400
Fund-raising Expenses (Note 29)	208,200	3,300	20,000			231,500
Project Management (Note 30)			40,000			40,000
<b>Total: Capital Costs</b>	<b>238,200</b>	<b>148,100</b>	<b>7,857,600</b>	<b>0</b>	<b>0</b>	<b>8,243,900</b>
<b>Net Capital Surplus (Deficit)</b>	<b>127,300</b>	<b>1,493,900</b>	<b>(6,085,600)</b>	<b>4,464,400</b>	<b>0</b>	<b>0</b>

Capital Note #	Reference	Description
1	Contribution from Net Operating Surplus	Contribution of \$117,500 represents net transfers from SMCA operations to the SMCA capital fund from 2001/02 through to Mar 22/04, as per donation/expenditure data provided Mar 23/04 from SMCA (as of Apr 04/04, further clarification pending from SMCA). Per Mar 31/04 voicemail from SMCA (Tim Hill), this net amount does not require repayment to operations and will remain as an operating contribution to the facility expansion.
2	Private Sector Donations	Based on SMCA records for donations actually received up to Mar 22/04, as per donation/expenditure data provided Mar 23/04 from SMCA (as of Apr 04/04, further clarification pending from SMCA). A collection factor has been applied in 04/05 and beyond, resulting in 85% of pledges estimated to be realizable. Actual donations for 01/02, 02/03 and 03/04 and committed pledges/donations for 04/05 are applied toward the capital cost of expansion; committed pledges/donations for 05/06, 06/07 and 07/08 are applied toward the operating budget to contribute to debt repayment.
3	Private Sector Donations	SMCA engaged RBR to develop fund-raising approach and estimates. Based on total estimated community fund-raising of \$1,500,000, approximately \$573,000 has yet to be pledged. A collection factor has been applied in years 04/05 and beyond, resulting in 26% of future pledges estimated to be realizable. Estimated donations/pledges for 04/05 are applied toward the capital cost of expansion; estimated donations/pledges for 05/06, 06/07, 07/08 and 08/09 are applied toward the operating budget to contribute to debt repayment.
4	Federal Govt Funding	SCMA has secured commitment for a non-repayable grant of \$1,500,000 from the ACOA Strategic Community Investment Fund Program, to be reimbursed based on submission of claims and supporting documentation (certain conditions apply, including a requirement that construction is complete by Dec 2004).
5	Provincial Govt Funding	SCMA has secured commitment for a non-repayable grant of \$1,500,000 from the Nova Scotia Sport and Recreation Division of the Office of Health Promotion, to be reimbursed based on submission of claims and supporting documentation to a maximum of \$500,000 annually in 2004/05, 2005/06 and 2006/07 (certain conditions apply). Per Mar 31/04 voicemail from SMCA (Tim Hill), the full \$1,500,000 will be advanced from the Province to HRM during the week of Apr 05/04.
6	Miscellaneous	n/a
7	HRM Area Rate	n/a
8	HRM General Rate	n/a
9	HRM Loan/Debenture	Based on construction completion of Oct/04, debenture issue will occur May/05 (in 05/06 fiscal year). At the request of SMCA, a special debenture repayment term of 20 years will be requested from the Municipal Finance Corporation. Based on proposed debenture issue in May/05, interest payments will commence Nov/05 and principal repayment will commence May/06. Interest is estimated based on Nov/03 debenture rates for the first 10-year term; interest rate for final 10-year term will be determined at time of renewal, but has been estimated at an average rate of 5% annually.
10	HRM Councillors' Funds	n/a
11	HRM Special Grant from Business Unit	n/a
12	HRM Grant in Lieu of Taxes	n/a
13	HRM Other Grants	HRM Capital Project #CB100222 approved \$75,000 in 2001/02 for design fees for the proposed expansion of the St. Margaret's Bay Arena. As of Sep/03, \$45,000 remains available (see Note 20 below re: \$30,000 disbursed to date). HRM Capital Project #CBC00721 approved \$1,500,000 contribution from HRM toward facility expansion, with a cost-sharing commitment of \$1,500,000 from SMCA to be generated through community fund-raising.
14	HRM Miscellaneous	n/a
20	Design	Total design fees are estimated at \$436,000 based on information provided by SMCA to RPAM (Phil Townsend), plus the \$30,000 paid from HRM Capital Project #CB100222 in 02/03. In 03/04, payments were made from SMCA to the architect for \$133,800. SMCA has requested that HRM cover an outstanding invoice for \$184,200 in Apr/04. Future cost (04/05) of \$118,000 will cover project management by the architect during construction.
21	Phase 1 & 2 Construction	Potential award of contract, based on tendered price of \$6,914,000. The bidder has included a contingency of \$100,000 in the tendered price. HST has not been included in the tendered price; appropriate procedures for invoicing and payment will result in full input tax credits (ITC) against tax paid. Additional costs to date include \$11,000 for engineering services.
22	Possible New Well	Although a roof-top water collection system has been included in the Phase 1 tendered price, a possibility exists that a new well will also be required. This will be confirmed after the site preparation phase of construction has been completed. Potential cost has not been included in the Phase 1 tendered price.



Capital Note #	Reference	Description
23	Ice-cleaning Machine	RPAM (Denis Huck) estimates \$75,000 - \$80,000 for acquisition of a 2nd ice-cleaning machine. This cost has not been budgeted.
24	Arena Fixtures	Arena fixtures such as clocks, hoses, etc have not been included in the Phase 1 tendered price. SMCA has confirmed that these items will be provided by advertisers at no cost to SMCA or HRM.
25	Furniture	Minimal furniture upgrades are required. RPAM (Mike Labrecque) has confirmed that requirements will be met from HRM surplus furnishings.
26	Phase 2 Construction	The cost of future additions / building enhancements have not been included in this analysis.
27	Additional Insurance during Construction	Amount? Responsibility? (As of Apr 04/04, awaiting confirmation of insurance provisions/requirements included in construction bid).
28	Capital Contingency	Per industry practice, 10% of the contract price has been included.
29	Fund-raising Expenses	To date, \$211,500 has been paid for fund-raising activities, based on detail provided by SMCA staff on Mar 24/04. A further \$20,000 has been estimated by SMCA to cover ongoing solicitation and collection. Collection efforts beyond 2004/05 would be the responsibility of existing SMCA operations staff and/or volunteers, at no additional cost to HRM or SMCA.
30	Project Management	An estimate of \$40,000 has been added to provide HRM project management / due diligence services during construction.

Operating Note #	Reference	Description
1	Revenue from Operations	For 02/03 and 03/04, amounts are based on information provided by SMCA. For 04/05 to 06/07, amounts are based on information provided by SMCA and validated by RPAM (Denis Huck). For 07/08 and beyond, a 3% annual inflationary factor has been applied.
2	Private Sector Donations	Based on SMCA records for donations actually received up to Mar 22/04, as per donation/expenditure data provided Mar 23/04 from SMCA (as of Apr 04/04, further clarification pending from SMCA). A collection factor has been applied in 04/05 and beyond, resulting in 85% of pledges estimated to be realizable. Actual donations for 01/02, 02/03 and 03/04 and committed pledges/donations for 04/05 are applied toward the capital cost of expansion; committed pledges/donations for 05/06, 06/07 and 07/08 are applied toward the operating budget to contribute to debt repayment.
3	Private Sector Donations	SMCA engaged RBR to develop fund-raising approach and estimates. Based on total estimated community fund-raising of \$1,500,000, approximately \$573,000 has yet to be pledged. A collection factor has been applied in years 04/05 and beyond, resulting in 26% of future pledges estimated to be realizable. Estimated donations/pledges for 04/05 are applied toward the capital cost of expansion; estimated donations/pledges for 05/06, 06/07, 07/08 and 08/09 are applied toward the operating budget to contribute to debt repayment.
4	Federal Govt Funding	Based on SMCA estimates under Summer Youth Employment Program.
5	Provincial Govt Funding	n/a
6	Miscellaneous	n/a
7	HRM Area Rate	n/a
8	HRM General Rate	n/a
9	HRM Loan/Debenture	n/a
10	HRM Councillors' Funds	n/a
11	HRM Special Grant from Business Unit	n/a
12	HRM Grant in Lieu of Taxes	n/a
13	HRM Other Grants	n/a
14	HRM Miscellaneous	n/a
20	General Operating Expenses	For 02/03 and 03/04, amounts are based on information provided by SMCA. For 04/05 to 06/07, amounts are based on information provided by SMCA and validated by RPAM (Denis Huck). For 07/08 and beyond, a 3% annual inflationary factor has been applied.
30	Insurance	To reflect an estimate for insurance, with a 3% annual inflationary factor applied. Although insurance is currently provided by HRM at no cost to the facility, this practice is currently under review. The amount is an estimate only, and has not been validated through a formal quotation.
31	Operational Contingency	Operational contingency calculated at 5% of estimated gross general operating expenses.
40	HRM Facility Life Cycle Reserve	Funds to be transferred annually to an HRM Reserve to provide for significant repairs/maintenance and ultimate building & equipment replacement. Calculated at 0.5% of estimated 04/05 building value of \$9,000,000 (after expansion), as stipulated by RPAM (Mike Labrecque). A 3% annual inflationary factor has been applied.
41	Equipment Replacement Reserve	No provision has been made for equipment replacement.
42	Other HRM Reserve	n/a
43	HRM Loan/Debenture	At the request of SMCA, a special debenture repayment term of 20 years will be requested from the Municipal Finance Corporation. Based on proposed debenture issue in May/05, interest payments will commence Nov/05 and principal repayment will commence May/06. Interest is estimated based on Nov/03 debenture rates for the first 10-year term; interest rate for final 10-year term will be determined at time of renewal, but has been estimated at an average rate of 5% annually.
44	Other Debt Repayment	n/a
50	For Discussion: Possible Area Rate	Based on Dec/04 assessment data for Districts 22 and 23 (provided by HRM Financial Planning staff), several area rates have been calculated to enable evaluation of options for funding the estimated annual net operating deficits.