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**Halifax Regional Council**  
**July 13, 2004**

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

A handwritten signature in cursive script, appearing to read "Mike Labrecque".

**SUBMITTED BY:**

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Mike Labrecque, Director Real Property & Asset Management

A handwritten signature in cursive script, appearing to read "Dale MacLennan".

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Dale MacLennan, Director, Financial Services

**DATE:** July 05, 2004

**SUBJECT:** Review of HRM Support to Major Facilities

### **INFORMATION REPORT**

#### **ORIGIN**

Staff review of financial situation of the major facilities. Financial information is based on the 2002/03 audited statements and the preliminary 2003/04 operating results, as audited statements are not yet available.

## **BACKGROUND**

An operational review was conducted for the Sackville Sports Stadium in early 2003 based on the fact that the facility had operated with a deficit in two successive years, with a third operating deficit projected for the 2002/03 fiscal year. Following that review, staff began to formulate plans to conduct a high level review of other major facilities to review their financial situations. Shortly thereafter, in September 2003, the General Manager and Board representatives from the Dartmouth Sportsplex met with the DCAO and senior management regarding their concerns that the Sportsplex would incur an operating deficit in the current fiscal year. Hence, the importance of reviewing the other major facilities accelerated.

The review of the major facilities was a high level examination of financial operating results, current debt, and the future funding issues identified by the facilities. The facilities initially included in this review were the following:

### Multi-District Multi Use Facilities (Recreational):

- Sackville Sports Stadium
- Dartmouth Sportsplex
- Cole Harbour Place

### Events Facility:

- Halifax Forum Complex
- Metro Centre

### Cultural Facility:

- Alderney Landing

Each of the above recreation facilities have undergone capital expansion or major renovations since amalgamation and have long term debt repayment agreements. The new facility for Alderney Landing was also constructed in the post amalgamation period.

Alderney Landing is in a similar position to the major facilities of having to repay a significant capital debt, and early indications are that they may not be able to meet this obligation. Alderney Landing is currently making payments on debt from its capital campaign, however, in April 2005 will begin making scheduled debt payments from operating revenues. Therefore, during the course of the review this facility was added to the ones to be reviewed, and is considered as a Cultural Facility. In addition, the Halifax Metro Centre was also added to the review list due to its size and the potential impacts on HRM's annual operating and capital budgets.

Over the past several months staff have met with the General Managers of the Halifax Forum Community Association (HFC), the Dartmouth Sportsplex (DS), Alderney Landing (AL), Cole Harbour Place (CHP) and the Sackville Sports Stadium. A meeting with the Director of Finance for the Metro Centre took place in March 2004. Updated results for 2003/04 were obtained through follow-up conversations.

As previously noted, the financial information included from 03/04 has not been drawn from final audited statements. An update to some of the included tables will be provided to Council in September 2004 following final review by the respective Boards and submission of audited statements to HRM. At that time, the St Margaret's Bay Arena will be included in the update and any future reports on major facilities due to it's increased size as a result of the recently approved expansion.

**DISCUSSION**

Based on a review of key financial information and interviews with the General Managers, several tables were prepared to show the following comparisons between each of the facilities;

- Highlights of their Arrangements with HRM
- Financial Performance based on audited 2002/03 Financial Statements
- Existing Capital Debt Outstanding to HRM
- Existing Reserve Funds
- Amount of HRM Annual Capital Support vs Preferred Recapitalization Guidelines

**Arrangements With HRM**

**Table 1**

Facility	Type of Agreement	Financial Services Provided by HRM	Payroll Services Provided by HRM	Receives Operating Subsidy from HRM
Dartmouth Sportsplex	Management Agreement	No	Yes	No
Halifax Forum	Management Agreement	Yes	Yes	No
Cole Harbour Place	Lease Agreement*	No	Yes	No
Sackville Sports Stadium	Management Agreement**	No	Yes	Yes
Alderney Landing	Management Agreement	No	No	Yes
Metro Centre	Tri-partite Operating Agreement***	No	No	No

\* Most Clauses of the CHP Lease Agreement are very similar to the Management Agreements

\*\* Operations at the Sackville Sports Stadium are currently being overseen by HRM directly, with the intent to have a Management Agreement negotiated later this year with a new community board.

\*\*\*The Tri-partite agreement is between HRM, the Province and WTCC to operate the Metro Centre. Under the Agreement, HRM retained ownership of the Metro Centre and does not provide direct operating subsidies, but any deficit/surplus accrues to HRM. While the Metro Centre does not receive any funding from HRM, the Agreement also stipulates HRM's financial operating obligations to the Convention Centre of approximately \$500K per year.

**Financial Performance**

**Table 2**

FINANCIAL PERFORMANCE - 2002/03 audited financial statements						
	Dartmouth Sportsplex	Halifax Forum	Cole Harbour Place	Sackville Sports Stadium <sup>(4)</sup>	Alderney Landing	Metro Centre
User fee revenue	\$2,499,916	\$ 716,875	\$2,465,106	\$2,285,755	\$230,390	
Rental income	252,885	341,411	422,835	169,561	193,176	2,028,640
Social Nights (net)	396,894	770,922	36,908			
Events						3,303,360
Other Income						2,726,144
HRM subsidy				200,000 <sup>(1)</sup>	175,000 <sup>(1)</sup> 75,000 <sup>(1)</sup>	
Grants/Donations					1,000	
Transfer from reserve	316,020	41,381	61,845			220,463
<b>Total Revenue</b>	<b>\$3,465,715</b>	<b>\$1,870,659</b>	<b>\$2,986,694</b>	<b>\$2,655,316</b>	<b>\$652,495</b>	<b>\$8,278,607</b>
	DS	HFC	CHP	SSS	AL	MC
Expenses (excl. debt financing)	\$2,869,017	\$1,929,672	\$2,881,080	\$2,788,410	\$679,385	\$6,304,420
Transfer to reserve	329,279	24,000				9,672
Expansion Debt financing <sup>(2)</sup>	205,668	**	115,500	**	**	1,661,660
<b>Total Expenses</b>	<b>\$3,403,964</b>	<b>\$1,953,672</b>	<b>\$2,993,580</b>	<b>\$2,788,410</b>	<b>\$679,385</b>	<b>\$7,975,752</b>
% Recovery (excl. Debt financing & transfers to/from reserves)- General Rev	109.8%	94.8%	101.5%	88.1%	59.1%	127.8%
% Recovery (excl. Debt financing) - subsidy	0.0%	0.0%	0.0%	7.2%	25.8+%	0.0%
Operating surplus / (deficit)	\$61,751	(\$83,013)	(\$6,886)	(\$133,094) <sup>(3)</sup>	(\$4,819)	\$302,855
Accumulated surplus / (deficit)	\$520,981	(\$13,693)	(\$270,463)	(\$796,376)	\$50,365	*** <sup>(5)</sup>

<sup>(1)</sup> 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. Alderney Landing receives a grant of \$175K and retains parking revenues of \$75K.

<sup>(2)</sup> The Halifax Forum has recently completed its latest expansion and will begin making annual debt payments of \$150K in 2004/05.

<sup>(3)</sup> The SSS debt repayment of \$420,000 for 2002/03 was deferred by Council (May 6, 2003) as well as for approximately two more years. Alderney Landing is scheduled to begin debt repayment from operating funds beginning April 2005.

<sup>(4)</sup> Unaudited.

<sup>(5)</sup> Excess of revenue is remitted to HRM

As shown in the preceding table, in 2002/03 all facilities, with the exception of the Sackville Sports Stadium and Alderney Landing, were close to or above full recovery before debt payments and transfers to/from reserves. The SSS receives a subsidy from HRM which in 2001/02 was increased to \$200,000 annually, and as part of a three year financial recovery plan they have been given a deferral on their debt repayments in order to deal with their accumulated deficits from prior years and the outstanding payroll balance owed to HRM. Alderney Landing relies heavily on a subsidy to balance their expenses, with fully 25.8% of their expenses for 2002/03 covered in this manner. In addition, Alderney Landing retains all surplus revenues resulting from managing the nearby HRM parking lot.

Repayment of Alderney Landing's capital expansion cost is currently being made at \$150,000 per year from funds raised during the capital campaign. In April 2005 they will have to begin making debt payments from operating revenue, and should also start making contributions to a capital reserve. Concern regarding their ability to meet these payments is discussed in further detail below.

The Forum and the Dartmouth Sportsplex staff expressed the opinion that the debt payments, as well as the lack of capital support from HRM for building and equipment repairs and maintenance, are their main areas of concern. This was also an area of concern identified by the SSS prior to the Operational Review last year. Cole Harbour Place views the fact that HRM has not been able to match dollar for dollar for its capital expenditures as having a negative impact on its future operations, particularly as the facility is now 16+ years old and repair costs can reasonably be expected to increase.

### **Dartmouth Sportsplex Unaudited Results 2003/04**

The facility ended the year with an operating surplus of \$97,000 before transfers to reserve. The transfers to reserve total \$325,000, for an overall annual deficiency of \$228,000. The potential for a recovery on their claim for Hurricane Juan is still unknown, however the facility is working with HRM procurement staff on this issue.

The General Manager indicated they have not experienced a rebound in bingo attendance following the initial drop when the smoking by-law came into effect. The General Manager states that the Sportsplex is being affected not only by the new smoking by-law, but also by hurricane Juan and by the economy in general. The Sportsplex is also losing market share of membership base to competitors, particularly for the single adult category. In anticipation of the reduced revenues for the 03/04 year, the Dartmouth Sportsplex took steps in the fall of 2003 to reduce expenditures. Management cut a number of positions and reduced hours for part time staff.

The Dartmouth Sportsplex also has some significant capital expenditures coming up which will impact their capital reserve balance as well as their operating budget. In addition, recent fire inspections resulted in the requirements for safety changes and thus additional expenditures in order to be compliant with current regulations. These additional expenditures have partially been

addressed through HRM's capital budget in 2004/05.

### **Halifax Forum Unaudited Results 2003/04**

The Forum ended the year with \$125,000 deficit after a transfer from reserves. The Halifax Forum Community Association Board has already put a plan in place to cover this deficit within the 2004/05 operating budget. The Forum had a drop in bingo attendance following the implementation of the Smoke Free Places by-law and this was compounded by the cold weather in January and the major snow event in February.

The Forum has been able to meet obligations for a balanced operating budget in the past few years, and the General Manager expects that to continue in future years, but he indicates they are falling behind with capital investment. As with the Dartmouth Sportsplex, the GM says that there is not enough support from HRM for capital funding to maintain the buildings. Fire regulations are also having an impact on this facility, as significant capital expenditures are necessary in order to make the facility compliant with current regulations if events attracting larger crowds are to be held. Until those expenditures are completed, the facility is restricted in its ability to host larger events that may have been a market opportunity in the past. This has been partially addressed in HRM's capital budget for 2004/05.

Staff are cautiously optimistic about the ability of the Forum to handle the debt payments set to begin in 04/05. Although revenues from increased trade shows resulting from the expansion are on track, a continued downturn in bingo revenues combined with capital expenses may hinder the situation.

### **Cole Harbour Place Unaudited Results 2003/04**

Cole Harbour Place was able to end the year with a surplus through a reduction in operating expenditures and an increase in some of the operating revenues. Details on the financial situation will be available after the audited financial statements have gone to the CHP Board.

Like the other facilities, Cole Harbour Place saw a drop in revenues from bingo operations in 2003/04, however it is less dependent upon revenue from this source than the other facilities. Approximately fifty percent of the reduction in expenditures was to come from salaries and benefits. The General Manager stated that this reduction in labour hours had been accomplished without a reduction in services to CHP customers.

The figures in Table 1 also show an accumulated deficit for CHP of \$270,463. This is a result of capital expenditures in 1999/2000, when they made a large initial payment toward their expansion before debt financing in order to be able to repay the debt over 17 years. The small surpluses which CHP is able to achieve from annual operations will gradually bring down this accumulated deficit.

**Sackville Sports Stadium Unaudited Results 2003/04**

The facility had an operating surplus of approximately \$135,000 for 2003/04. The impact of new marketing initiatives for the last quarter of fiscal 2003/04 and an increase in program fees and in rental rates effective January 1, 2004 have contributed to a turnaround in the financial operation of the facility. Although the financial situation has improved, the financial recovery will take longer than planned. Further information regarding the SSS operation is being provided in a separate report to Council.

**Alderney Landing Unaudited Results 2003/04**

Alderney Landing had a deficit of \$6,000 for the 03/04 fiscal year. The facility is still in relatively "new" condition and thus has not had any major capital repair requirements. Any capital repairs to date have been funded entirely out of operating funds and they have not yet been able to establishing a capital reserve fund for future needs. In addition, the facility relies heavily on the current HRM subsidy to balance their books.

In August 1999 the Alderney Landing Board of Directors approached Council with a proposal to take over from HRM the responsibility to complete the final phases of the Alderney Landing Market and Events Centre. This required Council to advance a loan of \$877,000, to be repaid with interest through a fundraising campaign. In addition, Council accepted the offer from Alderney Landing Board of Directors to include in the project some cost overruns of \$574,000 incurred by HRM, for a total debt repayment of \$1.44 million plus interest from the fundraising plan.

The capital campaign raised \$449,650 net of fund raising expenditures, which was short of their target of \$1.6M less expenses. This amount is committed to paying down their long term debt, however, considerable debt will remain when the campaign funds are depleted in 2004/05. The facility will therefore have to begin repaying their remaining long term capital debt from operating revenues in April 2005.

The Executive Director has prepared a draft five year budget projection which outlines a gradual reduction in the HRM subsidy. However, these draft budgets do not include either capital reserves or the debt repayment. The Executive Director and representatives of the Board are currently preparing strategies on how they can best meet these obligations. They have been actively developing new revenue opportunities and will be presenting their plans to HRM staff and Council in 2004. Clearly any future capital repair requirements will make this mission even more difficult without assistance from the HRM capital budget process.

**Metro Centre Unaudited Results 2003/04**

The Metro Centre ended the year with a deficit of \$124,000 which has been incorporated in the HRM

operating results for the 2003/04 year end. The Metro Centre had been projecting a small surplus for the year and factors contributing to this unanticipated deficit include a reallocation of costs from the Trade and Convention Centre for cost overruns on the Commonwealth Games bid, a reallocation from the WTCC of salary and benefit costs and other items applicable to the Metro Centre operations and a transfer of \$10,000 to the equipment reserve for the Zamboni.

The original management arrangement of the Metro Centre and WTCC was based on an understanding that the complex would likely not create profits for its sponsors and more likely lose money, however, the benefits would accrue to the total community and the participating governments through generating related business. Thus, it should be viewed through its economic impacts to the community and province.

HRM has an agreement with the Metro Centre that net revenue from the executive suites and skyboxes will be applied toward the outstanding debentures. The Metro Centre has to date been making payments to HRM in advance of the debenture payments made by HRM, and anticipate completing payments within 5 years.

**Capital**

**Existing Capital Debt Outstanding to HRM (as of March 31, 2004):**

**Table 3**

	March 31, 1996 Balance of Debt - Assumed by HRM at Amalgamation	Post April 1, 1996 Capital Expansion Debt - Outstanding Balance	Years Remaining	Avg. Annual Facility Payments (P+I)
Dartmouth Sportsplex	\$636,700	\$763,500	6 years	\$197,400
Halifax Forum Community Association	\$2,850,000	\$1.75M approved, debt not yet issued	20 year debenture to be refinanced after 10 years	To begin payments in fiscal 04/05 approx. \$150K annually
Cole Harbour Place	\$2,107,500	\$ 1,303,400	7 years	\$204,300
Sackville Sports Stadium	\$2,680,000	\$4,005,000	17+ years	\$447,150
Alderney Landing <sup>(1)</sup>	\$0	\$1,294,000	TBD	TBD
Metro Centre	\$0	\$3,582,572	10 years	\$780,300

(1) Will be part of the Alderney Landing Board's presentation to Council



**Existing Reserve Funds**

**Table 4**

	Reserve Balance per 2002/03 Audited Statements
Dartmouth Sportsplex <sup>(1)</sup>	\$293,220
Halifax Forum Community Association	\$53,185
Cole Harbour Place	(\$15,009)
Sackville Sports Stadium	\$0
Alderney Landing	\$0
Metro Centre	\$0

<sup>(1)</sup> Balance includes transfer to reserve for future debt repayments for expansion.

**Current Average Levels of HRM Capital Support vs Preferred Recapitalization Standards**

**Table 5**

Facility	Average HRM Capital Budget Allotment per Year*	HRM 2004/05 Allocation	Average Recommended Capital Investment per Year Based on Preferred Recapitalization Standards
Dartmouth Sportsplex	\$45,167	\$220,000	\$202,825
Halifax Forum Complex	\$53,167	\$65,000	\$142,994
Cole Harbour Place	\$32,817	\$80,000	\$242,550
Sackville Sports Stadium	\$32,517	\$65,000	\$207,025
Alderney Landing	\$0	\$15,000	\$56,000
Metro Centre	\$233,570	\$325,000	\$309,750
TOTALS	\$397,238	\$770,000	\$1,161,244

\*Figures were arrived at by averaging the capital budget allotment over the past six years. These figures do not include any capital debt borrowed for any of the expansions, as that is treated as operating debt repayments.

Given the age of these facilities, in almost all cases the existing reserve balances are non-existent or inadequate to address future capital repairs and renovations. It can be seen from Table 4 that the facilities are either not generating sufficient operating revenues to contribute to capital reserves or are depleting these reserves by having to fund the majority of capital projects from their own operating revenues. In past years, HRM was able to cost share the more significant capital expenses. In recent years HRM has been unable to contribute any significant amount of funding towards these facilities. In fact, this pattern has held true for the rest of the HRM portfolio of buildings, regardless of whether they are managed directly by HRM or managed by external agencies on HRM's behalf.

The danger with this pattern is the portfolio continues to deteriorate, the life span of the facilities become shorter, operating costs rise, and the risks of health problems such as mold can start to rise. Less costly repairs get put off until much more extensive and costly repairs become necessary due to some component failure, or worse, the facility could have to be replaced before it's normal life span was realized.

The preferred recapitalization standard recommends an annual capital investment of \$1.75 to \$2.50 per square foot be budgeted for such items as roof replacements, boiler replacements, window replacements, etc. The lower end of this range assumes facilities are all in 'good' condition. This standard was compared to the average investment HRM has made over the past six years in the facilities being reviewed. The minimum end of the range of \$1.75 per square foot was used in most cases. The comparison did not include the portion of the capital expenditures funded by the facilities as it could not be fully determined in all cases for each year. Table 5 shows the total capital funding provided by HRM for the six facilities is significantly less than required even if a 50/50 cost sharing basis was assumed. The figures for the Metro Centre are somewhat skewed by a very large capital project in 02/03. According to the General Managers at most of the locations reviewed, they indicated they have been providing most of the capital repairs required for the past several years but can no longer sustain that without incurring deficit budgets. Their reserves are being depleted and some revenue programs are down. The above tables appear to fully support that position and will require some new strategies to protect HRM's assets.

In response to this, staff were able to increase the portion of capital funds available to the major facilities for fiscal 04/05 to a total of \$770,000, up from the previous average of \$397,000, as can be seen in Table 5. It is staff's intention to try and sustain this level of funding to these major facilities in future years. The proportional distribution among the major facilities will change yearly based on the nature and priority of each submission.

## **Facility Summary**

### **2004/05 Operating Budgets**

As of the date of this report, several of the facilities had submitted their operating budgets for 2004/05 and these are attached as Appendix A. Both the Dartmouth Sportsplex and the Halifax Forum have significantly reduced their budgeted revenues from Bingo in the upcoming fiscal year. They are both examining other revenue opportunities in order to make up the shortfall in the longer term, but for the 2004/05 fiscal year they have had to reduce transfers to reserves and/or maintenance and repair budgets compared to the prior year. The Halifax Forum budget does not include any transfer to the Life Cycle Reserve in 2004/05, and the GM has indicated that if the facility does not meet targeted revenues, there will be a further reduction to non routine expenditures.

Cole Harbour Place has prepared a near break-even budget for 2004/05 and is actively pursuing alternative revenue opportunities to replace lost revenues from Bingo.

The Sackville Sports Stadium has budgeted for a significant increase in revenues for the 2004/05 fiscal year. This primarily results from increased program fees and additional leasing opportunities. This will allow them to resume making debt payments as scheduled in the financial recovery plan approved by Council in May 2003, however operating results from 2002/03 and 2003/04 have not met targeted levels and there is still a large accumulated deficit. A more detailed report is being prepared for Council which addresses the specific situation at the Sackville Sports Stadium.

Alderney Landing's draft 2004/05 operating budget shows a 11.5 % increase in revenues before HRM operating subsidy, and has reduced the requested subsidy from \$175K to \$169K. The budget for operating expenses has also increased (8.1%), for an essentially break-even budget, excluding the capital debt repayment.

### **Policy Framework**

Real Property & Asset Management has set a as a planned element of the 2004/05 Service Plan to develop a new policy framework to address a number of issues that have been rising from the portfolio of facilities operated under management and operating agreements. Financial Services and Recreation Tourism and Culture will be assisting this exercise. The current exercise of developing a master plan for indoor recreations facilities will also play a big factor in recommending new policy framework. Some of the key issues will be looking at how each of the current facilities link to corporate mandates, how HRM can measure their performance and value against the corporate scorecard themes, any and all current types of subsidies, levels of capital assistance, Directors Insurance, etc. The intent will be to develop a recommended policy framework that addresses each of these and other areas.

### **BUDGET IMPLICATIONS**

At this point in time there are no budget implications.

### **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

No 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.

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