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**Halifax Regional Council**  
**August 2, 2005**

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

**SUBMITTED BY:**

  
\_\_\_\_\_  
George McLellan, Chief Administrative Officer

  
\_\_\_\_\_  
Peter Stickings, Acting Director, Real Property & Asset Management

**DATE:** July 29, 2005

**SUBJECT:** Cole Harbour Place - Loan Approval

**ORIGIN**

Request from the Chair of the Board of Directors of Community Builders Inc.

**RECOMMENDATION**

It is recommended that :

Council approve a loan of up to \$600,000 to Community Builders Inc. for renovations to Cole Harbour Place, with principal and interest to be repaid over ten years based on the repayment schedule provided by the Municipal Finance Corporation for the resultant debenture. Any debenture issuance costs will be paid by Community Builders Inc.

## **BACKGROUND**

Cole Harbour Place (CHP) is owned by HRM and managed through a lease agreement with a Community Board named Community Builders Inc (CBI). This facility was originally developed as a community centre with Phase 1 opening in 1989. It later evolved into the present day multi-district/multi-use facility following two additional phases completed in 1993 and 1999. Since original construction, the facility has been able to operate and deliver programs self-sufficiently without any direct operating subsidies from HRM. The municipality has been a tenant of the space with a Storefront Office and Library located in the facility.

Over the years, HRM has provided capital assistance to the facility. The amounts vary each year but in general have been comparable to the capital support for similar facilities. Like similar facilities, there have been some years where very little capital assistance was available which caused these facilities to have to contribute a larger share either from their operating budgets or reserves, putting extra fiscal pressure on their operation.

In addition, CHP relied for years on bingo revenues to help supplement their sources of revenue. Like everywhere else in recent years, bingo revenues have become less reliable for CHP to balance it's annual operating budgets. CHP also foresaw the trend towards smoke-free spaces and approximately a year ahead of HRM's smoking bylaw, CHP moved to ban smoking in the facility, including it's bingo hall. The facility instead wished to aggressively target and market healthy lifestyle programming throughout the facility. Knowing the likely impact of such a decision, CHP began to look at other opportunities to increase revenues, including the possible elimination of bingo programming and a reuse of that space.

## **DISCUSSION**

CHP has been successful in attracting new leasing opportunities for the former bingo hall space. Two new leases contracts have been signed with the Capital District Health Authority and with Integrated Health Services (3066993 Nova Scotia Ltd) that will see additional programming supporting healthy lifestyle promotion in the community.

The Capital District Health Authority will operate two services out of Cole Harbour Place including an addictions counselling program, and an occupational therapy/ physiotherapy program delivered to patients in their homes.

Integrated Health Services, which has been a tenant in Cole Harbour Place since 1998, is expanding the services it offers. It is a multi-disciplinary clinic which provides acupuncture, chiropractic, massage therapy, exercise consultation, naturopathy, nutritional counselling, occupational therapy, psychology, physiotherapy, podiatrics, and public health education.

Both leases are for 10 year terms commencing July 1, 2005 and ending June 30, 2015. The switch in space utilization requires approximately \$600,000 in leasehold improvements and upgrades to the

facility, including items such as some new windows, air conditioning, etc. The projected net incremental revenue over 10 years resulting from the repositioning of this space is \$1.672 million. CHP has requested HRM to support a loan request for the required funding.

*Financial Analysis of Leasehold Business Plan*

Staff calculated the annual payments of principal and interest that would be required to pay back a loan of \$600,000 over a ten year term. Interest was based on debenture terms provided by the Municipal Finance Corporation. As with debenture payments, payments of principal were assumed to be level over the ten year period, with interest payments declining as they are based on the outstanding balance each year.

The amount of principal and interest payments were then compared to the incremental increase in lease revenue as a result of the repositioning and lease up of the space. Also factored into the analysis was anticipated changes in operating costs for the space as a result of the change in it's use, as well as the elimination of any prior income from the space related to former uses.

The detailed results of the analysis are shown in Appendix A to this report. It clearly shows that the increase in lease revenue is considerably more than sufficient to cover the loan payments and increases in operating costs resulting in a net revenue stream of \$635,627 over the 10 year term.

*Capital Debt*

CHP currently has an existing debt balance of \$1,267,154 as of March 31, 2005 from the last expansion. There are 12 years remaining with payments of \$132,000 annually, for which CHP have been successfully meeting each year. The new additional loan will add an average of \$75,200 in annual payment obligations for 10 years, for which the detailed analysis indicated the increased revenues will cover, as noted above.

**BUDGET IMPLICATIONS**

HRM will be reimbursed each year by CHP for the principal and interest payments as they become due and payable. CHP will also reimburse HRM for debenture issuance costs. Therefore, there is no impact on the approved Operating and Capital Budgets.

**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**

One alternative is to not approve a loan and instead advise CHP to seek debt financing elsewhere. However, CHP is unlikely to obtain financing at interest rates as favourable as those which HRM can obtain through the Municipal Finance Corporation. Given the ability of CHP to repay HRM which is confirmed by the two lease contracts that have already been entered into, staff advises that this alternative would result in unnecessarily high interest costs for CHP.

Another alternative would be for CHP to not proceed with the renovations. This alternative is not recommended because the loss of lease revenue would negatively impact the operating bottom-line of CHP while leaving the space unutilized.

**ATTACHMENTS**

Appendix A: 10 Year Cash Flow Analysis

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.

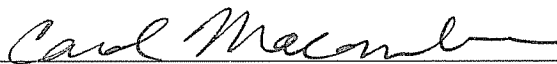
Report Prepared by:

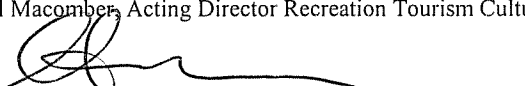
  
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Report Approved by:

  
Carol Macomber, Acting Director Recreation Tourism Culture, 490-5908

  
Catherine Sanderson, Acting Director Financial Services, 490-1562

**Appendix A**  
**10 Year Cash Flow Analysis**

	2005/06(1)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16(2)	Total
<i>Debt Repayment:</i>												
Debt Repayment Principal	0	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	600,000
Debt Repayment Interest	0	23,784	23,784	21,699	19,416	16,977	14,397	11,700	8,898	6,009	3,030	151,611
Issue Costs (1%)	6,000											
<i>Incremental Change in Operating Costs of Leased Space:</i>												
Leases assume \$1.00 per sq ft for increases to utility costs												
Capital District Health Authority	6,121	8,161	8,161	14,282	16,322	16,322	22,443	24,483	24,483	24,483	6,121	171,381
Integrated Health Services	4,763	6,350	6,350	6,350	6,350	11,113	12,700	12,700	17,463	19,050	4,763	107,950
<b>Total Incremental Expenditures</b>	<b>16,883</b>	<b>100,212</b>	<b>98,295</b>	<b>102,331</b>	<b>102,088</b>	<b>104,412</b>	<b>109,540</b>	<b>108,883</b>	<b>110,844</b>	<b>109,542</b>	<b>73,913</b>	<b>1,036,942</b>
<i>Lease Agreements:</i>												
Capital District Health Authority (Rent)	120,334	160,445	160,445	166,566	168,606	168,606	174,727	176,767	176,767	176,767	44,192	1,694,224
Integrated Health Services (Rent)	71,438	95,250	95,250	95,250	95,250	100,013	101,600	101,600	106,363	107,950	26,988	996,950
Integrated Health Services (Leasehold Impr)	15,675	20,900	20,900	20,900	20,900	20,900	20,900	20,900	20,900	20,900	5,225	208,996
Revenue prior to July 1, 2005	-92,070	-122,760	-122,760	-122,760	-122,760	-122,760	-122,760	-122,760	-122,760	-122,760	-30,690	-1,227,600
<b>Total Incremental Revenue:</b>	<b>115,376</b>	<b>153,835</b>	<b>153,835</b>	<b>159,956</b>	<b>161,996</b>	<b>166,758</b>	<b>174,467</b>	<b>176,507</b>	<b>181,269</b>	<b>182,857</b>	<b>45,714</b>	<b>1,672,569</b>
<b>Net Revenue:</b>	<b>98,493</b>	<b>53,623</b>	<b>55,540</b>	<b>57,625</b>	<b>59,908</b>	<b>62,347</b>	<b>64,927</b>	<b>67,624</b>	<b>70,426</b>	<b>73,315</b>	<b>-28,199</b>	<b>635,627</b>

(1) Lease contracts commence July 1, 2005

(2) Lease contracts expire June 30, 2015, while debenture payments continue for the full year