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Halifax Regional Council
January 30, 2007

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Cathie O'Toole
Cathie O'Toole, CGA, A/Director, Finance

DATE: January 22, 2007

SUBJECT: MetroPark Parkade

INFORMATION REPORT

ORIGIN

At Committee of the Whole on June 19, 2006, Councillor McCluskey requested a report on options for the MetroPark Parkade, and for generating revenues through the sale of this property.

BACKGROUND

Construction of the MetroPark was completed in June 2002. It is bounded by Granville, Salter and Hollis Streets in downtown Halifax. The facility is owned by HRM and is operated by the Hardman Group Limited under a Management Agreement. It provides parking for 570 vehicles and includes 4,550 square feet of retail space. Construction costs are being recovered from net revenues generated by the facility. The MetroPark Parkade Reserve Q125 was established by Council to provide funding for ongoing substantive maintenance of the MetroPark. Therefore, the net income of this facility is not impacted by major repairs.

DISCUSSION

To determine whether it is more financially advantageous to hold on to an income producing asset or to sell it, the Market Value of the asset is compared to the Net Present Value (NPV) of all future net income projected to be received from the asset. The NPV calculation converts all projected future net income to a single lump sum based the value of money. If the NPV of all projected future net income is greater than the Market Value of the asset, the asset should be retained. Conversely, if the Market Value of the asset is greater than the NPV of all projected future net income, than the asset should be sold so long as the proceeds of the sale net of expenses still exceed the NPV.

NPV analysis of the MetroPark Parkade:

1. Proceeds from the Sale of the MetroPark Parkade:

Appraised Value of Property:	\$9,500,000*
Plus: Balance in MetroPark Parkade Reserve (Q125) no longer required:	\$1,200,000
Less: Payout of outstanding debt at March 31, 2006 for construction of Parkade:	<u>(\$9,157,000)</u>
Net Proceeds from the Sale of the Asset**:	<u>\$1,543,000</u>

* As determined by CB Richard Ellis at February 21, 2005

** No allowance for expenses associated with selling the asset are included in this calculation

2. NPV of Projected Future Income Streams from MetroPark Parkade:

NPV calculations require a set of reasonable assumptions. With regard to this determination, the following assumptions were made:

Interest Rate:	3.50% based on projected interest rate on HRM's excess cash
Annual Net Income from Asset:	\$796,000 based on 2005-06 Audited Financial Statements
Annual Growth in Net Income:	0% as income growth appears to have levelled off
Expected Remaining Life of Asset:	40 years based on the life of similar assets
Annual Payment to Reserve Q125:	\$222,500 based on Approved Reserve Business Plan
Annual Debt Payment:	Net Income-Reserve Payment=\$796,000-\$222,500= \$573,500

Based on these assumptions, the NPV of all projected net income from the MetroPark Parkade is \$5,322,000.

Analysis of Net Proceeds from Sale to NPV of Projected Future Net Income

NPV of Projected Future Net Income:	\$ 5,322,000
Net Proceeds from Sale of Asset:	<u>\$ 1,543,000</u>
Difference:	<u>\$ 3,779,000</u>

Over the expected life of the asset, HRM is projected to realize an additional \$3,779,000 in net income in terms of today's dollars over what would be received if the asset was sold. Therefore, HRM should retain the asset.

BUDGET IMPLICATIONS

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

Not applicable

ATTACHMENTS

None

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

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