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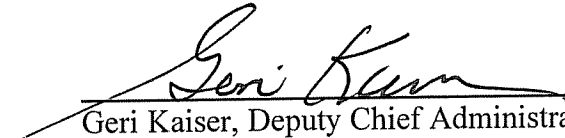
Halifax Regional Council
March 27, 2007

TO: Mayor Kelly and Members of Halifax Regional Council

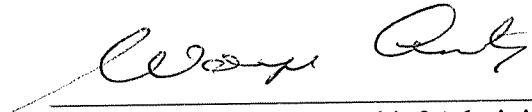
SUBMITTED BY:



Dan English, Chief Administrative Officer



Geri Kaiser, Deputy Chief Administrative Officer, Corporate Services & Strategy



Wayne Anstey, Deputy Chief Administrative Officer, Operations

DATE: March 7, 2007

SUBJECT: Capital Debt for Regional Recreational Facilities

ORIGIN

On December 5, 2006 Regional Council moved that staff provide a report on absorbing the capital debts of its regional recreational facilities which primarily provide active recreational opportunities namely the Dartmouth Sportsplex, Sackville Sports Stadium, Cole Harbour Place, Metro Centre, Halifax Forum, Eastern Shore Community Centre and the St. Margaret's Arena.

RECOMMENDATION

It is recommended that Halifax Regional Council endorse the present policy of allowing major facilities to issue debt outside Council's debt policy, and hence require them to pay back principal and interest, be continued.

BACKGROUND

Under HRM's debt policy, the general-rated debt issued in a year can be no more than 80% of the current year's repayments. For instance, if HRM is repaying \$40m of principal due to past capital budgets, it can issue \$32m (ie $40m * 80\% = \$32m$) for its upcoming capital budget. This policy has been quite successful at lowering HRM's debt and hence its annual principal and interest payments. It has also helped place a limit on the size of a capital budget for the year.

Not all debt is subject to the debt policy. For instance, area-rated debt and debt associated with local improvement charges is excluded. So is the debt that is subject to repayment such as the debt of the Major Recreational Facilities. (Currently, many of these projects are not even included in HRM's capital budget but are treated as a loan). Items excluded from the debt policy are typically ones that have their own revenue stream to pay back the principal and interest. There are two implications of being excluded from the debt policy. First, the item in question is not subject to the debt and capacity targets placed on the capital budget. In other words, it does not have to compete with the wide variety of demands placed on the capital budget. Presuming it has a means to repay the principal and interest and has a valid business case, it may proceed on its own merits outside of the capital budget targets. Secondly, as already noted, it must pay back the principal and interest costs. This system seems to work well for projects that have strong business cases and their own sources of revenues.

In the case of the major recreation facilities, Council decided in 1997 under its tax structure that they were to be general rated across the entire municipality. Since these facilities are expected to be self-sustaining and have generally broken even their status as general rated has generally been a moot point. The exception is the Sackville Sports Stadium which has had an ongoing deficit. In the case of the St. Margaret's Bay Arena (now seen as a major recreational facility) its debt was general rated when ownership was transferred from the community. Subsequent to that, the community voted on an area rate to be used if fundraising efforts for the arena fell short. This approach allowed it to avoid being included in capital budget targets and led to the current area rate.

The taxation of major facilities differs from other recreational facilities. In the urban core, the urban general tax rate pays the operational costs of many of the recreational facilities in the core. Outside the core, the general tax rate may contribute to capital upgrades. However, operational costs are the responsibility of the facility and are often covered by local volunteers or area rates. This system causes some confusion and inequity and is expected to be reviewed by the Tax Reform Committee.

The total debt outstanding to HRM from these major facilities is currently about \$12.2 million (see Attachment A). HRM will make a total of \$2,422,880 in debt payments on behalf of these facilities in 2006/07 while they reimburse \$1,845,880 to HRM. Most of the shortfall between what HRM pays to the MFC and what facilities reimburse HRM is due to deferral of payments from the Sackville Sports Stadium and a reduction in payments from the Dartmouth Sportsplex. The relief from debt payments provided to these two facilities is intended to be temporary. The Sackville Sports Stadium was a reactive situation to a failed business plan. The Dartmouth Sportsplex, however, had only four years remaining on their capital debt, and requested permission to reduce

payments. Extending the payback period temporarily allowed them to free up funds for a gas conversion as well as to explore other new business opportunities thus countering some traditional revenue streams which were in decline. They were not behind in payments, and their Board request was supported as a pro-active approach to a forecasted situation with an action plan.

The table in Attachment A provides a summary of the current outstanding capital debt obligations of each facility. The notes which follow the table provide additional details with respect to repayment arrangements between HRM and each major facility.

Historically these larger multi-use recreational facilities have been constructed in partnership with community groups who usually first approach proposing the new infrastructure. The community groups fundraise and form Community Boards to operate the facilities, with capital repayment plans built into the business plans. The repayment plans help accelerate construction and acts as a means of accountability to the original business plans. A shift in this past practice could result in a new precedent being set for future projects.

DISCUSSION

Staff have considered several approaches with regard to HRM assuming the remaining debt for these facilities. If HRM were to assume all debt payments for major facilities, there would be an immediate reduction in Operating Budget capacity of \$2.4m. This amount would vary in future years as debt is retired and new debt issued for the major facilities. A reduction in operating capacity of this magnitude could be accommodated by either (1) reducing some services, or (2) reducing operating funds available to fund capital projects on a "pay-as-you-go" basis, (3) increasing the tax rate, or (4) some combination of these. None of these options is desirable as Council and staff are always looking for ways of improving or at least maintaining service to the public in an environment of constantly rising cost pressures. There are also significant pressures for capital investment to replace aging infrastructure and meet demand for new infrastructure in rapidly growing areas.

The increase in principal payments (approximately \$1.7m of the \$2.4m total) would increase the debt targets for the capital budget and hence provide some offset for the new operating budget pressure. For instance, the debt target would increase by \$1.4m thus allowing capital from operating to be reduced by an equivalent amount. A total of \$1m in operating funds would still need to be found.

A more critical impact would be on the operations of those major recreational facilities. They would now be required to compete with other projects in the municipality for limited capital funds. Even though they might have their own revenue streams and ability to repay, they would have to enter the capital budget process on the same terms as other projects. For all practical purposes, HRM's capital budget capacity would be reduced. For those facilities with significant upgrades it may become even more difficult to find the needed funds. In turn, this will change the whole nature of the way Major Recreational Facilities operate. Currently they enjoy a certain amount of autonomy and can operate almost as a business, competing with other facilities including other HRM major facilities. If they are unable to upgrade based on business principals, than they may find it more difficult to maintain their infrastructure and hence compete with other facilities.

Assuming the debt of major facilities on a case-by-case basis might lessen the impact on the operating and capital budget, or on the general tax rate. However, the management of all the major facilities listed in this report are committed to being self-sustainable and reducing their reliance on outside grants as much as is reasonable possible. Therefore, those facilities which do not have their debt assumed by HRM will view the other facilities as receiving preferential treatment for failing to be self-sustainable. This could in-turn reduce the incentive to manage costs. Nor does it solve the issue of future debt issued by such facilities and whether it should be considered inside or outside of the capital budget targets.

BUDGET IMPLICATIONS

The possible budget implications of assuming the debt of the major facilities is provided in the Discussion section of this report. There are 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

If the concern with major recreational facilities is the affordability of recreation to citizens than it would make sense to find a means to support these facilities other than providing for the takeover of debt charges, hence forcing them to operate within the capital budget targets and possibly change their entire business model. For instance, a system of operating grants or case-by-case subsidies may be more effective at supporting major recreational facilities than would debt relief.

ATTACHMENTS

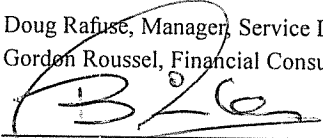
Attachment A - Existing Capital Debt Outstanding to HRM (as of December 31, 2006)

**Capital Debt for Regional
Recreational Facilities**

March 27, 2007

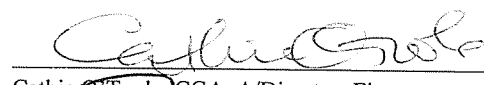
A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

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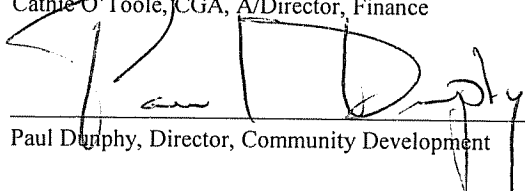


Report Approved by: Bruce Fisher, Manager Fiscal & Tax Policy, 490-4493

Report Approved by: Cathie O'Toole, CGA, A/Director, Finance



Report Approved by: Paul Dunphy, Director, Community Development



Attachment A
Existing Capital Debt Outstanding to HRM (as of December 31, 2006)

	Capital Debt - Outstanding Balance to HRM	Years Remaining	2006/07 Annual Facility Payments to HRM (P+I)	2006/07 Annual Payments to MFC by HRM (P+I)
Dartmouth Sportsplex	\$485,810	7.5 years	\$75,000 ⁽¹⁾	\$173,410
Halifax Forum Community Assoc	\$1,575,000	17.5 years	\$170,034	\$170,034
Cole Harbour Place	\$1,180,652 \$ 405,000 ⁽²⁾	10 years 9 years	\$145,500 \$ 63,452	\$189,937 \$ 63,452
Sackville Sports Stadium	\$4,450,000 ⁽³⁾	17+ years	deferred	\$ 434,153
Eastern Shore Community Centre	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾
Metro Centre	\$1,295,131 ⁽⁵⁾	7 years	\$1,115,967	\$1,115,967
St Margaret's Centre	\$2,816,275 ⁽⁶⁾	19 years	\$275,928	\$275,928
TOTALS:	\$12,207,868		\$1,845,881	\$2,422,881

(1) On May 3, 2005, Council agreed to reduce the annual debt repayment from \$181,618 to \$75,000 to enable the Dartmouth Sportsplex to meet its operational requirements without incurring a deficit. This increased the debt repayment period from 4 years to 9.03 years.

(2) On August 2, 2005, Council approved a loan of \$450,000 to Cole Harbour Place for leasehold improvements. The debt payments are expected to be recovered from the additional revenue generated from the new tenants.

(3) The Sackville Sports Stadium is currently operating under an approved debt deferral arrangement, with the expectation that debt payments, plus additional accumulated interest, will begin again as soon as the facility is financially stabilized

(4) The Eastern Shore Community Centre has no outstanding debt with HRM

(5) This amount is subject to review as the Metro Centre has indicated that the final debt payment will occur in 2006/07. If this is the case, discussion between HRM and Metro Centre management will be required with regard to allocation of the additional operating capacity created as HRM is the owner of any surplus.

(6) At the April 9, 2004 Council Session a loan to a maximum of \$2,964,500 was approved. The total is included in the Spring 2006 debenture issue. The St. Margaret's Bay Centre Board indicated at their meeting on April 18, 2006 that the Centre does not have the operating capacity to make the debt payments and that an area rate will be required effective 2006/07. The area rate will be \$0.01/\$100 of taxable assessment and will be applied to all residential, resource, commercial and business occupancy property in Districts 22 and 23 with the exception of the area that is charged the Prospect Road recreation area rate. In 2006/07, the area rate is expected to provide about \$218,000 towards the debt payment then due with the Board providing the remaining \$58,000 required from facility revenues.