

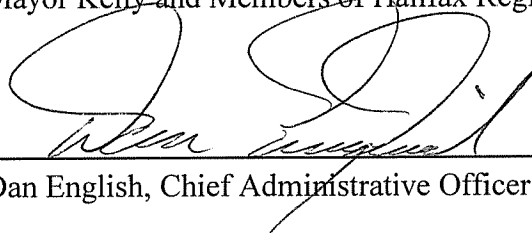


PO Box 1749  
Halifax, Nova Scotia  
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**Halifax Regional Council**  
April 16, 2007

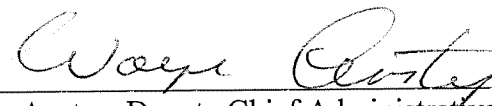
**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**



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Dan English, Chief Administrative Officer



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Wayne Anstey, Deputy Chief Administrative Officer - Operations

**DATE:** April 16, 2007

**SUBJECT:** **Capital Debt for Regional Recreational Facilities / Strategic Growth Reserve Utilization**

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SUPPLEMENTARY REPORT

**ORIGIN**

- April 3, 2007 motion of HRM Council to consider utilization of the Strategic Growth Reserve to pay existing outstanding capital debt of Regional Recreational Facilities
- April 3, 2007 Report to Council "Capital Debt for Regional Recreational Facilities"

**RECOMMENDATION**

It is recommended that Halifax Regional Council:

1. 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.
2. Direct staff to prepare a report and return to Council within 3 months, evaluating the operational and financial implications of budgeting, accounting, reporting and managing Sackville Sports Stadium in a manner consistent with other HRM owned and managed facilities such as Northcliffe or Centennial Pools, or re-establishing a Community Board for the facility.

RECOMMENDATIONS CONTINUED...

3. Council allocate the existing un-committed balance of the Strategic Growth Reserve as per the budget implications section of this report.
4. Council re-confirm the Strategic Growth Reserve Business Case

### **BACKGROUND**

Reserves are an important financial tool for municipalities. HRM's Multi-Year Financial Strategy contains a section on Reserve Strategy and the role of reserves. Over the past 10 years, HRM's reserve position has been improving, and this has contributed to the recent upgrade of HRM's Standard and Poors Rating to A positive. HRM's Reserve position although improved, is still not optimal. Reserves are typically evaluated as a percentage of expenditures. Excluding Harbour Solutions, HRM's Reserves as a percentage of expenditures are about 9%. A review of municipal indicators prepared by Service Nova Scotia Municipal Relations reveals that the majority of municipalities in Nova Scotia are well above 9%, and in fact, the average of reserves as a percentage of expenditures is 20% for Regionals, 23% for Towns, and 39% for Rurals. Best practice targets exist for reserves as a % of expenditures, and % of unallocated reserves. During the 2007/08 Fiscal year, Finance will staff will be conducting some research through The Government Finance Officers Association (GFOA), and NS Association of Municipal Administrators with the objective of preparing an updated Reserve Strategy for Council, including some bench marking information and targets based on best practice for local governments. The GFOA recommends that at a minimum, general purpose governments regardless of size, maintain unreserved fund balance in their general fund of no less than 5 to 15% of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures.

HRM Regional Council created the Strategic Growth Reserve in 2003 with the approval of the attached reserve business case. The purpose of this reserve is to enable the municipality to respond to challenges posed to our service and infrastructure capability caused by population growth, rapid urban and suburban development expansion, changing demographics and rapid technological advancement. The reserve is meant to allow the municipality to take advantage of opportunities that may arise outside the normal operating and capital budget during the fiscal year, and to leverage funds from other levels of government and external agencies. This reserve is the intended funding source for a Fast Ferry project, possibly for Canada Games, and had HRM proceeded with the 2014 Commonwealth Games bid, would have been the vehicle to save toward HRM's share.

### **DISCUSSION**

A motion of Council on April 3<sup>rd</sup> directed staff to consider using the Strategic Growth Reserve to pay for the outstanding balance of debt for multi-district recreational facilities. This would not be a fiscally prudent or recommended course of action for several reasons:

- ▶ It does not comply with the reserve business case approved by Council
- ▶ It would be a very broad solution, to a very narrow problem, as many of the multi-district recreational facilities are able to meet the requirements to pay their outstanding debt

- ▶ After 1996 HRM assumed payments of debt for multi-district recreational facilities, with the expectation that giving them a clean slate to work from would enable them to manage on a go forward basis in a fiscally sustainable manner.
- ▶ In most cases, the financing was provided through HRM to these facilities based on representations by the community and by their respective boards about the supporting business case, and their ability and intent to repay.
- ▶ It would send a wrong message to multi-district recreational facilities boards and senior management and would be a dis-incentive to those that are managing and operating well, and a perceived “reward” to the facilities that are struggling.
- ▶ How we deal with this situation could cause past or future in-equities between existing and future multi-district recreation facilities.
- ▶ HRM is tied to a fixed schedule of debt repayments to the Municipal Finance Corporation and cannot retire the full balance of outstanding debt for multi-district recreational facilities now, therefore there is no opportunity to save money through interest savings.
- ▶ This would hinder HRM’s ability to leverage funds from the Federal and Provincial government.

### **Sackville Sports Stadium**

The Sackville Sports Stadium differs slightly from the other facilities considered as multi-district recreation facilities because it is HRM owned, and is now managed by HRM as there is no longer a community Board in place. On this basis, some special consideration may be warranted to address the outstanding debt for this facility. HRM and the now defunct Community Board, are jointly responsible for having approved the business case to expand the Sackville Sports Stadium, and for jointly failing to monitor and manage actual performance against the plan. This issue needs to be considered as part of a) the long term financial forecast for the Sackville Sports Stadium, b) their current business plan, and c) a broader exercise to look at whether the Sackville Sports Stadium should be part of the HRM accounting, budgeting and reporting entity in a manner similar to other HRM owned and managed facilities such as Northcliffe or Centennial Pool, or whether a Community Board and management structure should be re-established. Also, some consideration needs to be given to the competitive environment between major multi-district recreational facilities such as Dartmouth Sportsplex and Cole Harbour Place.

The management team at the Sackville Sports Stadium are performing strongly, and a review of the audited financial statements of the Sackville Sports Stadium reveal that their financial position has been steadily improving. Council should encourage and support good business decisions for this facility and be aware that the level of financial support for this facility, is well above the level of support for other multi-district recreational facilities. Additionally, HRM should strive to provide a level playing field for groups using recreational facilities and try to avoid subsidization of certain sports/recreation groups that may make them unfairly competitive with other organizations, and try to avoid situations where price factors and costs to recreation users is inordinately high at one HRM facility versus another.

**BUDGET IMPLICATIONS**

The unallocated balance in the Strategic Growth Reserve is projected to be \$12,603,673 by March 31, 2008. The recommendation of staff is to **transfer \$5 million dollars to the Major Events Facilities Reserve** to enable HRM to protect our ability to respond to cost sharing opportunities for major pieces of new infrastructure that would meet the reserve business case, such as a sports stadium, new 50 foot pool, or a new central library. It is recommended that \$6,603,673 million dollars be earmarked for future strategic infrastructure projects that would lever external funds. It is recommended that \$1 million be transferred to the Variable Operating Stabilization Reserve (VOSR) and the maximum cap for VOSR be increased from \$1 million to \$2 million. Currently, HRM faces a significant amount of budgetary risk associated with fuel and electricity costs, some solid waste service delivery challenges, and the challenge to the Solid Waste Exportation By-Law. The Variable Operating Stabilization Reserve is the tool to hedge and manage these risks. In the estimation of staff, the current balance in VOSR is not sufficient to mitigate the current level of risk exposure.

Projected balance March 31, 2008	\$ 12,603,673
Proposed allocation:	
Future contribution toward a signature facility such as a new Metro Centre, a sports stadium, or new central library, that would leverage external funds	\$ 5,000,000 Transfer to Major Events Facilities Reserve
Future strategic infrastructure that would leverage external funds	\$ 6,603,673 Retain in the Strategic Growth Reserve**
Enhanced risk management around fuel and electricity, and delivery of solid waste services	\$ 1,000,000 Transfer to Variable Operating Stabilization Reserve

\*\* the projected interest for 2007/08 will change slightly depending upon the timing of transactions and whether Council approve the strategy for Strategic Growth Reserve Utilization. Any adjustments with respect to interest would occur against the allocation for future strategic infrastructure.

The allocation and utilization of the Strategic Growth Reserve, should be very transparent, and staff commits to have an annual discussion with Council to discuss the strategic priorities that may exist for projects to leverage external funds.

**FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN**

This report complies with the Municipality’s Multi-Year Financial Strategy, and with 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**

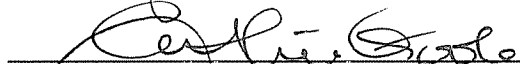
Council could direct that the annual contribution to the Strategic Growth Reserve be reduced by an amount sufficient to eliminate the principal and interest payments listed in attachment E, the facilities currently make to HRM. This amount will vary slightly in some years as there are different terms on the debt, and as the debt payments decrease, the Strategic Growth Reserve contribution would increase. This would severely compromise HRM's reserve strategy, and would not promote good business practices and decision making at the multi-district recreational facilities.

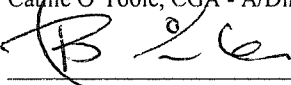
If HRM takes on the principal and interest payments for the facilities, operating subsidies to the facilities in question would cease as would any current planned capital funding for 2007/08 as the facilities would have increased financial capacity. This is not a recommended option for the reasons listed on page 2 of this report. This option would basically wipe out HRM's savings in the Strategic Growth Reserve, and render HRM unable to respond to major strategic projects such as the Fast Ferry where opportunities will exist to leverage funds from external sources, and would also significantly impact HRM's ability to manage risk.

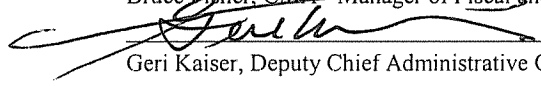
**ATTACHMENTS**

- A. Strategic Growth Reserve Business Case
- B. Strategic Growth Reserve Budget & Cash Flow Details including current commitments
- C. Major Events Facilities Reserve Budget & Cash Flow Details
- D. Variable Operating Stabilization Reserve (VOSR) Reserve Budget & Cash Flow Details
- E. List of Outstanding Debt for Multi-District Recreational Facilities

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.

Report Prepared by:   
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Approved by:   
Geri Kaiser, Deputy Chief Administrative Officer 490-4630

## Appendix A

# Reserves Business Case

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Halifax Regional Municipality • Financial Services • • 490-4446 • Fax: 490-4175

**Date:** July 8, 2003

**Contact:** Betty MacDonald, Director of Governance and Strategic Initiatives

### Strategic Growth Reserve - Q126

#### Purpose

The purpose of the Strategic Growth Reserve is to enable the municipality to respond to challenges posed to our service and infrastructure capability caused by population growth, rapid urban and suburban development expansion, changing demographics and rapid technological advancement. The Strategic Growth Reserve is meant to allow the municipality to take advantage of opportunities that may arise outside the normal operating and capital budget during the fiscal year, and to leverage funds from other levels of government and external agencies.

“Strategic” is defined to mean initiatives which will enable HRM to provide new services or an improved level of service in response to the challenges listed above, and are consistent with long term policies and plans such as the Regional Plan, and the Corporate Scorecard.

#### Source of Funds

The Strategic Growth Reserve will be funded through an initial transfer of funds from Other Fiscal Services M310, an approved transfer from M310 of \$5,000,000 in 2003/04, and annual transfers in the following years from Other Fiscal Services M310. Interest will be paid on the funds in accordance with the HRM Reserves Policy. A minimum balance of \$2 million dollars will be maintained in the reserve to enable response to sudden unanticipated strategic opportunities.

#### Application of Funds

The funds in the Strategic Growth Reserve can be accessed on repayable or non-repayable basis subject to the approval of the Corporate Scorecard Steering Committee and Council. Funds may

be utilized for the following applications:

- capital purchases to respond to infrastructure challenges caused by significant development and changing demographics, and any corresponding operating costs during the implementation period.
- capital purchases to respond to significant technological advancement and any corresponding operating costs during the implementation period.
- the cost of studies to explore strategic development opportunities that are outside the scope of an annual business unit budget.
- the cost of the municipal share of strategic ventures to be cost shared with other levels of government or third party agencies, that are outside the scope of an annual business unit budget.

### **Time Line**

The adequacy of the balance in the reserve will be assessed on an annual basis, and corrective funding actions taken if necessary.

### **Approval Process**

A project summary, outlining the specific benefits, capital budget and operating budget impacts along with planned sources measurement methodology must be prepared for review by EMT & must be accompanied by a recommendation from the Director, Governance and Strategic Initiatives and the Director, Financial Services regarding compliance with the Reserve Business Case and availability of funds. The Director(s) of the appropriate Business Unit(s) must submit this project summary . EMT approval is required prior to submission to Council for authorization.

### **Attachments**

A detailed budget showing projection of annual contributions, withdrawals and balances is attached.

### **Approval**

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CAO

**Appendix B**  
**Strategic Growth Reserve (Q126)**  
**Budget & Cash Flow History**

	← 2003/04	Actual 2004/05	2005/06 →	Forecast 2006/07	Proposed 2007/08
<i>Opening Balance</i>	3,000,000	8,166,863	10,687,699	6,622,665	7,994,500
<i>Contribution</i>	5,000,000	4,000,000	5,100,000	7,725,318	5,022,879
<i>Withdrawals</i>	0	(1,713,363)	(9,346,766)	(6,714,170)	(1,000,000)
<i>Interest Earned</i>	166,863	234,199	181,732	360,687	586,294
<i>Closing Balance</i>	<u>8,166,863</u>	<u>10,687,699</u>	<u>6,622,665</u>	<u>7,994,500</u>	<u>12,603,673</u>

Estimated Withdrawals are based on current information



Appendix C

**Major Events Facilities Reserve (Q319)**  
**Budget & Cash Flow History**

	<b>Actual 2005/06</b>	<b>Forecast 2006/07</b>	<b>Proposed 2007/08</b>
<i>Opening Balance</i>	0	427,339	1,187,299
<i>Contribution</i>	420,000	1,100,000	1,100,000
<i>Withdrawals</i>	(2,245)	(377,755)	
<i>Interest Earned</i>	9,584	37,715	88,000
<i>Closing Balance</i>	<u>427,339</u>	<u>1,187,299</u>	<u>2,375,299</u>

Estimated Withdrawals are based on current information

Appendix D

**Variable Operating Stabilization Reserve (Q308)  
Budget & Cash Flow History**

	1999/2000	2000/2001	2001/2002	Actual 2002/2003	2003/2004	2004/2005	2005/06	Forecast 2006/07	Proposed 2007/08
<i>Opening Balance</i>	993,713	1,006,637	2,189,135	1,324,963	2,703,426	2,375,364	2,432,783	2,505,189	3,171,813
<i>Contribution</i>	600,000	2,759,724	305,919	1,930,958	0	0	0	700,000	0
<i>Withdrawals</i>	(600,608)	(1,668,629)	(1,249,076)	(579,505)	(403,878)	(3,887)	0	(150,000)	(2,100,000)
<i>Interest Earned</i>	13,532	91,403	78,985	27,010	75,816	61,306	72,406	116,624	94,000
<i>Closing Balance</i>	1,006,637	2,189,135	1,324,963	2,703,426	2,375,364	2,432,783	2,505,189	3,171,813	1,165,813

Estimated Withdrawals are based on current information

## Appendix E

### Outstanding Debt for Multi-District Recreational Facilities

	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 <sup>(1)</sup>	\$173,410
Halifax Forum Community Assoc	\$1,575,000	17.5 years	\$170,034	\$170,034
Cole Harbour Place	\$1,180,652 \$ 405,000 <sup>(2)</sup>	10 years 9 years	\$145,500 \$ 63,452	\$189,937 \$ 63,452
Sackville Sports Stadium	\$4,450,000 <sup>(3)</sup>	17+ years	deferred	\$ 434,153
Eastern Shore Community Centre	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>
Metro Centre	\$1,295,131 <sup>(5)</sup>	7 years	\$1,115,967	\$1,115,967
St Margaret's Centre	\$2,816,275 <sup>(6)</sup>	19 years	\$275,928	\$275,928
<b>TOTALS:</b>	<b>\$12,207,868</b>		<b>\$1,845,881</b>	<b>\$2,422,881</b>

(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. Most of the loan payments are being funded from an area rate of \$0.01/\$100 applied to all taxable assessment in Districts 22 and 23 with the exception of the area that is charged the Prospect Road recreation area rate.