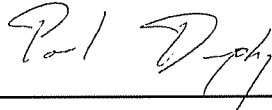


REVISED

Halifax Regional Council
July 3, 2007

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Paul Dunphy, Director, Community Development



Cathy O'Toole, A/Director, Finance

DATE: June 22, 2007

SUBJECT: Financial Performance HRM's Major Facilities

INFORMATION REPORT

ORIGIN

This Information Report is part of a regular series of monitoring and reporting on the financial performance of HRM's Major Facilities. This report also serves to meet the budget approval obligations of HRM that form part of the various management agreements.

BACKGROUND

Over the past few years, staff have endeavoured to monitor and report every 6 months or so on the financial performance of the Major Facilities. This originated with the performance failure of one of the facilities 5 years ago, and the increasing pressures on the remaining facilities. A number of factors have been contributing to the increased financial pressures on these facilities, including the aging condition of the facilities, available capital dollars from HRM, the reliance at some of the facilities on traditional revenue generating streams such as bingo which has declined over the years, increasing competition between themselves and from other new competition, legacy impacts of prior weak expansion plans and/or shortfalls in fundraising campaigns, and the significant rise in energy, insurance, wage and other expense items. Historically most of these facilities have done quite well at balancing all the pressure points while still delivering quality programming at reasonable costs. The following table summarizes the facilities included in this review, and their approximate size for comparison purposes.

Table 1

Facility	Category (As listed in IRF Master Plan)	Type of Agreement	Operating Subsidy from HRM	Other Subsidies	Facility Size (square feet)
Dartmouth Sportsplex	Category 1 Multi - District, Multi -Use	Management Agreement	\$0	\$0	115,900
Halifax Forum	Category 3 Events	Management Agreement	\$0	\$0	71,500
Alderney Landing	Category 3 Cultural/Events	Management Agreement	\$175,000	\$90,000 ⁽¹⁾	32,000
St Margaret's Centre	Category 1 Multi - District, Multi -Use	Management Agreement	\$0	\$0	100,000
Cole Harbour Place	Category 1 Multi - District, Multi -Use	Lease Agreement	\$0 ⁽²⁾	\$0	200,000
Metro Centre	Category 3 Events	Tri-partite Operating Agreement	\$0 ⁽³⁾	\$0	205,000
Sackville Sports Stadium	Category 1 Multi - District, Multi -Use	Operated by HRM on interim basis ⁽⁴⁾	\$200,000 ⁽⁵⁾	\$0	118,300
Eastern Shore Recreation Ctr	Category 2 Sport Facility	Management Agreement	\$0	\$0	27,000

⁽¹⁾ Alderney Landing retains the net parking revenues estimated at \$90,000 for a nearby parking lot that formerly went to subsidize the ferry operations.

⁽²⁾ HRM leases space within the facility. See discussions on revenues and expenses at CHP for further details.

⁽³⁾ Under the Tri-partite agreement between HRM, the Province and WTCC to operate the Metro Centre, HRM retained ownership of the Metro Centre and does not provide direct operating subsidies, however, any annual operating deficit/surplus accrues to HRM.

⁽⁴⁾ Operations at the Sackville Sports Stadium are currently being overseen by HRM directly, with the original intent to eventually have a Management Agreement negotiated with a new community board.

⁽⁵⁾ 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 as part of the operational review.

Historically, HRM has entered into agreements with communities with the basic philosophy that the facilities would operate under a 100% cost recovery basis. These facilities generate their own revenues and cover all operating costs, cost share capital repair and equipment replacement costs with HRM, and must cover their portion of any initial construction or expansion costs. When first constructed or expanded, the capital costs typically come from grants from three levels of government and the community (through an area rate or fundraising campaign). Any remaining gap was funded through a repayable loan, with payment provision built into the operating budgets. This

model appears to be typical of approaches used elsewhere in the country.

Most of the facilities in this review have successfully balanced these financial commitments without requiring additional operating subsidies from HRM. Those that required operating subsidies are indicated in Table 1 above, with any conditions indicated in the notes below the table. As additional background, a summary of the capital construction and expansion debt obligations for each facility is provided below.

Table 2: Existing Capital Debt Outstanding to HRM (as of March 31, 2007):

	Capital Debt - Outstanding Balance	Years Remaining	2007/08 Annual Facility Payments (P+I)
Dartmouth Sportsplex	\$ 421,124	7.0 years	\$ 75,000 ⁽¹⁾
Halifax Forum Community Association	\$ 1,487,500	17.5 years	\$ 166,972
Cole Harbour Place	\$ 1,078,619 \$ 405,000 ⁽²⁾	9.5 years 8.5 years	\$ 150,000 \$ 61,819
Sackville Sports Stadium	\$4,450,000 ⁽³⁾	17+ years	deferred
Alderney Landing	\$1,051,000 ⁽⁴⁾	TBD	TBD
Metro Centre	\$ 0	n/a	n/a
St Margaret's Centre	\$2,816,275 ⁽⁵⁾	18.5 years	\$ 270,548

⁽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 would increase 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 will begin again as soon as the facility is financially restabilized

⁽⁴⁾ The outstanding debt for Alderney Landing became due April 1, 2005. Staff have struck a working group with Alderney Landing Board to review options to establish debt repayment schedules.

⁽⁵⁾ 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 they do not have the operating capacity to make the full debt payments. They committed to a contribution of about \$58,000 to the debt payment due in 2006/07 with the balance of the \$276,000 payment being funded from a new area rate of \$0.01/\$100 of taxable assessment. The area rate is 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. The Centre is expected to make further contributions towards the debt payments in future years to ensure the area rate does not increase.

Currently, the Sackville Sports Stadium and Alderney Landing have debt payments due but do not have a sufficient financial operating plan that allows them to meet their debt payment obligations. Both are also receiving operating subsidies from HRM. The Sackville Sports Stadium has repaid most of the accumulated operating deficit and another report will be coming to Council this fiscal year on alternatives for a go-forward plan to deal with the remaining gap. The St. Margaret's Bay Centre relies on an area rate combined with their operating budget to repay their capital expansion debt. Interestingly all three of these facilities had capital fundraising campaigns that failed to generate the targeted community contribution, which has resulted in larger capital debt repayments than the original business plans anticipated.

The Metro Centre had a capital debt for a score clock and sky boxes, and earlier this year completed repayment of that loan ahead of schedule. Management of other major facilities have expressed concerns about their own long range forecasting and the possibility of difficulties balancing their budgets in the coming years due to the various pressure points previously listed. Although they have been successful in meeting debt payments, the facilities are aging and requiring more capital repairs and equipment replacements which is taking a bigger bite out of their budgets. They have implemented program adjustments and are currently actively evaluating additional program shifts to introduce new opportunities.

DISCUSSION

The following information was gathered in meetings with each facility. Final audited statements for 2006-07 are not yet available so the information is based on unaudited year-end results.

Note that under the Risks Category each General Manager was asked to identify possible future risks and several identified new or potential competition. The recent discussions around ice arenas, for example, is one such interesting one. Although the planned Facilities Master Plan Update will provide a more accurate needs assessment, preliminary analysis and the Akerley closure would indicate at least one additional ice surface is needed. However, Managers of our major facilities are cautioning that peak usage hours alone do not cover operating costs and the addition of multiple new surfaces could result in a negative impact on the cost recovery of existing surfaces without financial assistance. This potential will be examined further under the updating of the Facilities Master Plan later this year.

As a general observation, it would seem the best way HRM can provide ongoing support to these facilities is to find a way to increase contributions to capital repair and equipment replacement. This would be consistent with approaches to other facilities while maintaining accountabilities to business plans and levels of services. Staff in Finance, CD and TPW continue to monitor the situation and look for possible options to help strengthen all the facilities and maintain the types of activities each of these public assets provide to citizens. The General Managers, their staff, and the Volunteer Boards of these facilities should be commended for all their efforts. Most of the facilities continue to operate with only capital repair assistance from HRM, yet have continued to maintain and enhance these public assets.

Dartmouth Sportsplex

	2006/07 Budget	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$4,683,000	\$4,727,923	\$4,751,100	Aquatics revenue, pool rentals, and memberships have increased.
Expenditures	\$4,683,000	\$4,650,507	\$4,751,100	Increase in minimum wage has impacted the overall wage scale.
Net Operating Profit/(Loss)	\$ 0	\$77,416	\$ 0	Higher net profit in 2006/07 is partly the result of reduced prizes and staff costs for bingo.
Annual Debt Payment Due	\$75,000	\$75,000	\$75,000	Annual debt repayment reduced from \$181,618 to \$75,000 to enable the Dartmouth Sportsplex to meet it's operational requirements without incurring a deficit.
Risks	<ol style="list-style-type: none"> 1. Increasing energy costs, volatile bingo revenues. 2. Potential impact from Rocky Lake multi-ice surface proposal on ice arena rentals. 3. Lost revenue from the loss of the Dartmouth Destroyers CEHL hockey team. 			
Opportunities	<ol style="list-style-type: none"> 1. Additional revenue expected from extra summer camps. 2. New reusable bingo card system should substantially reduce costs. 3. Closure of rink at Akerley campus could increase ice time revenue. 4. There is potential to increase daytime pool revenue. 			

Halifax Forum Complex

	2006/07 Budget	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$3,089,000	\$3,021,361	\$3,212,500	The budgeted increase in revenue is due to higher anticipated ice rentals and bookings for major events.
Expenditures	\$3,089,000	\$3,315,364	\$3,212,500	Salaries, benefits cost and maintenance were higher than budgeted.
Net Operating Profit/(Loss)	\$0	(\$294,003)	\$0	
Annual Debt Payment Due	\$175,000	\$170,034	\$166,972	
Risks	<ol style="list-style-type: none"> 1. Bingo revenues continue to be unstable. 2. Revenue from ALC Super Bingo lower than expected because of fewer locations resulting in reduced jackpots and low attendance. 3. Increases to fuel costs, minimum wage. 4. Potential impact from Rocky Lake multi-ice surface proposal on ice arena rentals. 5. Serious capital deficiencies because of the buildings age. Roof near main entrance needs replacement. 			
Opportunities	<ol style="list-style-type: none"> 1. Spryfield Lions Club Bingo closed on Thursday and Sunday, so reduced competition those nights has increased attendance. 2. Expanded Multi-purpose room has resulted in increased booking revenue. 3. Negotiating with significant tenant to relocate to the Forum and occupy 2,500 sq ft 4. More revenue expected because of new summer hockey schools. 5. Ice rental revenue expected to increase to offset decrease in special events 			

Cole Harbour Place

	2006/07 Budget	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$3,346,113	\$3,414,112	\$3,425,087	Memberships continue to grow.
Expenditures	\$3,346,113	\$3,414,112	\$3,425,087	Increased cost for utilities, building maintenance and Minimum Wage increase.
Net Operating Profit/(Loss)	\$0	\$0	\$0	Any net operating profit is transferred to a Equipment Replacement Reserve.
Annual Debt Payment Due	\$208,952	\$209,267	\$211,819	In 2007/08, a third loan for \$525,000 will be required to replace the refrigeration plant and for other energy efficiency upgrades.
Risks	<ol style="list-style-type: none"> 1. Capital risk due to aging chiller, zamboni, roof over the rinks. 2. One tenant's lease is expiring and may relocate elsewhere. 3. Aquatics revenue is down because of shortage of qualified staff to provide lessons. 4. CUPE contract expired March 31, 2007. 			
Opportunities	<ol style="list-style-type: none"> 1. All tenant space occupied and committed for several years. 2. Energy efficient capital upgrades, including replacement of refrigeration plant, expected to result in energy savings of over \$100,000 annually. 			

Sackville Sports Stadium

	2006/07 Budget	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$3,056,752	\$2,989,718	\$3,233,642	Additional lease revenue from new tenants. Memberships and aquatics revenue was down.
Expenditures	\$2,800,150	\$2,647,530	\$2,911,000	Increase in minimum wage has impacted the overall wage scale.
Net Operating Profit/(Loss)	\$256,602	\$342,188	\$322,642	Surplus is being used to pay down the accumulated deficit
Annual Debt Payment Due	\$0	\$0	\$0	Annual debt payments deferred until facility financially stable.
Risks	1. Curling space still generating less revenue than costs, when including capital debt. Not able to take advantage of more profitable uses for the space. 2. Potential impact from Rocky Lake multi-ice surface proposal on ice arena rentals. 3. May lose indoor soccer rentals for the curling space during summer.			
Opportunities	1. New sales department and new fitness equipment is expected to increase membership sales. 2. Will be looking at an attraction in the pool area to increase aquatics revenue			

Metro Centre

	2006/07 Budget	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$7,239,000	\$7,812,731	\$6,497,500	Concerts and special events were higher than anticipated in 2006/07 because of Juno's, East Coast Music Awards, Skate Canada, etc. They are expected to be down in 2007/08.
Expenditures	\$7,239,000	\$7,611,564	\$6,165,159	
Net Operating Profit/(Loss)	\$0	\$201,168	\$332,341	Net operating profit is to be allocated to a facility lifecycle reserve
Annual Debt Payment Due	\$1,548,290	\$800,477	\$0	All outstanding debt retired.
Risks	<ol style="list-style-type: none"> 1. Revenue from Mooseheads varies with how well the team does, especially in the playoffs. 2. Loss of CIAU basketball tournament will impact major events revenue. 			
Opportunities	<ol style="list-style-type: none"> 1. Will have 18 American Basketball Association games this year 2. Have begun partnering/ revenue sharing in events rather than just collecting rental revenue. 			

Alderney Landing

	2006/07 Budget	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$883,000	\$1,053,297	\$1,064,000	Increased revenues projected from new programming, especially the events plaza
Expenditures	\$881,300	\$1,052,022	\$1,063,100	
Net Operating Profit/(Loss)	\$1,700	\$1,275	\$ 900	
Annual Debt Payment Due	TBD	TBD	TBD	Discussions taking place between HRM staff and Board to determine capacity to repay debt.
Risks	<ol style="list-style-type: none"> 1. More competition from Cunard Centre (next to Pier 21). 2. Events Plaza programming is unreliable because of weather. 3. Currently unable to meet debt obligations to HRM. 4. Does not have the same revenue potential as a sports facility. 5. Corporate sponsorship for Art Gallery has declined. 6. Leaking roof requires resealing. 			
Opportunities	<ol style="list-style-type: none"> 1. Have partnered with Keith's Brewery to develop programming for the Events Plaza. 2. May be able to "piggy-back" on other events to reduce costs. 3. Construction of geo-thermal system will save energy costs, but will reduce parking revenue in the short term as it is being built under the parking lot. 			

St. Margaret's Centre

	2006/07 Budget (restated without Bay Ducks hockey team)	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	\$1,097,900	\$1,289,416	\$1,252,150	Ice rentals were higher than expected.
Expenditures	\$1,103,200	\$1,208,157	\$1,216,511	
Net Operating Profit/(Loss)	(\$5,300)	\$81,259	\$ 35,639	
Annual Debt Payment Due	\$275,928 (\$58,028 from Board, \$217,900 from area rate)	\$275,939 (\$58,611 from Board, \$217,328 from area rate)	\$270,548 (\$30,512 from Board, \$240,036 from area rate)	Council approved a loan to a maximum of \$2,964,500. The debt payments will be funded from a 1 cent area rate plus contributions from the Board to keep the area rate from increasing.
Risks	<ol style="list-style-type: none"> 1. The Bay Ducks Junior B hockey team is experiencing financial difficulties because attendance was down about 40% in 2006-07. 2. Underground work for pool is required. 3. Older section of facility was built in 1988 and will require repairs. 			
Opportunities	<ol style="list-style-type: none"> 1. Summer hockey camps have increased. 2. Ice rental revenue is expected to increase substantially in 2007/08. 3. Energy efficiency capital improvements expected to generate substantial savings. 			

Eastern Shore Recreation Centre

	2006/07 Budget (Not submitted)	2006/07 Year End Results (Unaudited)	2007/08 Budget	Comments
Revenues	--	\$685,699	\$717,000	2007/08 is the first year for which an operating budget was submitted.
Expenditures	--	\$669,470	\$715,500	
Net Operating Profit/(Loss)	--	\$16,229	\$1,500	
Annual Debt Payment Due	N/A	N/A	N/A	
Risks	<ol style="list-style-type: none"> 1. New condenser is required to the replace the existing one which has become unreliable and too expensive to maintain. 2. Facility is entirely heated with electricity which is more expensive than heating oil. 3. Bingo is losing money. Friday bingo is being discontinued, leaving only Sunday night. 			
Opportunities	<ol style="list-style-type: none"> 1. Energy efficiency upgrades are expected to generate significant operating savings. 			

BUDGET IMPLICATIONS

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

N/A

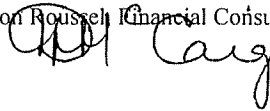
ATTACHMENTS

N/A

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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