



PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

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Halifax Regional Council
July 13, 2004

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:



Dan English, Acting Chief Administrative Officer

DATE: July 06, 2004

SUBJECT: **Sackville Sports Stadium - Update on Governance and Operational Changes**

ORIGIN

This is a follow-up to the report to Council May 6, 2003 following an Operational Review of the Sackville Sports Stadium.

RECOMMENDATIONS

It is recommended that:

1. Council approve an additional subsidy of \$200,000 for 2003/04.
2. Council authorize staff to begin discussions with the Board of the Sackville Sports Stadium Society to enter into a management agreement.
3. Council approve a further deferral of the long term debt repayment for 2004/05 as per the Budget Implications section of this report.

BACKGROUND

Following an operational review of the Sackville Sports Stadium, Council approved the following recommendations on May 6, 2003:

- approval in principle the direction of the recommendations contained in the Review Report, with specific recommendations requiring Council approval to be brought back by the Transition Team after further assessment;
- approval of a Transition Team of 2 HRM staff members to support and guide the recommendations;
- approval of taking the necessary legal steps to move to a sole purpose Board for the Sackville Sports Stadium, specifically, giving the required 3 month notice to terminate the existing management agreement;
- approval of a Cash Management Plan as outlined in the Budget Implications portion of the Council report.

Further to this, the Transition Team was put into place and a ninety day notice to terminate the Management Agreement was given to LDRA as approved by Council. Effective August 22, 2003 HRM assumed operating responsibility for the Sackville Sports Stadium.

Effective with the termination date of the Management Agreement with LDRA, an interim General Manager was hired under an employment contract with HRM to manage the SSS during the transition period until further work is completed on the financial stabilization plan and a new management agreement and Board are in place. His mandate is to oversee the day-to-day operations, review existing operations, and to begin implementing the necessary changes required to turn around operations and reduce the annual operating deficit.

DISCUSSION

Governance and Structure

The Transition Team initially met with representatives of the LDRA Board to undertake the first steps in setting up a new sole purpose board. During this process it was determined that there was an existing Sackville Sports Stadium Society registered with the Registry of Joint Stock Companies. This Society was originally created to oversee the building of the Stadium and although never de-registered, it eventually was replaced by the LDRA to operate the Stadium under a management agreement. Over the course of the summer the Sackville Sports Stadium (SSS) Society held two information meetings, and at the second meeting the Society voted to revive it's numbers and elect new officers for the purpose of making a bid to become the sole purpose Board HRM desired, and to negotiate a management agreement with HRM to oversee Stadium operations.

HRM's Community Development staff worked with the Society to hold public meetings for the purpose of recruiting individuals to serve as officers of the Society. The new Board members were in place in November 2003 and have indicated to staff they are interested in working further with HRM with the potential to formally present a proposal to enter into a management agreement and become the new sole purpose board HRM is seeking for SSS.

A number of positive initiatives are currently underway which will directly improve the financial stability of the Stadium and provide improved accounting processes to support informed decision making. These initiatives are beginning to generate some positive momentum and staff are now of the opinion it may be in the best interests to allow more time before introducing a change in the governance structure back to a Community Board. Therefore, staff are now recommending September 2004 as being the target date to introduce a Community Board under a management agreement. This additional time will also allow for completion of the 02/03 and 03/04 audits, a transition period into a new financial model by business area, and more stability from some other operational changes.

The Board has expressed concern regarding this further delay in negotiating a management agreement with HRM. However, staff have offered the SSS Society Board an interim participatory role, and are now seeking permission to begin negotiations on a possible management agreement. If successful, staff anticipate coming back to Council in September 2004 with a recommendation for a new agreement.

Operations and Financial Stability

As previously mentioned, a number of initiatives are well under way. These include: changes to existing accounting policies and procedures and control; revamping the budget system and management responsibilities to better track program costs and establish accountabilities; reviewing space layouts in the facility to ensure maximum efficient and effective utilization of space; and developing new commercial lease opportunities. A more detailed summary of activities to date has been provided as Appendix A in this report.

In the report brought to Council in May 2003, staff provided projections for the 2002/03 fiscal year and an estimate of the operating budget for the 2003/04 fiscal year. That information and updated projections follow in Table 1.

Table 1
Proposed Subsidy and Debt Payment Deferral and Area Rate Recovery to Eliminate Deficit

	2002/03 Projection at May 2003	2002/03 Actual	2003/04 Approved Recovery Plan	2003/04 Unaudited
Accumulated surplus/(deficit) beginning of year	(\$663,282)	(\$1,091,185) ⁽¹⁾	(\$1,044,623)	(\$1,044,623)
Annual Operating surplus (deficit) before subsidy	(\$567,900)	(\$573,438)	(\$400,000)	(\$527,700)
Add back deferral on LT Debt payment	\$420,000	\$420,000	\$450,000	\$450,000
HRM subsidy	\$200,000	\$200,000	\$200,000	\$400,000 ⁽²⁾
Balance to be funded through area rate over 3 years			\$129,000	
Annual Operating Surplus/(Deficit)	\$52,100	\$46,562	\$379,000	\$322,300
Accumulated Surplus/(Deficit) at end of year	(\$611,182)	(\$1,044,623)	(\$665,623)	(\$722,323)
Payroll outstanding	\$917,000	\$824,507	\$538,000	\$878,400

⁽¹⁾Restated 2001/02 audited financial statements based on Municipal GAAP

⁽²⁾Includes the increase of \$200,000 in the HRM operating subsidy as recommended by staff in this report

2002/03

Two main factors contributed to the increase in the accumulated operating deficit at the beginning of fiscal 2002/03. The most significant of these is the reversal of depreciation taken in prior years, with the capital assets shown as operating expense in the year of purchase. This added an additional \$281K to the accumulated deficit at the beginning of 2002/03. Deferring revenue for the balance of one-year memberships outstanding at March 2002 contributed a further \$114K to the accumulated deficit.

2003/04

The approved recovery plan for 2003/04 included deferral of the long term debt payment, an HRM operating subsidy of \$200,000 and additional funding of \$129,000 to be raised through an area rate, thus creating an operating surplus which would reduce the accumulated deficit by \$379,000. The actual operating results are projected to fall short of the targeted position at March 31, 2004 as discussed below and shown in Table 1 above.

Regular membership revenues are \$209,000 below budget and strategies have been implemented to improve membership sales and to retain current members, with the positive impact of those changes evident in the 2003/04 fourth quarter results. The opening of the new Women's Gym in August resulted in an additional \$69,000 in unbudgeted revenues, bringing the overall membership shortfall to \$140,000.

In March 2003 the restaurant at the SSS closed and no revenue was generated from this space or from the additional office space occupied by HRM staff displaced from the Acadia School site due to hurricane damage. This meant that no action could be taken toward leasing the area and thus contributed to the shortfall in budgeted commercial revenues in 2003/04. HRM staff relocated to Acadia School in late April and RPAM has agreed to fund the base building modifications in the former restaurant space in preparation for leasehold improvements.

Operating expenditures have been held close to the budgeted figure. The 2003/04 budget included a \$40,000 transfer to a capital reserve, however actual capital expenditures total \$63,000, including equipment purchases for the new Women's Gym and leasehold improvements for the Sackville Bedford Development Center which opened January 2004. The leasehold improvements are to be fully funded through a donation from councillor District Capital Funds and from fundraising efforts of the Development Centre.

The proposal for an area rate which was approved by Council in May 2003 was not implemented for the current year due to timing of the approval. This has created \$129,000 of the shortfall in operating revenues.

Based on the above operating results and with no area rate funding in place, staff are seeking approval for a further subsidy of \$200,000 for the Stadium in the 2003/04 year. The rationale for this increase in 2003/04 only is to ensure that the SSS is able, in this transition period, to meet the planned reduction in their overall accumulated deficit as outlined in staff's recovery plan approved by Council. It is staff's belief that allowing the accumulated deficit of the SSS to remain at levels higher than those included in the recovery plan compromise the likelihood of the facility being able to successfully turn around operations for the future. RPAM has included this additional subsidy in the business unit's expenditures for 2003/04.

2004/05 Operating Budget and Business Plan

The Interim General Manager of the SSS has presented a 2004/05 business plan and operating budget to HRM. The business plan includes the organizational structure as shown in Appendix B, Figures 1 and 2, and the budget has been developed in line with these operational units. The detailed 2004/05 budget and 2005/06 forecast is presented in Appendix B, Table A along with budget highlights.

The 2004/05 budget as submitted by the Sackville Sports Stadium results in an operating deficit of \$28,711. Their budget includes a \$200,000 subsidy from HRM and a payment of \$380,000 on the long term debt as part of the financial stabilization plan approved by Council. In 2005/06 the forecast includes a payment of \$480,000 towards the long term debt as per the original repayment schedule and a reduction in the HRM subsidy to \$100,000 as proposed in the Operational Review Report.

Revenues (excluding the subsidy) are expected to increase by 7.1% in 2004/05 and by a further 6.3% in 2005/06, while expenses before debt service will increase by 3.2% in 2004/05 and by 2.5% in 2005/06. Table 2 below shows the projected accumulated deficits at the end of each of the three years of the financial stabilization plan based on this scenario. While it appears that the Stadium can generate a net operating surplus in future, it is not able to create sufficient surpluses to meet the scheduled payments on the long term debt while also reducing the outstanding payroll liability with HRM.

Staff are therefore recommending a further deferral of the long term debt repayment until 2005/06 to allow the SSS to reduce the accumulated deficit and consequently reduce the outstanding payroll payable. The impact of this deferral on accumulated deficits is included in Table 2 below.

The area rate was not implemented in 2003/04 or 2004/05, however it appears that an area rate will be a requirement in 2005/06 in order for the Stadium to operate without a deficit. Further discussion will be held with the new Board for the SSS regarding the area rate and other operational issues on which they can take a leadership role within the community. The area rate requirement will also be reviewed as part of HRM's budget process in the fall of 2004.

SSS 2003/04 Projection, Proposed 2004/05 Budget and 2005/06 Forecast

Table 2

	Year 1	Year 2	Year 3
	Unaudited 03/04 Results	04/05 Budget	05/06 Forecast
Accumulated Deficit	(\$1,044,623)	(\$722,323)	(\$370,134)
Annual Operating surplus (deficit) before subsidy	(\$527,500)	(\$327,811)	(\$219,355)
Add back deferral on LT Debt payment	\$450,000	\$480,000	\$0
HRM subsidy	\$400,000	\$200,000	\$100,000
Balance to be funded through area rate over 3 years			\$129,000
Annual Operating surplus (deficit)	\$322,300	\$352,189	\$9,645
Accumulated Surplus/(Deficit)	(\$722,323)	(\$370,134)	(\$360,489)
Payroll outstanding	\$878,400	\$448,400	\$438,400

BUDGET IMPLICATIONS

The additional subsidy of \$200,000 for the SSS is in excess of amounts budgeted in the 2003/04 fiscal year. This amount has been included in the draft 2003/04 financial statements for the consideration of Council at tonight's meeting.

HRM continues to make the scheduled payments on the debenture during the period that the Stadium has a payment deferral, foregoing interest HRM could have earned on the funds it is using to make payments on the Stadium's behalf. Depending on the future financial situation at the SSS, there is a risk that HRM will never fully recover this amount from the Stadium.

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

The alternative is not to increase the 2003/04 operating subsidy beyond the \$200,000 already approved and not to give a further deferral on the debt repayment. This will increase the accumulated deficit and create further cash flow difficulties for the Stadium, and is not recommended.

ATTACHMENTS

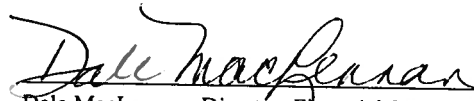
- Appendix A - Update on Implementation of SSS Operational Review Recommendations
- Appendix B - Organizational Structure, 2004/05 Budget and 2005/06 Forecast
- Appendix C - Business Units - 2004/05 Budget


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: Anna Emeno, Financial Consultant, Financial Services, 490-7222

Doug Rafuse, Manager Service Delivery, RPAM, 490-6205

Report Approved by:


Dale MacLennan, Director, Financial Services, 490-6308


Mike Labrecque, Director, Real Property & Asset Management, 490-4851

APPENDIX A

Update on Implementation of SSS Operational Review Recommendations

As approved by Council, a Transition Team was created to help implement the changes recommended in the report. The Transition Team was then to assist the SSS to carry out further analysis on the remaining areas and develop an action plan around them to be brought back to Council. This summary report is to provide a status report on the creation of a new sole purpose board and on other actions recommended in the Operational Review Report.

Progress to date on the Sackville Sports Stadium can be summarized in three broad themes:

- governance and reporting structure - includes an update on a new Board
- financial controls and reporting
- operational changes - includes operations review, leases and rental, the curling program and other opportunities

1. Governance and Reporting Structure

A ninety day notice to terminate the Management Agreement was given to LDRA, as approved by Council. During the notice period, the HRM Transition Team in cooperation with 3 representatives from LDRA, began the process of putting a new, sole purpose Board in place. The Transition Team discovered through this process that there was a Sackville Sports Stadium Society already registered with the Registry of Joint Stock Companies. This Society was originally created to oversee the building of the Stadium and eventually was replaced by the LDRA to operate the Stadium under a management agreement. The Society was never de-registered and members of the Society voted to revive it's numbers and elect new officers for the purpose of making a bid to become the sole purpose Board HRM desired, and to negotiate a management agreement with HRM to oversee Stadium operations.

Community Developers from Recreation Tourism & Culture (R.T.C.) worked with members from this Society to develop a recruitment process for their new Board and the new officers were selected and elected by the Society in November 2003. Staff have had several meetings with the SSS Society's new officers and pending approval of Council, will begin discussions with this group regarding the negotiation of a Management Agreement for them to operate the Sackville Sports Stadium. The plan is to have the Management Agreement in place and to transfer responsibility for the Stadium to the new Board in September 2004.

2. Financial Controls and Reporting

2002/03 Audit

The operational review report recommended the appointment of KPMG as auditors for the Sackville Sports Stadium for the 2002/03 fiscal year.

KPMG began the audit in June 2003, but it was not completed because there were a number of outstanding issues related to the audit, primarily in relation to changes in the statement presentation related to Municipal GAAP and the accounting for deferred revenue and bad debts in prior years. The 2002/03 and 2003/04 audits are currently being completed.

Accounting controls

A number of changes, including new accounting policies and procedures, changes in signing authority and segregation of duties (where possible within the current staff complement), have been implemented. At the time of the operational review the SSS had significant outstanding accounts receivable. More timely follow-up of unpaid amounts has been implemented and steps have been taken to clear up the overdue accounts.

Job descriptions have been drafted and approved for the accounting, payroll and administrative assistant functions. This includes the creation of a new accounting management position to oversee the accounting functions and financial reporting.

Effective April 1, 2004 the SSS is no longer providing accounting, payroll and facility booking (Sackville Arena) services to LDRA. This will have an impact on the workload of current office staff and the revised job descriptions include a realignment of responsibilities in consideration of this change in workload.

Financial Reporting

The interim General Manager has designed a financial model by business unit which will be used for internal statements for 2003/04 forward.

Further work has been done, including a utility cost review, to identify direct and indirect program costs and overhead, thus providing more detail to support decision making for both recreation programs and leasing opportunities. A business plan and operating budget for 2004/05 has been developed.

3. Operational Changes

The interim General Manager has focused on the following areas since beginning work at the Stadium in late August.

COMMERCIAL SPACE - A complete area analysis of the physical layout of the Sackville Sports Stadium facility has been conducted to ensure maximum efficient and effective utilization of space, as well as identifying opportunities of revenue generation. Due to damages at Acadia

School from hurricane Juan, HRM was forced to relocate staff offices from the Sackville Drive facility and into vacant space at the Stadium until late April 2004. This delayed the ability of the Stadium to actively market and lease some of their space, however, activities have progressed nicely in several other areas.

Discussions are ongoing with current tenants, potential commercial tenants and for additional food services within the Food Court space. In mid-January the Sackville Bedford Development Centre relocated to newly renovated space at the SSS. Their space includes part of the former administration office space and accommodates the Stadium's own drop-in child care service in a separate room, but within the Day Care area.

LAKESHORE CURLING CLUB - An agreement was established for the members under the Lakeshore Curling Club Society to operate and manage the curling facility for the 2003/2004 winter season. The Curling Club also operated bar services within their premises to compliment their operation and generate additional revenues. All surplus revenues for the season generated through membership fees, sponsors, bar sales, etc. will be credited to the Sackville Sports Stadium. This new arrangement is being closely monitored with the hopes the Membership will demonstrate that the Curling Club will be a financially viable use for the Stadium.

MEMBERSHIP GROWTH & PROGRAMS - Reviews and analysis are ongoing to provide effective and efficient customer service, recreational/fitness programs and operating systems at the Stadium. A complete review of prices and delivery of programs has been conducted with emphasis on maximizing the utilization of the facility and membership retention. In addition, in September 2003 the Women's Gym was established at the Stadium. Membership and has been steadily growing, with membership numbers currently on target.

Ice Rentals - At the commencement of the winter season the Stadium Arena rental rates were increased by 5% across all time periods (prime and non prime), with further increases implemented in 2004.

APPENDIX B

The Stadium operation has been designed around 5 business units as shown in the diagram below, which are supported by administrative and operations services.

Figure 1

Sackville Sports Stadium
Business Units

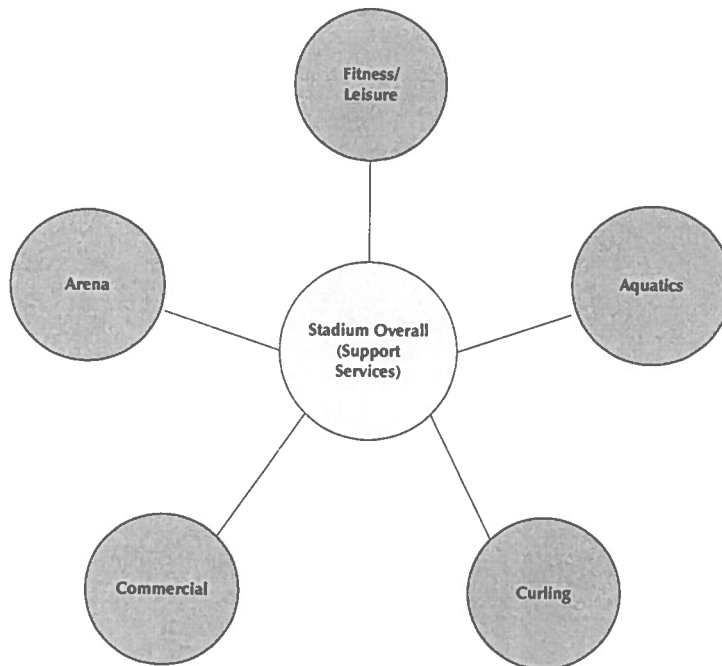


Figure 2

Sackville Sports Stadium Support Services

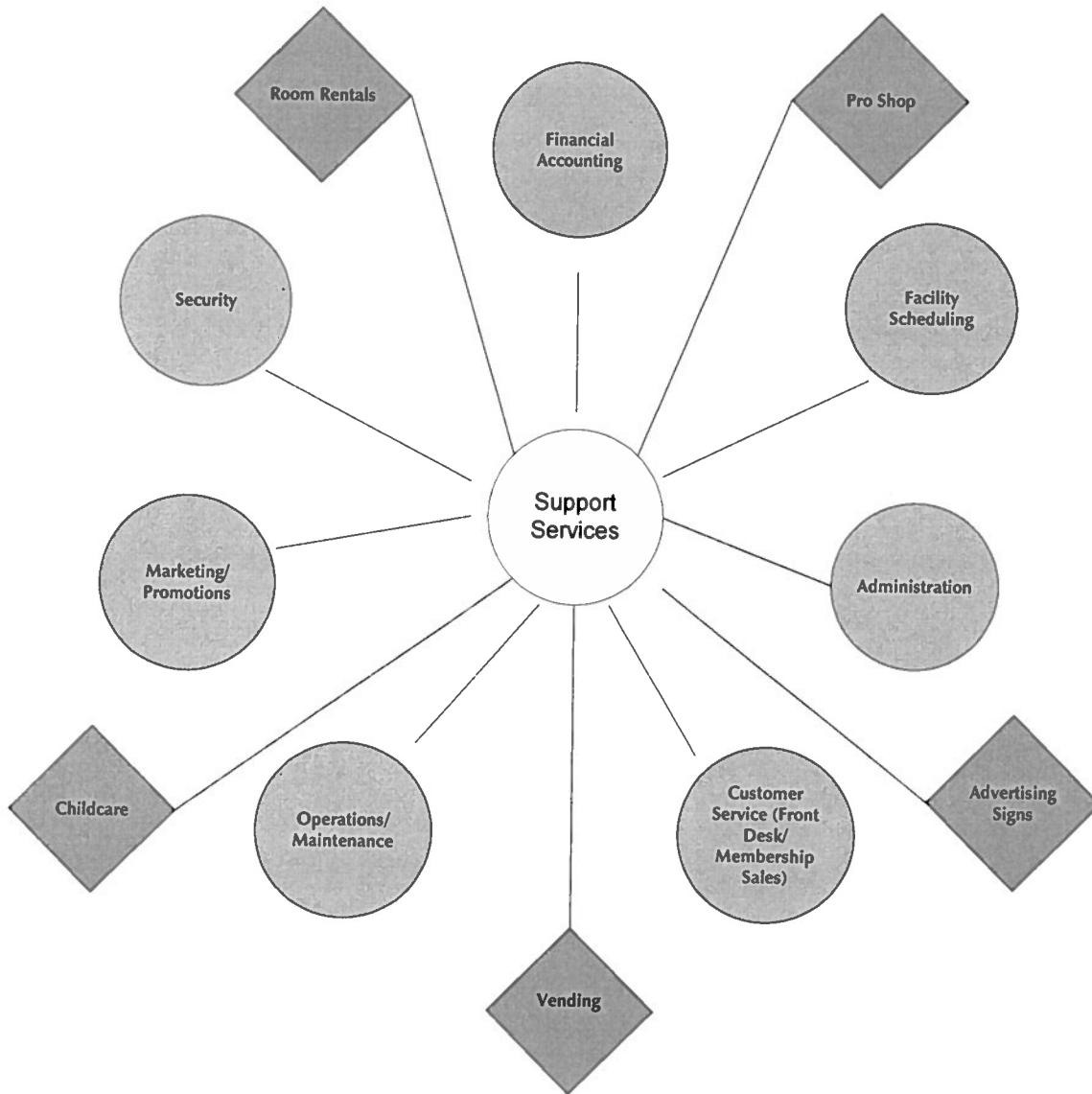


Table A

SACKVILLE SPORTS STADIUM
 2004/05 BUDGET & PRELIMINARY 2005/06 FORECAST BY BUSINESS UNITS

		2004/05 Budget as Submitted by SSS	2004/05 Budget as Proposed by Staff	2005/06 Forecast
Arena	Revenues	538,435	538,435	548,393
	Expenses	<u>240,142</u>	<u>240,142</u>	<u>246,386</u>
	Net	298,293	298,293	302,007
Aquatics	Revenues	776,468	776,468	793,792
	Expenses	<u>598,588</u>	<u>598,588</u>	<u>615,101</u>
	Net	177,880	177,880	178,691
Commercial Operations	Revenues	190,900	190,900	261,451
	Expenses	<u>146,046</u>	<u>146,046</u>	<u>167,225</u>
	Net	44,854	44,854	94,226
Curling Rental	Revenues	97,608	97,608	122,488
	Expenses	<u>34,041</u>	<u>34,041</u>	<u>34,800</u>
	Net	63,567	63,567	87,688
Fitness & Leisure	Revenues	1,060,856	1,060,856	1,103,821
	Expenses	<u>481,129</u>	<u>481,129</u>	<u>495,105</u>
	Net	579,727	579,727	608,716
Stadium Overall	Revenues	83,060	83,060	91,614
	Expenses	<u>1,055,192</u>	<u>1,055,192</u>	<u>1,062,297</u>
	Net	(972,132)	(972,132)	(970,683)
Net Operations		<u>192,189</u>	<u>192,189</u>	<u>300,645</u>
ADD:				
HRM Subsidy		200,000	200,000	100,000
Area Rate				129,000
LESS:				
Debt Service		380,000	0	480,000
Capital Reserve		40,000	40,000	40,000
Surplus/(Deficit)		<u>(27,811)</u>	<u>352,189</u>	<u>9,645</u>

Budget Highlights 2004/05:

Arena

- ▶ September 1, 2003 all prices increased 5%
- ▶ April 1, 2004 prices increased by 10% to 47% for the winter season and by 2.6% to 20% for the summer season
- ▶ Utility costs have been allocated on a percentage basis according to the Energy Engineering Study findings
- ▶ Salary and benefits of Operators allocated 50% to Arena and 50% to Curling
- ▶ Ice Plant/Desiccant 70% of costs allocated to Arena

Aquatics

- ▶ 8% of General Memberships and Women's Gym revenue allocated to Aquatics
- ▶ Assumes general membership increased usage of 2.9% to 10.5%
- ▶ Open swim prices increased
- ▶ Manager and supervisor hours reduced to 3/4 time each, with flex time designed to provide coverage at peak usage times outside of normal business hours
- ▶ Utility costs allocated on a percentage basis according to the Energy Engineering Study findings

Commercial

- ▶ Revenues based on current tenant agreements and proposed tenancies: 2 additional Food Court tenancies, additional 3,000 square feet in office tenancies phased in during 2004/05
- ▶ Utility costs recovered on a percentage basis according to the Energy Engineering Study findings
- ▶ Recovery of cleaning costs at 20%
- ▶ Full recovery of commercial property taxes
- ▶ Tenant improvements amortized over 5 years

Curling

- ▶ 8 month operation
- ▶ 5% increase in rent to Lakeshore Curling Club
- ▶ Revenues of \$25,000 from bonspiels and fundraising, with any additional surplus funds of the Curling Club to be turned over to the Sackville Sports Stadium
- ▶ Utility costs allocated on a percentage basis according to the Energy Engineering Study findings
- ▶ Ice Plant/Desiccant 30% of costs allocated to curling

Fitness & Leisure

- ▶ 92% of general memberships and Women's Gym allocated to Fitness & Leisure
- ▶ Utility costs allocated on a percentage basis according to the Energy Engineering Study findings
- ▶ Allocated 25% of annual cleaning contract cost

Stadium Overall

- ▶ Includes miscellaneous revenues from signage rentals, room rentals, Proshop, Childcare and Vending
- ▶ Costs represent the overall support provided by the Stadium for administrative, front desk, marketing & promotions costs and membership sales, common area costs, Proshop, Childcare, garbage removal, building repairs/maintenance and equipment costs not included in operational units, and grounds/parking lot.
- ▶ To determine profit by business unit and/or program, Stadium Overall costs are allocated on a per square foot basis

Preliminary Budget Forecast 2005/06:

Revenues

Assumes an increase of 3 % to 10 % for various revenue sources

Assumes a phased in rental of the currently vacant commercial space, including the Food Court area

Expenses

Assumes an increase of 2 % in utility costs and up to 3 % in other operating expenditures, including salaries and benefits

Allocation of Support Services and Common Costs

Table B on the following page shows the surplus or deficiency for each of the business units after the overall Stadium expenses are allocated to each. These allocated costs represent the overall support equally on a per square footage basis provided by the Stadium which relate to the common areas, systems, security, grounds, parking lot, general building structure, administration and accounting staff, market promotions, membership sales and front desk services, communications systems, general and administration garbage removal, pest control, washroom supplies, fire, safety equipment, elevators, commercial mechanical equipment, painting/decorating, flooring, lights and all other costs associated with the Sackville Sports Stadium Services, and Operations related to the Common Areas.

Debt service of \$380,000 is allocated to the area related to the 2000 expansion by proportionate share of square footage. The capital reserve is allocated to all business units based on proportionate share of square footage and the interest on the outstanding balance owed to HRM on a percentage basis of the deficiency by business unit.

The presentation of the budget in this manner provides a better picture of which programs are not self sufficient and which programs or areas of operation contribute excess revenues toward covering the overall costs of the organization. Because the expansion in 2000 added space primarily for curling and for commercial operations, the burden of the debt payments (74%) is attributed to these areas resulting in them showing an operating deficiency. The interim General Manager is concentrating much of his current effort on increasing revenue from these areas in order to improve the financial situation of the Stadium.

Table B

SACKVILLE SPORTS STADIUM
 Business Units - Surplus/(Deficiency) 2004/05 Budget
 (After Allocation of Stadium Overall Costs, Debt Service, Interest Cost & Capital Reserve)

	Arena	Aquatics	Commercial	Curling	Fitness & Leisure
Revenue	\$538,435	\$776,468	\$190,900	\$97,609	\$1,060,856
Subsidy		200,000			
Subtotal Revenue	\$538,435	\$976,468	\$190,900	\$97,609	\$1,060,856
LESS:					
Operating Expenses	240,142	598,588	146,046	34,041	481,129
Allocated Stadium Overall Expenses	190,348	292,012	102,125	79,198	297,070
Net Operating Income	\$107,945	\$85,868	\$(57,271)	\$(15,630)	\$282,657
Debt Service	7,600		133,000	148,200	91,200
Capital Reserve	12,000	6,400	8,000	6,800	6,800
HRM Interest O/S			38,800	33,120	
Surplus/(Deficit)	\$88,345	\$79,648	\$(237,071)	\$(203,750)	\$184,657

