REGIONAL MUNICIPALITY
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Item No. 11.1.14
Halifax Regional Council
July 5, 2011

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: Original Signed by
Mike Labrecque, Deputy Chief Administrative Officer, Operations

DATE: June 22, 2011

SUBJECT: Short Term Loan to St. Margaret's Centre

ORIGIN

In April 2011, the General Manager (GM) of the St. Margaret's Centre (SMC) contacted the CAO's office seeking to receive a letter of guarantee from HRM to support a request for a line of credit from their financial institution. The GM was advised that this request would first have to be reviewed by staff.

RECOMMENDATION

It is recommended that Halifax Regional Council authorize the CAO to sign a short-term, interest bearing loan agreement with the Board of the St. Margaret's Centre for a term of no more than Five (5) years, up to a maximum amount of $125,000 and at an interest rate equal to no more than the 5-year Municipal Finance Corporation debenture rates. This loan will be repayable upon demand.

BACKGROUND

In fiscal 2009/10, a short-term non-interest bearing loan of $130,000 with a 5-year term was approved for the facility to cover projected revenue losses as a result of the four month shutdown for one of the rinks which was expanded to allow for the Canada Games short-track event. As per the terms of the loan, repayment commenced in fiscal 2010/11 and while it has been difficult for the Centre, the 2010/11 payment has been received in full as per the repayment schedule.

In April of this year, the St. Margaret's Centre was beginning to experience cash flow problems and the General Manager attempted to obtain a line of credit with their financial institution in order to provide them with sufficient cash flow during their lean summer months to avoid issues meeting their financial obligations. The financial institution would only provide that overdraft secured by a letter of loan guarantee from HRM. Section 111(4) of the Charter requires that HRM obtain Ministerial approval to act as a guarantor. Since obtaining said approval would have taken up to several weeks, it was decided at the time, not to proceed with that approach.

On June 3, 2011, HRM staff met with Tim Hill, Chair of the SMC Board, and Mike Leroux, GM of the facility. In light of the cash flow issues facing the facility for the upcoming summer months, Tim Hill inquired as to whether it was possible for HRM to make available an "overdraft facility", described in Article Four Section 4.02(b) of their Management and Operating Agreement under the heading 'Overdraft Facility', to help mitigate these issues. To date, the facility has not used nor required an overdraft for normal operations.

DISCUSSION

Across HRM major recreational facilities are facing significant financial pressures. Staff are currently reviewing the financial status of a number of facilities and intend to return to Regional Council, through the Audit and Finance Standing Committee, to discuss a number of issues. In the case of the St. Margaret's Centre, there are immediate cash flow issues that need to be addressed.

The St. Margaret's Centre has, for the most part in the last 10 years, realized operating surpluses and has been able to accumulate cash reserves in late winter/early spring to sustain them throughout the summer months when expenses exceed revenues. The past few years have proved challenging for the operations, in particular 2010/11, due to a combination of the following reasons which have impacted operating cash flows:

1) Increase in operating expenses, particularly utility costs and minimum wage increases.
2) Rental rates have remained flat for the past 3 years despite increased costs.
3) Capital expenses incurred for $140,000, which would normally have been funded from the HRM capital budget. The facility has no capital reserve fund.
4) Canada Games hosting led to lost revenue opportunities.

Over the last 18 months, the facility has been able to strengthen their summer revenues by introducing new opportunities that contributed to their bottom line financial performance (namely Camp Westwood and recreational programming). This is expected to increase in 2011. They also realized that it was time to increase ice rental fees, as rates had remained flat for the last three years. This 8.9% increase took effective April 1st which should help, if usage remains constant. However, there still remains the challenge of managing the June to August cash requirements heading into these months when there is typically a decrease in monthly operating cash. For the 2011/12 summer season, this challenge is augmented by the fact that there is an insufficient beginning cash balance to offset the monthly decreases.

A cash flow projection has been completed by HRM staff and the SMC in order to ascertain requirements from June 2011 thru to May 2012 to 1) validate the loan requirement, 2) determine the amount required, and 3) ensure they have sufficient financial capacity to repay the loan and remain sustainable. Through this analysis, it is determined that a maximum of $100,000 would likely be required, most as early as the start of July 2011, in order to avoid further issues and prevent the shutdown of the facility. As part of this loan agreement, staff will be working with the SMC to set up and ensure cash management and operating practices are put in place and would require regular financial reporting, including cash flow statements, statements of program activities, and access to financial and program records.

BUDGET IMPLICATIONS

An amount of up to $100,000 will be disbursed from HRM's cash accounts. It is recommended that the CAO have authority to loan up to $125,000. The extra funds would only be used should the CAO determine that $100,000 is insufficient.

HRM staff will negotiate the precise terms on the loan agreement including the maximum length of the loan, the exact interest rate, the timing of disbursements and the repayment schedule. In addition, such a loan agreement will include provisions to protect HRM's funds including full access to the accounts of the facility, regular reporting (e.g. income statements, cash flow statements) as required by HRM, and, the reporting of any unusual large or capital disbursements to HRM. The loan is repayable upon demand meaning HRM can request its funds back at any time.

While the interest costs for the loan are expected to cover the lost interest HRM would have received had it not made this loan, there is the risk that the facility may be unable to repay its debt.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Project and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Project and Operating reserves, as well as any relevant legislation.

COMMUNITY ENGAGEMENT

The St. Margaret's Centre Board is comprised of up to 24 persons, 10 members elected at large at the AGM, 12 members appointed by affiliated organizations, and 2 youth members appointed by the Board. The increased programming opportunities the Centre has introduced, provide a wide diversity of programs which the Board believes are much appreciated by the local community. As well, the facility provides summer employment opportunities for a significant number of youth (22 full-time last year).

ALTERNATIVES

1. Regional Council could not approve the loan. This is not the recommended alternative as the facility would not be able to meet their financial obligations during the summer months; in particular the payroll, government remittances, and facility costs. Failure to make Federal remittances on time could result in interest, fines and/or penalties for the Board.

2. HRM could proceed to obtain Ministerial approval to act as the Guarantor. This is not recommended as it is not desirable for HRM to set a precedent for acting as a guarantor to boards operating HRM facilities.

3. SMC could negotiate a line of credit from another financial institution. It is anticipated that another institution may be able to provide a line of credit for $50,000 (½ of the determined requirement), there would still exist the need to obtain additional funds from HRM. All banking would have to be converted which is not a practical solution for the Centre. This is not the recommended alternative as it will not meet the short term requirements.

4. The facility could shut down until September. This is not recommended as it would result in the lay-off of up to 35 staff including the loss of summer employment for youth in the area and would deny the Community use of the facility for that time. This would also result in issues around payment of the financial obligations mentioned in alternative #1.

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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