HALIFAX
REGIONAL MUNICIPALITY

P.O. Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Item No. 13.1
Regional Council
July 10, 2012

TO: Mayor Kelly and Members of Regional Council

SUBMITTED BY: Original signed by

Richard Butts, Chief Administrative Officer

Original Signed by

Mike Labrecque, Deputy Chief Administrative Officer

DATE: June 24, 2012

SUBJECT: St. Margaret's Centre – Payroll Services

ORIGIN

At the June 20, 2012 meeting between HRM staff, the St. Margaret's Centre (SMC) staff and the SMC Board Chair, the Board Chair indicated that cash flow issues have arisen which will result in the inability of SMC to meet its financial commitments after July 2012.

RECOMMENDATION

It is recommended that Halifax Regional Council approve the provision of payroll services and provide an advance of funds to the St. Margaret's Centre to allow the St. Margaret's Centre to meet its payroll obligations commencing at the end of July 2012 with the following conditions:

- a re-payment plan be determined and implemented starting in October when cash flow levels rebound; and
- additional accounting oversight by HRM be accepted by SMC.

BACKGROUND

The SMC is one of HRM's Multi-District Facilities (MDF) and is currently one of the facilities being reviewed as part of the MDF Project approved by Regional Council in November 2011. The MDF project is a multi-faceted review covering financial reporting, management accountability and alignment with HRM mandate. Staff have already initiated additional financial and management reporting requirements to determine the current state of all facilities.

In the past, the SMC typically realized sufficient operating surpluses during the winter months that could be used to carry them over the summer months. Financial problems commenced after the Canada Winter Games, as a result of the facility being closed for renovations leading up to the Games and while hosting the Games. Two operating loans were extended to the facility to address cash flow issues in the past 3 years. One loan was extended in 2009/10 for $130,000 and another in 2011/12 for $100,000. In 2011/12, Council approval was obtained for $125,000 but only $100,000 was extended because that was all that SMC required at the time. It was felt that the second loan would be sufficient to allow for SMC to rebound financially, however, to date, that has not been achieved. In addition, last year, SMC obtained a line of credit from BMO to help manage cash flow.

On June 20, 2012, SMC requested HRM support to help resolve their current financial situation. The SMC is experiencing cash flow problems and has indicated that there will be insufficient funding to cover expenses after July, 2012. HRM staff has reviewed the draft audited financial statements and updated summer forecast. Cash flow projections for SMC have been completed and analysed by staff, and the financial situation has been confirmed.

DISCUSSION

Based on the analysis, the annual revenue projections for 2012/13 will be approximately 12% less than planned. Currently, summer revenue is down by $152,000 which is almost half of the amount budgeted for the summer. This reduction is due to the provision of a new summer camp program in the area and reduced ice rentals. In addition, SMC had expected an overall annual increase in arena rentals but trends for the centre are showing a reduction in shoulder seasons and non-prime hours. Further, expenses are expected to be higher than budgeted primarily due to rising utility costs. Therefore, based on the trends, it is expected that SMC will end the year with a larger deficit than budgeted. Based on the analysis, during the months of July, August and September, SMC will incur an operating deficit of approximately $260,000. While additional revenue would be expected during the fall and winter months, the current financial forecast, which includes a surplus from April, anticipates a year end operating deficit of $218,000.

Beyond the expected year end deficit, the SMC is again experiencing cash flow problems this year and has indicated that they will not have sufficient funds to cover expenses, including payroll, after July, 2012 (staffing during the summer will increase from 35 to 49 with August having three pay periods). Therefore, SMC has requested immediate financial assistance. The Board and staff have indicated that they are considering resignation unless a solution is provided. Some of the options they have requested include:

1. To have HRM guarantee a line of credit

2. Transfer the existing loans to their area rate
3. Direct subsidy
4. Payroll services (as per their management agreement)

Another option would be an additional operating loan but loans do not seem to be the sustainable solution in this case.

The following is an overview of the requested options:

1. In order for HRM to provide a guarantee for a line of credit, the HRM Charter requires Ministerial approval. This option was investigated last year and it was determined that it was not viable due to the time required to obtain approval. Due to the imminent cash flow concerns, it is not recommended to further investigate the option.
2. The area rate that was established is specific to capital so coverage of the operating loans is not an option.

Therefore, direct subsidy or provision of payroll services can be considered. Staff have investigated both options.

3. Based on the current financial reporting, even with a subsidy of $200,000, financial analysis indicates that the SMC would still end the year with an operating deficit (approximately $18,000 after depreciation) if revenue and expenses remain as projected. The subsidy would only partially offset the significant deficits in the summer months and not allow for sufficient cash flow in the spring months. Further investigation of the expenses and management of the centre are expected to result in savings but until completed, it is not known whether sufficient savings can be found to ensure positive cash flow for all months.
4. Analysis of the payroll option shows that if HRM was to initiate payroll services and advance monies to SMC to allow SMC to meet its payroll obligations, SMC would have sufficient cash flow in October to begin to repay the advance, working up to a current status account. Therefore, a condition of provision of payroll services would be the determination of a payment plan starting in October when cash flow levels return. HRM payroll staff have indicated that they have capacity to process the additional 35 employees from SMC.

It should be noted that HRM currently provides payroll services to six of the twelve Multi-District facilities, including Canada Games Centre, Centennial Arena, Cole Harbour Place, Dartmouth Sportsplex, Forum, and Sackville Sports Stadium, as per terms included in their management or subsequent agreements.

The original management agreement signed with SMC outlined an option for payroll services, and financial staff has indicated that SMC has been requesting this option in recent years. Article Ten Section 10.02 Employee Payroll contained within the Council approved management agreement between HRM and SMC states "The Municipality shall provide a payroll service with respect to the wages of the permanent full time and part time employees of the Association and, to the fullest extent possible arrange for the same employee benefits as are extended to similar employees of the Municipality to be extended to such employees of the Association. Unless otherwise approved in writing by the Municipality, employees will not be paid in excess of the amounts contained in the budget for the Facility approved from time to time by the Council."

The provision of payroll services pursuant to this section of the agreement is only one part of the request from the SMC. The provision of payroll services does not, in and of itself, provide SMC with the cash flow it requires, but rather facilitates the process of paying of its employees. This proposal contemplates that in addition to the provision of payroll services, HRM will also advance funds to the SMC for its payroll until such time as SMC is able to cover such costs itself. SMC would then be expected to reimburse HRM for the funds loaned to SMC for this purpose.

The payroll option allows HRM staff to undertake a direct role in the review of payroll expenses and facilitate a better understanding of the management of the centre. The work currently being completed on the MDF project will also provide a better understanding of the management of the facilities and allow for recommendations on improved accountabilities and management control. The payroll recommendation is an interim measure meant to stabilize the operation of SMC, pending the completion of the MDF project work.

There is concern that provision of payroll services for SMC could result in the same situation as the Dartmouth Sportsplex whereby full re-payment of payroll has not been achieved. With the MDF work currently underway, and the increased financial reporting already implemented, staff feel there are fewer risks associated with the provision of payroll services at this time. The ongoing MDF project work will help to ensure that the Dartmouth Sportsplex situation is not repeated.

BUDGET IMPLICATIONS

If payroll services were approved to commence end of July 2012, provision of payroll to SMC for the period July 2012 to Sept 2012, including the monies advanced to cover the SMC payroll for that time, would result in additional costs estimated at $280,759. A condition of the provision would be a payment plan starting in October working towards a full recovery of the payroll costs and net zero cost to HRM. As a rule on general revenue recoveries, HRM sets up an allowance amount equal to 25% of balances over 90 days old. Therefore, depending on the terms of the repayment plan, an allowance amount of $70,190 (25% of the $280,759 balance) may be established.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

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

COMMUNITY ENGAGEMENT

Not applicable.

ENVIRONMENTAL IMPACT

None identified.

ALTERNATIVES

Alternative 1: Regional Council could choose to implement a direct subsidy to SMC. In that case, it would be recommended to provide $200,000 with the provision that additional staff oversight be undertaken to determine additional savings and revenue opportunities.

Alternative 2: Regional Council could direct staff to approach the Province regarding Ministerial approval for a line of credit guarantee. This is not recommended as the time required to obtain the approval may not align with the cash flow issue.

Alternative 3: Regional Council could choose to not provide any financial assistance. This is not recommended as it would likely result in the resignation of the Board and the immediate transfer of SMC management to HRM staff.

Alternative 4: Regional Council could choose to transfer the management of the SMC to HRM staff. This is not recommended at this time as it is inconsistent with the model of community run faciltities. However, if financial concerns persist, this option may need to be considered in the future.

ATTACHMENTS

Attachment 1: Current Financial Report
Attachment 2: Financial Report including Direct Subsidy of $200,000
Attachment 3: Financial Report including Payroll Support

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: Denise Schofield, Manager, Regional Recreation & Culture 490-6252

Original Signed

Report Approved by: ______________________________
Brad Anguish, Director, Community Recreation Services 490-4933

Financial Approval by: ______________________________
Greg Keefe, Director of Finance and Information Technology/CFO, 490-6308

Report Approved by: ______________________________
Marian Tyson, Acting Director of Legal & Risk Management, 490-4219

Attachment 1: Current Financial Report

St. Margaret's Centre

12-month Cash Flow (April 2012 to March 2013)

$260k total deficit July-Sept

Oct-Mar period projected net deficit $3k, no surplus to cover the summer shortfall

Month		*April* Actual	*May* Actual	*June* Fcast	*July* Fcast	*August* Fcast	*September* Fcast	*October* Budget	*November* Budget	*December* Budget	*January* Budget	*February* Budget	*March* Budget	**FORECAST**	**BUDGET**	
Operating Activities: (Depr already added back)																
Revenues		206,578	88,431	106,772	94,892	78,218	72,124	129,223	122,753	113,899	139,562	120,796	77,088	**1,350,336**	**1,531,680**	-12%
Expenses		91,525	95,375	115,953	147,412	223,121	135,811	118,752	125,615	127,323	112,706	96,051	125,459	**1,515,103**	**1,481,625**	-2%
Deficiency Rev over Exp (Exp over Rev)	***$***	***115,053***	***(6,944)***	***(9,181)***	***(52,520)***	***(144,903)***	***(63,687)***	***10,471***	***(2,862)***	***(13,424)***	***26,856***	***24,745***	*(48,371)*	*(164,767)*	*50,055*	***-429%***
Changes in non-cash working capital																
Accounts Receivable		(13,878)	30,034	3,919	(7,359)	288	50,764	(1,199)	(44,470)	(9,224)	(13,821)	4,623	4,153			
Accounts Payable & Accrued Liabilities		(51,422)	24,472	31,115	(26,408)	58,656	(39,382)	(2,377)	10,794	54,686	(46,481)	(32,141)	(41,247)			
Prepaids		0	0	5,255	0	0	0	0	0	0	0	0	(5,255)			
Inventory		0	0	(378)	0	0	0	0	0	0	0	0	378			
Deferred Income		(43,700)	0	2,000	0	0	0	0	(2,000)	0	0	0	41,560			
		(109,000)	54,506	41,911	(33,767)	58,944	11,382	(3,577)	(35,676)	45,462	(60,303)	(27,518)	(411)			
Cash Flow from Operating Activities		**6,054**	**47,562**	**32,730**	**(86,287)**	**(85,959)**	**(52,305)**	**6,894**	**(38,538)**	**32,038**	**(33,447)**	**(2,773)**	**(48,782)**			
Cash Flow from Financing Activities		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**			
Increase (Decrease) in Cash Flow	**$**	**6,054**	**47,562**	**32,730**	**(86,287)**	**(85,959)**	**(52,305)**	**6,894**	**(38,538)**	**32,038**	**(33,447)**	**(2,773)**	**(48,782)**			
Cash at beginning of month	***$***	**(20,143)**	**(14,089)**	**33,473**	**66,203**	**(20,084)**	**(106,043)**	**(158,349)**	**(151,454)**	**(189,992)**	**(157,955)**	**(191,401)**	**(194,175)**			
Cash at end of month	***$***	**(14,089)**	**33,473**	**66,203**	**(20,084)**	**(106,043)**	**(158,349)**	**(151,454)**	**(189,992)**	**(157,955)**	**(191,401)**	**(194,175)**	**(242,957)**			
Per Reconciled Bank (All accts grp'd as "Cash" on B/S)		*(14,089)*	*33,472*													
Variance		*0*	*0*	*66,203*	*(20,084)*	*(106,043)*	*(158,349)*	*(151,454)*	*(189,992)*	*(157,955)*	*(191,401)*	*(194,175)*	*(242,957)*			

Assumptions/Notes:

>August has three pay periods

>July - Sept Revenues are projected to be $51k below Prior Year. Total annual budget for revenues increased over prior year due to a 5% increase in ice rental rates ($50k)

>July - Sept Expenses are projected to be $43k above Prior Year. Total annual budget for expenses was held relatively flat with prior year.

>Net year over year impact for July - Sept is $94k increase net deficit

Annual Revenue Comparisons (Variance Forecast to Prior Year $130k reduction)

Ice Rentals: Forecast $835k; Prior Year $906k; Variance ($71k). Budget was $950k
Camp Westwood: Forecast $62k; Prior Year $120k; Variance ($58K). Budget was $101k
Summer Hockey: Forecast $28k; Prior Year $44k; Variance ($16). Budget was $45k.

Represents $145k in reduction over prior year

Annual Expense Comparisons (Variance Forecast to Prior Year $51k increase)

Comp & Benefits: Forecast $905k; Prior Year $877k; Variance ($28k). Budget was $880k.
Building Maintenance: Forecast $33k; Prior Year $21k; Variance ($12k). Budget was $39k.
NS Power: Forecast $245k; Prior Year $236k; Variance ($9k). Budget was $224k.

Represents $49k in increase over prior year

Attachment 2: Financial Report Including Direct Subsidy of $200,000

St. Margaret's Centre

12-month Cash Flow (April 2012 to March 2013)

Month		*April*	*May*	*June*	*July*	*August*	*September*	*October*	*November*	*December*	*January*	*February*	*March*			
		Actual	Actual	Fcast	Fcast	Fcast	Fcast	Budget	Budget	Budget	Budget	Budget	Budget			
Operating Activities: (Depr already added back)														**FORECAST**	**BUDGET**	
Revenues		206,578	88,431	106,772	94,892	78,218	72,124	129,223	122,753	113,899	139,562	120,796	77,088	**1,350,336**	**1,531,680**	-12%
Expenses		91,525	95,375	115,953	147,412	223,121	135,811	118,752	125,615	127,323	112,706	96,051	125,459	**1,515,103**	**1,481,625**	-2%
Deficiency Rev over Exp (Exp over Rev)	***$***	***115,053***	***(6,944)***	***(9,181)***	***(52,520)***	***(144,903)***	***(63,687)***	***10,471***	***(2,862)***	***(13,424)***	***26,856***	***24,745***	*(48,371)*	*(164,767)*	*50,055*	***-429%***
Changes in non-cash working capital																
Accounts Receivable		(13,878)	30,034	3,919	(7,359)	288	50,764	(1,199)	(44,470)	(9,224)	(13,821)	4,623	4,153			
Accounts Payable & Accrued Liabilities		(51,422)	24,472	31,115	(26,408)	58,656	(39,382)	(2,377)	10,794	54,686	(46,481)	(32,141)	(41,247)			
Prepaids		0	0	5,255	0	0	0	0	0	0	0	0	(5,255)			
Inventory		0	0	(378)	0	0	0	0	0	0	0	0	378			
Deferred Income		(43,700)	0	2,000	0	0	0	0	(2,000)	0	0	0	41,560			
		(109,000)	54,506	41,911	(33,767)	58,944	11,382	(3,577)	(35,676)	45,462	(60,303)	(27,518)	(411)			
Cash Flow from Operating Activities		**6,054**	**47,562**	**32,730**	**(86,287)**	**(85,959)**	**(52,305)**	**6,894**	**(38,538)**	**32,038**	**(33,447)**	**(2,773)**	**(48,782)**			
Financing Activities:																
Proceeds from LT financing					200,000											
Cash Flow from Financing Activities		**0**	**0**	**0**	**200,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**			
Increase (Decrease) in Cash Flow	**$**	**6,054**	**47,562**	**32,730**	**113,713**	**(85,959)**	**(52,305)**	**6,894**	**(38,538)**	**32,038**	**(33,447)**	**(2,773)**	**(48,782)**			
Cash at beginning of month	**$**	**(20,143)**	**(14,089)**	**33,473**	**66,203**	**179,916**	**93,957**	**41,651**	**48,546**	**10,008**	**42,045**	**8,599**	**5,825**			
Cash at end of month	**$**	**(14,089)**	**33,473**	**66,203**	**179,916**	**93,957**	**41,651**	**48,546**	**10,008**	**42,045**	**8,599**	**5,825**	**(42,957)**			
Per Reconciled Bank (All accts grp'd as "Cash" on B/S)		*(14,089)*	*33,472*													
Variance		*0*	*0*	*66,203*	*179,916*	*93,957*	*41,651*	*48,546*	*10,008*	*42,045*	*8,599*	*5,825*	*(42,957)*			

Assumptions/Notes:

>August has three pay periods

>$200k in subsidy funding will, for the most part, keep the cash at the end of the month positive, however January will begin to dip with year-end projected to be ($53k)

>SMC has a $60k line of credit that is only factored into this projection to the extent of the negative cash at the end of April, it will be exhausted at end of July.

Attachment 3: Financial Report Including Payroll Support

St. Margaret's Centre

12-month Cash Flow (April 2012 to March 2013)

Month		*April*	*May*	*June*	*July*	*August*	*September*	*October*	*November*	*December*	*January*	*February*	*March*			
		Actual	Actual	Fcast	Fcast	Fcast	Fcast	Budget	Budget	Budget	Budget	Budget	Budget			
Operating Activities: (Depr already added back)														**FORECAST**	**BUDGET**	
Revenues		206,578	88,431	106,772	94,892	78,218	72,124	129,223	122,753	113,899	139,562	120,796	77,088	**1,350,336**	**1,531,680**	-12%
Expenses		91,525	95,375	115,953	60,412	66,695	54,978	46,728	50,036	50,707	44,956	38,402	49,974	**765,741**	**1,481,625**	48%
Deficiency Rev over Exp (Exp over Rev)	*$*	***115,053***	***(6,944)***	***(9,181)***	***34,480***	***11,523***	***17,146***	***82,495***	***72,717***	***63,192***	***94,606***	***82,394***	*27,114*	*584,595*	*50,055*	***1068%***
Changes in non-cash working capital																
Accounts Receivable		(13,878)	30,034	3,919	(7,359)	288	50,764	(1,199)	(44,470)	(9,224)	(13,821)	4,623	4,153			
Accounts Payable & Accrued Liabilities		(51,422)	24,472	31,115	(91,866)	5,233	2,014	(2,409)	4,917	21,769	(18,420)	(12,714)	27,574			
Prepaids		0	0	5,255	0	0	0	0	0	0	0	0	(5,255)			
Inventory		0	0	(378)	0	0	0	0	0	0	0	0	378			
Deferred Income		(43,700)	0	2,000	0	0	0	0	(2,000)	0	0	0	41,560			
		(109,000)	54,506	41,911	(99,225)	5,521	52,778	(3,608)	(41,552)	12,544	(32,241)	(8,091)	68,410			
Cash Flow from Operating Activities		**6,054**	**47,562**	**32,730**	**(64,745)**	**17,044**	**69,924**	**78,887**	**31,165**	**75,736**	**62,365**	**74,303**	**95,524**			
Cash Flow from Financing Activities		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**			
Increase (Decrease) in Cash Flow	**$**	**6,054**	**47,562**	**32,730**	**(64,745)**	**17,044**	**69,924**	**78,887**	**31,165**	**75,736**	**62,365**	**74,303**	**95,524**			
Cash at beginning of month	**$**	**(20,143)**	**(14,089)**	**33,473**	**66,203**	**1,458**	**18,502**	**88,426**	**167,312**	**198,477**	**274,213**	**336,578**	**410,881**			
Cash at end of month	**$**	**(14,089)**	**33,473**	**66,203**	**1,458**	**18,502**	**88,426**	**167,312**	**198,477**	**274,213**	**336,578**	**410,881**	**506,405**			
Per Reconciled Bank (All accts grp'd as "Cash" on B/S)		*(14,089)*	*33,472*													
Variance		*0*	*0*	*66,203*	*1,458*	*18,502*	*88,426*	*167,312*	*198,477*	*274,213*	*336,578*	*410,881*	*506,405*			

Assumptions/Notes:

>August has three pay periods

>Payroll services to begin in July. July-March expenses reduced by the following:

	July	August	September	October	November	December	January	February	March	Total
Projected Compensation & Benefits Expense:	87,000	156,426	80,833	72,024	75,579	76,616	67,750	57,649	75,485	749,362
% of Projected Expenses	59.0%	70.1%	59.5%	60.7%	60.2%	60.2%	60.1%	60.0%	60.2%	

>In October, SMC will have the capacity to start making payments against their payroll billings. Exact repayment plan TBD.