
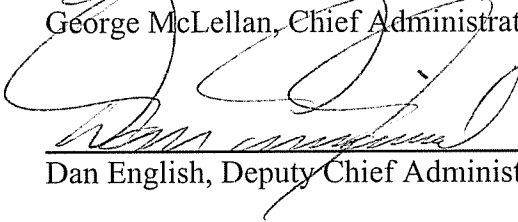

Halifax Regional Council
March 19, 2002

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


George McLellan, Chief Administrative Officer


Dan English, Deputy Chief Administrative Officer

DATE: March 11, 2002

SUBJECT: Halifax Forum Expansion

ORIGIN

At the November 13, 2001, meeting of Regional Council a presentation was made by the Halifax Forum Community Association on a proposal to expand the facility. The presentation was then referred to staff for a report which came back to Council on December 11, 2001. Council then referred the report back to staff with a request to provide further information on "what effects this expansion will have on other major facilities in HRM". Following several meetings to review these effects, the Halifax Forum Community Association submitted a revised business plan.

RECOMMENDATION

It is recommended that Council:

- 1) Approve a new capital project - The new business plan proposed by the Halifax Forum Community Association for the expansion of the Halifax Forum in the amount of \$1.75 million to be financed by a 20 year debenture to be refinanced after 10 years. Debt charges will be recovered through operations of the Halifax Forum at no cost to HRM.
- 2) Approve a temporary borrowing resolution for \$1.75 million to enable HRM to borrow these funds

BACKGROUND

As a result of meetings with several groups expressing concern with the Forum's original business plan, the Halifax Forum Community Association made changes to their proposal and have come forward with a revised business plan. The significant aspect of this new plan is built on allowing the Forum to take advantage of missed business opportunities such as additional auctions, trade shows, and other special events without cancellations of any existing bingo programs, compared to the original proposal that was aimed at enhancing their bingo operations. Therefore, staff has responded by preparing a report for Council that focuses on this new business plan.

The purpose of major HRM facilities like the Halifax Forum is to offer community based programs such as ice rinks, and fitness and recreation facilities. Through management agreements these facilities supplement the service delivery of the Parks and Recreation Business Unit. Although bingo is not a program included in the mandate of any of the HRM business units, the major facilities have been allowed to use this activity to generate market revenue to help offset the costs of other programs. Under the general provisions of the management agreements, bingo has not been restricted as a revenue source and in fact the major facilities are encouraged to find various revenue sources to help keep them financially independent. Parks and Recreation senior staff concur with the above approach towards the major HRM facilities.

The primary concerns raised about the Forum's original business plan were mostly related to the effects a seven night per week operation, and significantly enhanced bingo facility, would have on some of the other existing bingo operations. In the new proposal the bingo operation will remain status quo at five nights per week and construction plans have been scaled back, dropping the "casino" style facility. The renovations will involve refurbishing the slightly smaller old Civic Arena building into a second multi-purpose hall and move the existing bingo operation to the refurbished building, freeing up the original Multi Purpose Building to be better utilized. At present bingo operations, trade shows, and other special events are all held in the existing Multi Purpose Building. Because bingo is the more profitable venture, scheduling conflicts have often forced the Forum to turn away special event organizers looking for floor space in peninsular Halifax, or alternatively, look at cancelling a bingo program. The Forum contends this new business plan addresses these missed opportunities, and allows them to reinvest and make better use of a building on the property that is currently not very usable.

DISCUSSION

Facility Renovations Analysis

The primary purpose of the Halifax Forum is to provide recreational and community based programming. Although ice rentals provide the cornerstone of revenues to the Forum, the Association has used bingo profits to help subsidize the costs of providing its core services.

The new proposal will free up space to allow the Forum to take advantage of lost opportunities currently being missed such as, more auctions, trade shows, special events, and other community events. Available evidence appears to support that these proposed new opportunities are there.

Modifying the old Civic Arena into more of a multi-purpose facility also offers the Forum Complex long range flexibility should the bingo industry further decline.

Another advantage this proposal offers is the investment into an existing HRM building on the property which is in poor shape and attracting some complaints about its appearance and condition. The reality is at some point the old Civic Arena building will need to be addressed, whether it is an investment to improve the structure and appearance, or investment to tear it down.

Staff noted that the current facility is experiencing problems with ventilation mainly in the winter months. If the Forum's new proposal is not approved, the Forum will likely have to add ventilation to their existing facility because of the potential air quality and health related issues.

Financial Analysis

A financial analysis of the Forum's new business plan was carried out. Several meetings were held with the General Manager of the Forum to review the financial stability of the operation, the ability of the Forum to carry the loan, as well as the revenues and expenses attached to the proposal.

The financial statements for 1998/99, 1999/00, 2000/01 and 2001/02 projected year end were reviewed to assess the current financial situation of the Halifax Forum. It was noted the Forum experienced a surplus for the last two years.

Bingo is one of the main revenue sources for the Forum and has been used to subsidize the cost of ice and building rentals to minor sports, community and charitable organizations as well as assist in the capital improvements required by the facility.

If the refurbishment is not approved, the Forum will need to upgrade the existing ventilation system. Based on our analysis, the capital reserve fund nor the revenues generated from the bingo will be sufficient to cover the cost of this ventilation system. The change in use of the existing building under the new business plan eliminates the ventilation upgrade requirement.

In general, the Halifax Forum's business plan presents a positive outlook for increasing revenues which are anticipated to cover the increased associated costs with the implementation of the proposed expansion. Specifically, using the most recent debenture terms as a basis to assess a repayment stream, the Forum will be able to carry the loan. This outcome is based on the assumption that the market analysis is correct. In addition, it will increase the value of an HRM asset and provides an additional subsidy to existing Community programs. Thirdly, it will increase the contributions to the Capital Reserve fund for the facility which relieves pressure on the HRM Capital budget.

Effects on Other Bingo Operations and Major HRM Facilities

Following the original presentation to Council by the Halifax Forum Community Association, and Council's subsequent request on the effects of the proposal, staff invited the General Managers from each of the major HRM facilities, Sackville Sport Stadium, Cole Harbour Place, Dartmouth

Sportsplex and Halifax Forum to a meeting to discuss the Forum's proposal and to have an open discussion on the impacts. The Forum staff also held meetings with several community groups who had expressed concerns to Council. At these meetings, the Forum explored and offered up several changes to their original business plan in an attempt to alleviate the concerns and still have a workable plan to enhance their own viability and improve a decaying HRM building that makes up part of the Forum Complex. The proposed changes seemed to alleviate the major concerns for most of those in attendance with the exception of the Dartmouth Sportsplex who still expressed concerns.

A significant change to the original proposal is to maintain status quo on the existing bingo operation by staying at five nights per week instead of the proposed seven. This change eliminates the concern from other operations in regard to the impact the extra two nights would have had on them. The other significant change is the scaled back renovations.

As for the concerns expressed by the Dartmouth Sportsplex, staff met several times with management of the Sportsplex to review their concerns and the potential significant financial impact they indicated in their January 23, 2002, letter to Council. A review of the financial contribution of bingo operations to their bottom line was carried out.

The Dartmouth Sportsplex financial statements indicates that their main source of revenues are generated through their athletic programs with bingo operations being a lesser but significant source. The Sportsplex suggests that any upgrade or improvements to the Forum will directly decrease their current bingo revenues due to the fact that 19 percent of their current market is from Halifax. The Sportsplex maintains an extensive database to support this statistic, however, staff did not audit their database. Review of the data provided in comparison to that of the Forum revealed that the majority of their players are not from the same part of Halifax. Therefore, staff does not believe that any upgrade would result in a loss of 100 percent of their existing Halifax clientele. Staff's analysis indicates that if the Sportsplex lost 50 percent of its Halifax attendance, it would still maintain a small profit. Furthermore, the Sportsplex agrees the concern regarding the possible loss of revenues to the Boys and Girls club is no longer valid with the change in the Forum's proposal to stay at their existing five night bingo operation.

Therefore, the suggested financial loss of \$500,000 by the Sportsplex is dramatically reduced since it was based on a worst case scenario of 100 percent loss of Halifax clientele for 100 percent of their operational nights. Although it should also be pointed out that any loss of profits would directly impact the Sportsplex, staff does not believe that the impact would be substantial enough to affect their ability to repay the HRM loan but could have an impact on their capital expansion reserve or their life cycle reserve. The actual amount cannot be quantified due to the inability to predict the potential size of any player shift.

It was noted during our review that the Forum's current business plan includes targeting new markets which implies that the Forum is not targeting existing Sportsplex clientele. It is also staff's understanding that the Sportsplex marketing strategies may address any shortfall in revenues. During site visits and discussions it was observed that the Sportsplex offers many features attractions that the forum does not, and have started to use these as part of these marketing strategies. After careful consideration of all the above factors, staff feel the Sportsplex has both the

management team and facilities in place to effectively manage any risks so that they remain minimal, allowing both facilities to co-exist and be viable.

BUDGET IMPLICATIONS

There is no direct impact on HRM's operating budget. The Municipality will borrow \$1.75 million on behalf of the Halifax Forum Community Association from the Nova Scotia Municipal Finance Corporation, to be repaid by the Association through their operating revenues. They will also set aside \$66,000 per year for life cycle costs to help offset future capital costs of the complex.

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 would be for Council not to approve this request. This would alter the Halifax Forum Community Association's business plans which could then cause a negative affect on the ability of the Association to maintain their levels of revenue and their viability. It would also leave a question mark around the old Civic Arena building. It has limited ability to generate revenue for the Forum in it's present state and would require new strategies for funding improvements to it.


ATTACHMENTS

There are no attachments.

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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