



STAFF REPORT INFORMATION ONLY

Leaside Memorial Community Gardens – Addition of Second Ice Pad Business Plan Review

| | |
|--------------------------|--|
| Date: | July 28, 2010 |
| To: | Community Development and Recreation Committee |
| From: | General Manager, Parks, Forestry and Recreation, and, Deputy City Manager and Chief Financial Officer |
| Wards: | Ward 26 – Don Valley West |
| Reference Number: | P:\2010\Internal Services\CF\Cd10039cf (AFS#12567) |

SUMMARY

The purpose of this report is to respond to a notice of motion concerning the Business Plan submitted by the Leaside Memorial Community Gardens Board of Management for the addition of a second ice surface at the arena.

Financial Impact

There are no direct financial implications associated with adoption of this report at this time. City Finance staff have reviewed the Leaside Memorial Community Gardens (LMCG) Business Plan for development and operation of a second ice pad at the site ("the Project"), and have determined revenues from the project could support \$6 million to \$7 million in repayable 30-year debt provided through the City's Capital Budget. The LMCG Board has estimated that the overall arena expansion project will cost in the order of \$12 million, however, the scope of the project still needs to be more narrowly defined and detailed. The difference between the supportable debt from Project revenues and the total capital cost of the Project will have to be funded from other sources, which would be the subject of a further report to Council for approval to proceed with the Project and inclusion in future Parks, Forestry and Recreation Capital Budgets.

DECISION HISTORY

City Council, at its meeting of July 6, 7 and 8, 2010, during consideration of motion MM51.2 entitled "Amendment to the 2010 Parks, Forestry and Recreation Capital Budget to Accept a Donation from the East York Foundation for Leaside Memorial Gardens –

Removal of Matter from Committee," seized item EX45.28 from the Executive Committee and adopted the following:

"that Council request the General Manager, Parks, Forestry and Recreation, to report to the meeting of the Community Development and Recreation Committee for its meeting on August 19, 2010 on the Business Plan submitted by Leaside Memorial Gardens, including proposed facility improvements, proposed operating and capital requirements, community access requirements, governance and accountability provisions, other proposed terms and conditions, and any additional pertinent information."

A copy of City Council's decision can be found at (see item MM51.2):

<http://www.toronto.ca/legdocs/mmis/2010/cc/decisions/2010-07-06-cc51-dd.htm>

Leading to this, on May 26 and 27, 2008, City Council approved the acquisition of lands at 1075 Millwood Road adjacent to the current LMCG ice pad at a cost of \$1.287 million, with the expectation that the Board of Management would be coming forward with a business plan that supports the development and management of a second ice pad on the site. That City Council decision document and report can be viewed at (see item EX20.10):

<http://www.toronto.ca/legdocs/mmis/2008/cc/decisions/2008-05-26-cc21-dd.pdf>

More recently, on February 22 and 23, 2010, City Council reaffirmed that "staff continue negotiations and develop a business plan with the Leaside Board of Management on the 'twinning' of the existing ice pad, which includes financial impacts and community benefits of the project," within the arena. That decision can be viewed at (see item CD30.5):

<http://www.toronto.ca/legdocs/mmis/2010/cc/decisions/2010-02-22-cc46-dd.htm>

ISSUE BACKGROUND

Since 2001, the Board of Management of LMCG, in cooperation with Parks Forestry and Recreation (PF&R) staff, have been exploring the feasibility of constructing a second ice pad to meet the needs of facility users and community residents for ice time. Towards this goal, in May 2008, City Council approved a Capital Budget amount for PF&R of \$1.29 million to purchase the property at 1075 Millwood Road, which is adjacent to the LMCG arena.

In doing so, Council directed the General Manager of PF&R and the Deputy City Manager and Chief Financial Officer to coordinate a planning process with the LMCG Board of Management (BOM) to establish a Business Plan for the development and management of an additional indoor ice pad on the expanded site, and that if such a plan should not be feasible, other options for development and management of an additional ice pad be explored.

An Expansion Committee formed by LMCG-BOM commissioned HLT Advisory Consultants to prepare a Business Plan in support of the additional indoor ice pad. A copy of this plan was provided to the City in January 2009, followed by a revised plan in February 2009 after consideration of preliminary comments from City staff.

A staff review team with members from PF&R Business Services, Real Estate, City Planning, Corporate Finance and Financial Planning Divisions have met with members of the LMCG-BOM Expansion Committee on several occasions and have conducted a review and analysis of the Business Plan.

At this stage of the process, detailed architectural design and engineering for this project has not been conducted, and the scope of the project still needs to be more narrowly defined and detailed. Without these considerations, the cost of the project remains uncertain. As a City asset, the cost of architectural design and engineering would normally be incorporated in the Parks, Forestry and Recreation Division's Capital Budget at some point in the future, but is not currently identified in the current 10-year Capital Budget. To overcome this hurdle and to move forward on this Project, the East York Foundation has offered a donation to the City in the amount \$525,000 as identified by City Staff as the cost for the City to engage the detailed architectural design and engineering for this project. Council directed acceptance of this donation at its meeting of July 6-8, 2010, and amended the Parks, Forestry and Recreation 2010 Capital Budget by adding the Leaside Memorial Gardens Expansion Design Project with total cost of \$525,000.00 and cash flow of \$225,000.00 in 2010 and \$300,000.00 in 2011, fully funded by the donation.

A full review of the Project will be contained in a further report to Council after the detailed Project costs have been determined.

COMMENTS

The Business Plan for the addition of a second indoor ice pad at LMCG contains the following features:

- An Industry Overview – a presentation of the demographics of sports activities, and in particular, hockey and skating participation and trends.
- Description of the Site – a discussion of site in the context of surrounding land uses and accessibility characteristics.
- Demand Analysis – presents an inventory of existing ice facility usage within the study area, utilizations and ice rental rates.
- Market Opportunity Analysis – presents estimates of anticipated utilization for the existing and new pad, and anticipated ice rental rates and revenues.
- Financial Analysis and Pro Forma's for the Project.

A copy of the Leaside Memorial Community Gardens Business Plan (February 2009) can be obtained through the City Clerk's Office.

Proposed Facility Improvements and Proposed Capital Requirements:

As previously noted, the details of facility improvements is not in the scope of the LMCG Business Plan. The particulars of any facility improvements, such as accessibility requirements, will emerge during the detailed architectural and engineering design phase, and will be developed in consultation with the LMCG-BOM and the community.

The Business Plan considers that the second ice pad would be located southeast of the existing ice pad, on the lands recently acquired by the City for this purpose. The Business Plan provides an 'order of magnitude' for the capital cost of the expanded facility, reproduced below:

| | | |
|-------------|--|-------------------|
| Hard Costs: | 2 nd Ice Pad | \$6,727,000 |
| | Major renovations – existing facility | \$ 540,000 |
| | Minor Upgrades – existing facility | \$1,350,000 |
| | Site Work | \$ 600,000 |
| | Demolition and tie-ins | \$ 69,300 |
| | Construction Contingency | <u>\$ 510,747</u> |
| | | \$9,797,047 |
| Soft Costs: | Design Fees and Disbursements | \$ 640,755 |
| | Food & Beverage, Interior, Sound, Security | \$ 118,450 |
| | Furniture, Fixtures & Equipment | \$ 232,444 |
| | Contingency | \$ 57,500 |
| | Interest during construction | <u>\$ 316,250</u> |
| | | \$1,365,400 |
| | Total | \$ 11,624,446 |

These estimates were prepared by Ellis-Don on behalf of the Expansion Committee, and without the benefit of detailed design, is subject to change. The purpose of the acceptance of the donation is to advance the necessary design work and costing study for the capital aspects of this project, with such work being done at no cost to the City.

Under the current relationship framework between the City and the Arena Boards of Management, the City funds, through the Parks, Forestry and Recreation Capital Budget, all capital improvements and state of good repair projects for facilities operated by the Arena Boards of Management. The Business Plan does not propose any changes in the existing relationship framework. The identified minor upgrades – existing facility in the amount of \$1.350 million -- are already accounted for in the Parks Forestry and Recreation 10 year Capital Plan, in future years. The proposed major renovation cost identified above is only an estimate and the actual financial impact of the new arena attaching to the existing will be confirmed when the final design is developed.

The construction project, if it is to proceed, would be funded by the City as Recoverable Debt, repaid by LMCG from operating revenues from the Project to cover the debt repayment. The funding requirements, a supporting repayment agreement, and related capital budget adjustments will be the subject of a further report to Council after the detailed Project costs have been determined.

Proposed Operating Requirements:

Staff reviewed the assumptions and projections contained in the Business Plan, and compared these assumptions and estimates with known facts from existing City-owned two-pad arenas (e.g. Larry Grossman Forest Hill Memorial Arena) and from the experience of the Lakeshore Lions Arena Project.

The Business Plan assumes a prime-time ice utilization rate of 95%. This assumption is reasonable and reflects current prime-time utilization on the existing pad, and on other Arena Board of Management two-pad arenas. The current non-prime time utilization rate is approximately 52%, however, to be conservative, a non prime-time utilization rate of 30% is used in the forecast.

With respect to ice rental rates, due to the lack of available prime-time ice space, many of the LMCG user groups have had to seek ice time elsewhere and at private facilities that charge rates up to \$350 per hour. The current ice rental rates at LMCG (2008/2009 season) is around \$145 per hour at the community rate (Leaside Hockey Association, Leaside Girls Hockey League, Leaside Skating Club), to \$240 per hour at the prime-time market rate. The majority of the prime-time ice availability at LMCG is used by Leaside-based community user groups. Furthermore, the LMCG complies with the City's Ice Allocation Policy. The business plan assumes, upon project completion, the community prime-time rate will increase to \$165 per hour, from the current \$145, on the existing pad, and a rate of \$240 per hour on the new pad. The prime-time market rate on the new pad is assumed at \$280 per hour. The BOM has letters of intent from their community user groups indicating a willingness to pay higher rates to get more prime-time ice locally. There has also been consideration of blended rates between the existing and new pads for community users that results in a community prime-time rate of \$225 per hour, however, the financial results are the same.

Staff accepts there is a significant demand for ice time in the catchment area, and that utilization rates and prime time rental rates presented in the Business Plan are reasonable. Staff accepts the Business Plan as submitted as reasonable revenue estimates, except for minor discounting of the revenue projections for Signage and Snack Bar.

On the Operating side, staff has estimated the free cash flows from the Project can support \$6.7 million in 30-year debt. The submitted pro-forma, if not discounted for the above noted concerns, suggests support for up to \$8.0 million in 30-year debt. The Project's capital cost is not self-supported in either case. The first five year average revenue and expense statement submitted by the Expansion Committee and that used in the analysis by Corporate Finance is attached as Appendix 1.

Community Access Requirements and Governance and Accountability Provisions:

The LMCG operates within the Relationship Framework between the City and the eight Arena Boards of Management, adopted by Council in September 2007. The framework specifies roles and responsibilities between the City and the Boards, as excerpted below:

| Matters Requiring Council Approval | Matters Delegated to Arena Boards |
|--|--|
| <ul style="list-style-type: none"> • Appointment of Arena Board members • Annual operating budgets for the Arena • Allocations for capital activities in the PFR Capital Budget • Audited annual financial statements of the Arenas • Establishment of new boards, or cessation of existing boards • Leasing or contracting out the overall operation of the Arena to a 3rd party • A records retention by-law or specific Council approval to destroy records | <ul style="list-style-type: none"> • Develop operating plans for the Arena • Allocation of usage of the facility to residents, neighbourhood & user groups • Development, funding, management of Arena programs • Expend, manage operating expenditures & revenues in accordance with Council approved budget and City financial policies • Management, operation & maintenance of the Arena, including hiring & supervision of Arena staff * • Setting of fees for the use of the Arena space & programs in accordance with City of Toronto Act |

* Note – LMCG is unique amongst Arena Boards of Management as it has an Arena Manager hired by the Board, however the remainder of the staff are City employees. Council has delegated authority to the Board to manage and direct arena staff in accordance with the City's human resource policies and collective agreements. All wage and benefit costs are recovered by the City from LMCG. (Article 3: Delegation of Authority, City Board-Operated Arenas - Relationship Framework, adopted by City Council in September 2007.)

More recently, in January 2010 City Council adopted recommendations contained in the report entitled, "Ice Allocation Practices in City Arenas Operated by Arena Boards of Management." While there continues to be further reporting on this policy initiative and its application to arena boards of management, it is expected that LMCG, in its current single indoor ice pad configuration, or the proposed twin-pad facility, will continue to comply with the City's ice allocation policies.

Nothing in the Business Plan proposes any change to the operating framework between the City and LMCG Board of Management.

Conclusion:

The Business Plan has been reviewed by staff and has been found to be viable to support \$6 million to \$7 million in recoverable debt to fund the capital cost of the project. As noted in this report, the Project cost has been estimated by the LMCG-BOM's consultant at \$11.6 million by the BOM, although there is no supporting evidence for staff to review

this estimate. The BOM has acknowledged that a detailed capital cost estimate is required, and, in this regard, have secured a donation to the City to fund the necessary design studies to cost the Project from the East York Foundation.

Once the detailed design and costing study has been completed, staff will report to Council on those findings as well as the strategies on proceeding with the overall Project including the identification of other sources of funds that may be required to complete the project.

CONTACT

Adir Gupta, Manager, Financial Policy, Tel.: 416-392-8071, Fax: 416-397-4555, E-mail: AGupta@toronto.ca

Terry Webber, Manager, Business Services, Tel.: 416-392-8578, Fax: 416-392-3355, E-mail: twebber1@toronto.ca

SIGNATURE

Cam Weldon
Deputy City Manager and Chief Financial Officer

Brenda Patterson
General Manager, Parks, Forestry and Recreation

ATTACHMENTS

Appendix 1 – Leaside Memorial Gardens Arena Revenue and Expense Summary
Appendix 2 – Leaside Memorial Community Gardens Business Plan (February 2009)
(Hardcopy available through City Clerk’s Office.)

Appendix 1

LEASIDE MEMORIAL COMMUNITY GARDENS ARENA REVENUE AND EXPENSE SUMMARY

| | Current (2008 Audited) ¹ | Pro Forma As Submitted ² | Pro Forma As Recommended by Corporate Finance ³ |
|--|--|--|--|
| Arena Revenues | | | |
| Current Pad Ice Rentals | \$476,177 | \$678,042 | \$678,042 |
| New Pad Ice Rentals | \$0 | \$789,824 | \$789,824 |
| Signage | \$14,020 | \$35,201 | \$16,585 |
| Pro Shop | *incl misc rev | \$7,916 | \$7,916 |
| Sub-Total Arena Revenues | \$490,197 | \$1,510,984 | \$1,492,368 |
| Other Revenues | | | |
| Pool Rental | \$196,471 | \$244,193 | \$244,193 |
| Banquet Revenue | \$96,978 | \$105,399 | \$105,399 |
| Snack Bar | \$46,045 | \$124,018 | \$71,521 |
| Misc. Revenue | \$24,614 | \$56,290 | \$30,310 |
| Sub-Total Other Revenue | \$364,108 | \$529,900 | \$451,424 |
| Total Board Revenue | \$854,305 | \$2,040,884 | \$1,943,792 |
| Operational Expenses | | | |
| Arena | | | |
| Wages & Salaries | \$161,420 | \$270,825 | \$270,825 |
| Repairs & Maintenance | \$45,788 | \$84,827 | \$84,827 |
| Utilities | \$115,187 | \$255,176 | \$255,176 |
| Facilities maintenance provision | \$0 | \$50,000 | \$50,000 |
| Other Expenses | \$10,233 | \$36,042 | \$36,042 |
| Sub-total Arena | \$332,628 | \$696,870 | \$696,870 |
| Pool Expenses | \$125,167 | \$163,645 | \$163,645 |
| Banquet Expenses | \$47,411 | \$63,011 | \$63,011 |
| Snack Bar Expenses | \$40,735 | \$83,096 | \$83,096 |
| Pop Vending Purchases | \$5,539 | \$15,855 | \$15,855 |
| Total Operational Expenses | \$551,480 | \$1,022,477 | \$1,022,477 |
| Gross Profit | \$302,825 | \$1,018,406 | \$921,314 |
| Undistributed Expenses | | | |
| Wages & Salaries | \$245,101 | \$320,447 | \$320,447 |
| Insurance | \$11,838 | \$25,751 | \$25,751 |
| Other Undistrib. Expenses | \$53,079 | \$46,751 | \$46,751 |
| Total Undistributed Expenses | \$310,018 | \$392,949 | \$392,949 |
| Total Expenses | \$861,498 | \$1,415,426 | \$1,415,426 |
| Surplus (- Deficit) | -\$7,193 | \$625,457 | \$528,365 |
| Vehicle & Equip reserve contrib. | \$9,355 | \$20,665 | \$20,665 |
| Debt repayment (prior issuance) | \$3,426 | \$0 | \$0 |
| Surplus (- Deficit) after reserves | -\$19,974 | \$604,792 | \$507,700 |
| Supportable 30-year Debt | nil | \$ 8,063,896 | \$ 6,769,336 |

Notes

1. 2008 Audited Financial Statements, Board of Management Leaside Memorial Community Gardens
2. LMCG Business Plan Prepared by HLT - Feb 2009, as amended per J. Dover March 2010
3. Corp Finance due diligence review: discounting signage, snack bar & misc revenues