TORONTO

STAFF REPORT
ACTION REQUIRED

Lakeshore Arena Corporation – Update and Next Steps

Date:	January 16, 2012
To:	Government Management Committee
From:	Deputy City Manager and Chief Financial Officer General Manager, Parks, Forestry and Recreation
Wards:	Ward 6
Reference Number:	P:\2012\Internal Services\Cf\Gm12005cf (AFS #14329)

SUMMARY

This report is to update City Council on the transfer of assets and liabilities from Lakeshore Lions Arena Inc. to the Lakeshore Arena Corporation, and to advise of the next steps to establish a long term strategy for the Arena.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and General Manager, Parks, Forestry and Recreation recommend that:

1. The General Manager of Parks, Forestry and Recreation, in conjunction with the Deputy City Manager and Chief Financial Officer, report back to the Government Management Committee on a long-term strategy for the long-term self-supporting viability of the Arena by November 2012.

Financial Impact

There is no financial impact beyond what has already been approved in the current year's budget for the assumption of assets, liabilities and operations of the Lakeshore Lions Arena Incorporated (LLAI), and start-up of the city corporation Lakeshore Arena Corporation.

DECISION HISTORY

At its meeting of July 12, 13 and 14, 2011, Council approved that a city services corporation be established to assume the leasehold interest, ownership of the asset, project construction debt of the LLAI, and to operate and manage the Arena. The purpose of the city services corporation is to stabilize the operation and put in place a skills-based Board membership with the necessary expertise to identify and maximize the potential of the Arena over the next 2-3 years. Following that period, the City would seek an operator to take over the leasehold interest with minimal to no loss to the City.

City Council directed the Deputy City Manager and Chief Financial Officer and the General Manager, Parks, Forestry and Recreation to report to the Executive Committee at its meeting on October 3, 2011, on the status of the business plan for the Lakeshore arena, and on an appropriate procurement process for management of the facility or to divest the City's interest. That decision can be viewed at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX7.1

COMMENTS

The Lakeshore Arena Corporation was incorporated on July 19, 2011 and started the process of finalizing the legal agreements to complete the assumption of the assets and liabilities of the Lakeshore Lions Arena Inc. The legal agreements between Lakeshore Lions Arena Inc. ("LLAI"), Pacific Western Bank of Canada, Giffels Corporation, Toronto District School Board, and City of Toronto were handled through legal counsel of the parties and the transfer was completed on September 15, 2011.

The City authorized the Lakeshore Arena Corporation working capital of up to $1,000,000 to cover cash-flow deficiencies that will occur from time to time. Also, a short-term interest-only loan not to exceed $20,039,000 funded from the City's working capital was authorized in order to discharge the three existing Floating Rate Credit facilities between the Lender and Lakeshore Lions Arena Inc. ($18.838 million), which are currently guaranteed by the City or secured against the revenues, and $1.2 million to Giffels Corporation, the constructor, in order to settle their outstanding amounts and remove them as a mortgage holder to the property. The City's previous loan guarantees to the Lender would by necessity continue. The option of discharging the three existing Floating Rate Credit Facilities with the Lender will be exercised at a future point in time being the earlier of when the weighted-average interest cost of these loans reaches 3% or September 30, 2014 when the current facilities expire.

With respect to the Arena operating results, revenues have exceeded projections for the 2011 season (fiscal year ending June 30th), at $3.9 million (versus $3.5 million projected), and being significantly higher than 2010 revenues of $3.2 million. The increase in revenue is mainly attributable to ice rental and snack bar revenues. Expenses, before amortization, depreciation and debt service was $1.8 million for the 2010 season, and $2.5 million for the 2011 season (compared to $2.1 projected for 2011). The increase in expenditures are mainly the result of higher snack bar costs (offset by its increase in revenue), higher legal and audit costs due to the takeover, and higher salaries and maintenance costs in 2011. Overall, the earnings from operations of $1.4 to $1.5 million is in the order of that projected for this arena. However, the high debt service cost of approximately $1.6 million per year annualized is resulting in a cash flow shortfall of

$150 thousand to $200 thousand per year, as shown in Attachment 1. The debt outstanding on the facility as at 2011 year end is projected to be $41.8 million. The City's $1 million working capital line of credit remains fully available if required by LAC.

Three Board members, consisting of: (i) the General Manager of Parks, Forestry and Recreation, or her designate as the Chair of the Board, (ii) the Chief Corporate Officer or his designate, and (iii) the Deputy City Manager and Chief Financial Officer or his designate, were previously appointed to the Board by Council July 12, 13 and 14, 2011. These positions are held by (i) Ann Ulusoy, Director, Parks, Forestry & Recreation (ii) Bruce Bowes, Chief Corporate Officer and (iii) Mike St. Amant, Director, Accounting Services, respectively. The Board has been meeting regularly while conducting the recruitment for a tenant representative and two citizen representatives to the Board. An Interim Executive Director who has extensive experience in Arena management was appointed on secondment from the Parks, Forestry and Recreation Division.

Recruitment for these final three members of the Board is complete. The list of nominees will be considered at the January 24, 2012 meeting of the Executive Committee.

It will be the objective of Board members to identify and maximize the revenue potential of the Arena, including options for divesture at minimal or no cost to the City. It is anticipated this due diligence process will span not less than a full year of Arena operation (the fall 2011/winter 2012 season). Reporting out on a future direction for the Arena will take place in November 2012 after the Board has gained sufficient experience and understanding of the business potential of this unique 4-pad arena.

The Arena is anticipated to continue its operations in a manner where operating and debt obligations will be met for the next year with occasional use of the working capital line of credit as required. The new revenue source and investment from the Battle of the Blades franchise will help support 2011/2012 working capital needs. The Battle of the Blades launched their 3rd season at the Arena on September 25th, 2011, and occupied the Olympic rink for a two month period. The arrangement provided for capital improvements to that rink and additional revenue to the Arena. The displaced users have been accommodated at a City owned arena.

A number of interested parties who operate private or public Arenas in Canada and the U.S. have contacted the City and expressed their desire that the Board put out a Request for Expression of Interest or Request for Proposals for taking over the operations of the Arena immediately. The former General Manager of Parks, Forestry and Recreation and her appointee to the Board have met with a number of interested parties over the summer.

The Board strongly feels that, without a full understanding of the actual revenues and expenditures of the Arena, capacity utilization rates, adequacy of staffing, additional rental opportunities, and the potential expenditures for ongoing capital maintenance of the facility and efficient management of the operations, it is premature to be seeking Requests for Expressions of Interest or Requests for Proposals for taking over the leasehold interest or contracting out the operations of the arena. The General Manager of

Parks, Forestry and Recreation, in conjunction with the Deputy City Manager and Chief Financial Officer, will report back to the Government Management Committee on a strategy for the long-term self-supporting viability of the Arena by November 2012.

CONTACT

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SIGNATURE

Cam Weldon Deputy City Manager and Chief Financial Officer	Jim Hart General Manager Parks, Forestry & Recreation

ATTACHMENTS:

Attachment 1 – 2010 and 2011 Operating Results (Year Ending June 30th) Unaudited

Attachment 1
2010 and 2011 Operating Results (Year Ending June 30th)
Unaudited

	2010 Actual	2011 Forecast at time of Take Over	2011 Actual	
REVENUE				
ICE RENTAL	2,119,875	2,295,514	2,430,281	
TENANCY RENTAL	590,704	803,984	767,318	
SNACK BAR	56,101	98,745	261,167	
ARENA - VEND MACHINE	12,086	12,809	13,400	
INTEREST INCOME	1,542	6,233	2,968	
ADVERTISING INCOME	43,600	59,757	72,837	
LICENSING INCOME	232,500	252,249	192,729	
OTHER	181,569	3,668	162,247	
TOTAL REVENUE	**3,237,977**	**3,532,959**	**3,902,947**	
EXPENSES				
SALARIES & BENEFITS	608,080	697,733	800,422	
SNACK BAR PURCHASES	34,532	79,208	138,186	**
PROFESSIONAL	912	(616)	486	
AUDIT & LEGAL	61,132	59,467	216,466	*
INSURANCE	56,330	54,834	66,068	
INTEREST & BANK CHARGES	9,511	12,881	13,416	
BUILDING & EQUIPMENT MAINTENANCE	134,382	185,069	277,245	
OFFICE & CLEANING	49,942	64,791	71,732	
TELEPHONE	22,638	19,992	27,521	
UTILITIES	781,546	910,322	842,904	
CAMP BELLALEO		21,521		
OTHER	5,825	9,904	18,701	
TOTAL EXPENSES	**1,764,830**	**2,115,106**	**2,473,147**	
EBITDA	**1,473,147**	**1,417,853**	**1,429,800**	
Debt Repayment (Annualized):				
Facility #2 (P&I)	1,203,216	1,203,216	1,203,216	
Facilities #1, #3, #4 (Interest only)	418,200	418,200	414,444	
Debt Repayment (annualized)	**1,621,416**	**1,621,416**	**1,617,660**	
Net Cash Flow (before amortization and depreciation)	**(148,269)**	**(203,563)**	**(187,860)**	

* Higher audit and legal costs due to take over.
** Higher snack bar expenses offset by increase snack bar revenue