TORONTO

STAFF REPORT
ACTION REQUIRED

George Bell Arena Board Expanded Service

Date:	April 17, 2013
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	11
Reference Number:	P:\2013\Internal Services\Fp\BC130114Fp

SUMMARY

The purpose of this report is to recommend a $100,000 loan be provided to the George Bell Arena for the installation of a new dehumidifier which will expand service. This recommendation is being made in response to a request from George Bell Arena on April 3, 2013 for a loan to replace and upgrade its dehumidification unit. A review of the Arena's business plan indicates that the arena can generate sufficient revenues to repay this loan over 5 years.

RECOMMENDATIONS

The Financial Planning Division recommends to City Council that:

1. City Council approve a loan funded from the City's working capital to the George Bell Arena to replace and upgrade a de-humidifier unit in the amount up to $100,000, fully repayable by December 31, 2018 with the interest rate established by the Deputy City Manager and Chief Financial Officer and based upon the City's opportunity cost as if the funds had been invested for a 5 year term.

2. City Council approve a one-time budget adjustment to the 2013 Operating Budget for the Arena Boards of Management to include $100,000 in expenditures financed with a loan repayable over 5 years, to replace George Bell Arena's dehumidification unit.

3. The Deputy City Manager and Chief Financial Officer negotiate a loan agreement with the George Bell Arena Board of Management to retire the $100,000 loan no

later than December 31, 2018 by using an annual equal payment calculated from a 5 year amortization schedule.

Financial Impact

Approval of this recommendation will result in a one-time increase to the 2013 Operating Budget for George Bell Arena (Arena Boards of Management) by $100,000 fully financed by a loan from the City to be repaid over 5 years. Also, the 2014-2018 Operating Budgets for George Bell Arena will need to include increased revenues and expenditures to reflect increased summer ice revenues and loan repayments.

ISSUE BACKGROUND

The City of Toronto has eight arenas operated by Council appointed Boards of Managements. George Bell Arena, located in Ward 11 (York South-Weston) at 215 Ryding Avenue, is one of these eight arenas. On April 3, 2013, the Deputy City Manager and Chief Financial Officer received a letter (see attachment) requesting assistance in form of a loan to replace and upgrade one of the Arena's dehumidifiers.

COMMENTS

George Bell Arena offers indoor ice facilities to various community youths and adults from hockey leagues, hockey associations, hockey clubs, and individual user groups. As is the case with all the Board of Management arenas, this Board strives to generate sufficient revenues to cover operating costs every year.

Since the Ryerson University Hockey teams moved from George Bell to their new facility at the renovated Maple Leaf Gardens, this arena has been challenged to generate enough revenue to meet its expenses. When one of the Arena’s dehumidifier units failed recently, the Board saw an opportunity for an enhanced dehumidifier replacement which would support the use of summer ice in the facility.

George Bell Arena currently offers ice rentals from September 1 to April 30 each year. During the summer months in between this period, the Arena rents out its dry floor which generates approximately $3,800 annually and much less revenue than summer ice time would generate.

Clients have indicated great interest in purchasing ice time during the summer months, if available, but the Arena’s two dehumidification units are currently insufficient to support ice during the warm and humid summer months.

Dehumidifier Replacement Options

Replacing the current dehumidifier with a similar one of the same capacity is expected to cost $33,700 and would allow the Arena to maintain current levels of service – ice rentals from September 1 to April 30 each year and only bare floor rentals from May 1 to August 31. Equipment replacements under the $50,000 threshold for capital expenditures are expected to be provided through the Arena's current year Operating Budget. The Arena has undergone a review of 2013 costs and expects to realize net in-year cost savings of $10,405. The replacement of the dehumidification unit, after these cost savings, would result in a $25,028 budget deficit in 2013 instead of the City Council-approved budgeted operating surplus of $967. See Appendix 1 of the Attachment for details.

George Bell Arena has also sought out several cost estimates for replacing the dehumidification unit with a more powerful gas-fired model. Such a dehumidification unit would cost approximately $100,000 and allow the Arena to operate ice even during warm and humid summer weather, thereby allowing the area to maintain summer ice instead of dry floors and thus generate more revenues in the long run. George Bell Arena expects that approximately 64% of summer ice revenues will come from in-house programming, while the remaining 36% will come from contract ice. Summer ice operations are estimated to generate increasing net program and contract ice revenues from $27,200 in 2014 to $57,930 in 2018 as the availability of these services are actively marketed to the public going forward. After offsetting additional operating costs, considering cost savings, and allowing for a 10% contingency, George Bell would be able to generate a projected $37,742 in net revenues per year for loan repayment. It would be sufficient to repay a $100,000 loan, plus interest, within five years. This is also a conservative estimate assuming no further revenue growth from non-summer ice operations each year. For further details on the Arena's net revenue projections, please refer to Appendix 2 of the Attachment.

Table 1: Annual Funds Available for Debt Repayment

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Average Summer Ice Revenues (2014-2018)	87,160
Less: Annual Summer Floor Rental Revenues	(3,800)
Net Annual Additional Summer Revenues	83,360
Average Summer Ice Operating Expenditures (2014-2018)[1]	(41,424)
Net Annual Additional Revenues with Summer Ice	**41,936**
Less: 10% Contingency	**(4,194)**
Annual Funds Available for Debt Repayment	**37,742**

[1]Includes annual cost savings of $2,175

Financial Planning and Corporate Finance staff have reviewed the projections in this proposal and agree that the recommended loan arrangement is consistent with the policy requirements outlined in the Direct Capital Loan Policy for direct City loans to city agencies and corporations, adopted by City Council in July 2011.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX7.7.

Parks, Forestry and Recreation staff have also been consulted and concur that the proposed replacement with a more powerful dehumidifier unit is appropriate for George Bell Arena's building structure and the purpose of year-round ice operations. Financial Planning staff will monitor the financial results of this loan through the quarterly variance reporting process.

Loan Repayment Details

The interest rate for the loan will be established as the City's opportunity cost as if the funds were invested for a 5 year term. At current interest rates, this rate would be set at 2.75% and result in an annual payment of $21,680 per annum, consisting of principal and interest amortized over a 5 year term. The financial analysis in Appendix 2 of the Attachment demonstrates that the Arena's cash flow will be adequate to fund the annual debt payment over the 5 year term of the loan. Anticipated 2013 savings can be expected to reduce the final loan amount to somewhat less than $100,000.

It is expected that once the loan agreement has been executed, funds, up to a maximum of $100,000, will flow to the arena so that installation of the new equipment can be made over the summer months of 2013. The arena will commence ice operations for the 2013/14 season in September 2013, and new revenues from summer ice rentals will commence in May 2014.

During 2013, loan repayments and interest would be accrued to 2014, when the additional revenues from the summer ice rentals can be realized. Loan repayments would be made annually before the end of December. Furthermore, provisions for early repayment will be made possible, should excess revenues be realized by the arena.

CONCLUSION

Simply replacing the existing dehumidifier with a similar unit would not allow George Bell Arena to meet its mandate of covering its operating costs. This report recommends that George Bell Arena move forward with a gas-fired dehumidification unit that would require financing from a $100,000 loan from the City, with repayment to be made using additional revenues from new summer ice operations and cost savings. This new revenue stream would also help the Arena to enhance its current services to the general public and offset revenues losses that it has been incurring since one of its major clients departed in 2012. Any additional net revenues generated after the loan is fully repaid would also contribute toward a net operating surplus for the City.

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SIGNATURE

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Roberto Rossini
Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Loan Request Letter from George Bell Arena Board Chair (Includes Appendix 1 and 2)