TORONTO

STAFF REPORT
ACTION REQUIRED

Arena Boards of Management 2011 Operating Surpluses/Deficits Settlement

Date:	November 9, 2012
To:	Budget Committee
From:	Acting Deputy City Manager and Chief Financial Officer
Wards:	11, 16, 18, 20, 26, 27, 32
Reference Number:	P:\2012\Internal Services\Fp\Bc12029Fp (AFS #16634)

SUMMARY

This report recommends settlements with the eight Arena Boards of Management (Arenas) of their 2011 operating surpluses and deficits based on audited financial results for the years ended December 31, 2011, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval.

RECOMMENDATIONS

The Acting Deputy City Manager and Chief Financial Officer recommends that:

1. The 2011 operating surpluses totalling $61,883 from seven Arenas (George Bell; Larry Grossman Forest Hill; Leaside; McCormick; Moss Park; North Toronto; Ted Reeve) be paid to the City of Toronto and be used to partially fund the payment of operating deficit of $116,849 for the remaining arena (William H. Bolton), resulting in an operating net deficit of $54,966 to be funded by the City, as detailed in Appendix A, column (d), of the report; and

2. A funding provision for the 2011 net deficit of $119 be made through the 2012 Final Year-End Operating Variance Report, as calculated in the attached Appendix A.

Financial Impact

The Arena Boards of Management final net settlement for the year 2011 requires that surplus funds of $61,883 be paid to the City from seven arenas and be used to partially fund the payments of the operating deficit of $116,849 to the remaining arena, resulting in a net funding requirement from the City to the arena of $54,966. A summary of net funding to the Arena Boards or surpluses payable to the City are detailed in Appendix A.

In addition, there was a 2010 settlement of $3,218 that was funded from the 2011 Operating Budget, resulting in a total funding requirement of $58,184.

Of the total funding requirement of $58,184, $58,065 was provisioned through the 2011 Final Year-End Operating Variance Report, leaving a balance of $119 to be funded in 2012 from an allocation of underspending in the 2012 Final Operating Variance Report.

ISSUE BACKGROUND

Eight Arena Boards of Management operate and manage ice arenas on behalf of the City of Toronto in accordance with the former Chapter 25 of the Toronto Municipal Code for community and recreation centres. Under the by-law established for each individual Arena Board of Management, the Board shall, at the end of each fiscal year, pay to the City all revenue received by the Board in excess of the money required to pay all the charges, costs and expenses resulting from or incidental to the management and control of the premises. Any operating deficit incurred by the arena will be funded by the City.

At its meeting on March 4 - 8, 2002, City Council adopted Policy and Finance Committee Report No. 4, Clause 1, entitled "City of Toronto 2002 Recommended Operating Budget", Recommendation #134 that directed the City Auditor and Chief Financial Officer and Treasurer, beginning in 2002, report annually to the Policy and Finance Committee on the Arena Boards' annual operating surpluses and deficits once the Boards' annual financial statements have been audited, with any net payment to be funded by the City.
(http://www.toronto.ca/legdocs/2002/agendas/council/cc020304/pof4rpt/cl001.pdf)

At its meeting on April 19-23 and 26-28, 2004, City Council adopted Policy and Finance Committee Report No. 3, Clause 2, entitled "City of Toronto 2004 Budget Advisory Committee Recommended Operating Budget", Recommendation HH(95)(g) that directed "any audited year-end net surplus in excess of the Council approved budget for the Arena Boards of Management Program be transferred to the Arena Boards of Management account in the Vehicle and Equipment Replacement Reserve (XQ1705) and applied proportionately among those Arenas who are in a surplus position and exceeded their budget target", such funds to be used to finance future ice resurfacer replacements for the Arena Boards of Management.
(http://www.toronto.ca/legdocs/2004/agendas/council/cc040419/pof3rpt/cl002.pdf)

At its meeting on October 2-4, 2012, City Council adopted the report titled "Operating Variance Report for the Year Ended December 31, 2011", including the Arena Boards of Management's Net Expenditure Variance.
(http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-47318.pdf)

Since 2005, the Arenas’ financial statements are prepared under the Public Sector Accounting Board (PSAB) requirements for public sector entities. Accounting and reporting under PSAB require that all known liabilities, including liabilities related to post employment benefits as well as those related to retirees, be reflected in the public sector financial statements.

COMMENTS

2011 Operating Results:

A review of the audited financial statements for the year ended December 31, 2011 indicates that six Arenas (Larry Grossman Forest Hill, Leaside, McCormick, Moss Park, North Toronto, Ted Reeve) reported surpluses amounting to $61,722 and two Arenas (George Bell, William H. Bolton) reported deficits amounting to $132,341 as shown in column (b) of Appendix A attached.

Adjustments to George Bell Arena’s 2011 Operating Results:

Adjustments included as part of the Arena Boards' final settlement of operating results for 2011 is shown in Appendix A, column (c), and noted in Table 1 below:

(1) George Bell Arena's 2011 operating results are adjusted to include a repayment of estimated energy savings of $15,653 for 2009, and reverse accruals of estimated energy savings of $15,653 for each of 2010 and 2011.

After adjustments to George Bell’s 2011 operating results, there are seven arenas (George Bell; Larry Grossman Forest Hill; Leaside; McCormick; Moss Park; North Toronto; Ted Reeve) with operating surpluses totalling $61,883 and the remaining arena with an operating deficit of $116,849. At the Program level, the consolidated 2011 operating results of the eight Arena Boards add up to a net deficit of $54,966 which is $60,280 worse than the 2011 approved budgeted surplus of $5,314 as shown in Table 1.

Table 1 below summarizes the approved budget, actual operating surplus/deficit, and variance to budget for each of the Arena Boards for the year 2011.

Table 1.	2011 Operating (Surplus)/Deficit		
Arena	Council Approved Budget	Adjusted Actual	Variance Fav/(Unfav)
	$	$	$
George Bell Arena	(1,277)	(161)*	(1,116)
William H. Bolton Arena	0	116,849	(116,849)
Forest Hill Memorial Arena	(1,832)	(4,422)	2,590
Leaside Gardens	(384)	(7,860)	7,476
McCormick Arena	(192)	(42,934)	42,742
Moss Park Arena	(479)	(4,181)	3,702
North Toronto Memorial Arena	(693)	(1,470)	777
Ted Reeve Arena*	(457)	(855)	398
Total Program Net (Surplus)/Deficit	(5,314)	54,966	(60,280)

*George Bell Arena's 2011 operating results are adjusted to include a repayment of estimated energy savings of $15,653 for 2009, and reverse accruals of estimated energy savings of $15,653 for each of 2010 and 2011.

Explanation of Major Variances to 2011 Approved Budgets:

William H. Bolton Arena's unfavourable variance and operating deficit of $116,849 resulted from unanticipated maintenance and repairs of its ice-resurfacers and other equipment, as well as staffing costs to replace a sick staff member.

McCormick Arena’s favourable variance of $42,742 resulted from a major hydro over accrual that affected the arena’s planning and when revised, led to lower than budgeted expenditures.

Leaside Gardens Arena’s favourable variance of $7,476 resulted from increased dasher board advertising revenues, as well as lower expenses; lower full time wages from one unfilled full time position intended for the second ice pad; and lower gas usage due to a mild winter.

Arena Surplus/Deficit Settlement:

Appendix A attached provides a summary of the 2011 operating surplus/deficit net settlement calculation by Arena.

For the year 2011, seven Arenas (George Bell; Larry Grossman Forest Hill; Leaside; McCormick; Moss Park; North Toronto; Ted Reeve) have operating surpluses totalling $61,883 that is payable to the City. These surpluses will be used to fund the operating deficits of the remaining arena (William H. Bolton) of $116,849, resulting in a net deficit to the City of $54,966 as detailed in Appendix A.

The 2011 operating year net deficit of $54,966, plus the 2010 net settlement funded out of the 2011 Operating Budget of $3,218 total $58,184.

Funding Provision:

Through the 2011 Year-End Operating Variance Report, an overall Arena Board deficit of $58,065 was provided for based on pre-audited statements at that time. It is recommended that the remaining $119 be funded from the 2012 Final Year-End Operating Surplus through the Final Year-End 2012 Operating Variance Report.

Allocation of Net Surpluses to the Arena Boards of Management Program's Vehicle and Equipment Replacement Reserve:

In April 2004, City Council directed that any audited year-end net surplus in excess of the Council approved budget for the Arena Boards of Management Program be transferred to the Arena Boards of Management Vehicle and Equipment Replacement Reserve (XQ1705) and applied proportionately among those Arenas who are in a surplus position and exceeded their budget target, such funds to be used to finance future ice resurfacer replacements for the Arena Boards.

As the 2011 audited year-end results for the Arena Boards of Management Program as a whole did not show a surplus in excess of the Council approved budget (see Table 1), no funds can be allocated to the Arena Boards' Vehicle and Equipment and Replacement Reserve for the year.

Status of Energy Retrofit Program Financial Obligations to December 31, 2011:

In 2006 two Arena Boards of Management, George Bell and Ted Reeve, agreed to participate in the City's Energy & Water Retrofit Project in City owned arenas, outdoor rinks and community centres. The Energy Retrofit Program provides for the cost of the recommended retrofits to be financed over time through application of the energy cost volume savings arising from the implementation.

This method of financing uses the savings achieved in the individual facility budgets to retire the debt required to implement the recommended energy saving measures. It results in a transfer of funding between categories in the arena's operating budget with the funds no longer needed for utility payments being reassigned for debt retirement and paid to the City for that purpose. During the repayment period there is no net impact on the bottom line of the Arena Board's operating budget. At the end of the repayment period, there will be savings to the City because expenditures in the arenas will be lower. The Arena Board's agreement to implement these measures through the Energy Retrofit Program also included acceptance of this method of repayment of the City's debt financing for the work done. The Arena Board will pay the City for the specified repayment amount over the payback period.

The audited financial statements of George Bell Arena and Ted Reeve Arena for years 2007 to 2011 had included the accrued estimated energy savings realized in its calculation of the operating surplus payable to the City or operating deficit to be funded by the City. Appendices B and C of the report indicate the loan repayments currently outstanding.

As of November 2, 2012, George Bell Arena had paid a total of $64,132 of accrued energy savings to the City, to be applied against the 2007 to 2011 total repayment obligation of $78,265. This is summarized in Appendix B. The Arena has also indicated that the remaining balance of $14,133 has already been made on October 18, 2012.

In April 2010, an energy savings analysis of Ted Reeve Arena's 2-year evaluation period following completion of the energy retrofit project revealed that the estimated energy savings at Ted Reeve Arena did not materialize due to various reasons.

While Ted Reeve Arena agreed to implement the energy efficiency measures and agreed to repay the City for the capital cost from the estimated savings, the savings did not materialize and therefore Ted Reeve Arena will only be able to repay $51,144 of the $272,864 investment. The $51,144 repayment is based on the actual annual savings realized of $6,393 over the expected 8 year simple payback period. The remainder of the City's investment will be rolled into the overall project which has sufficient savings to absorb the amount and repay the investment over the expected 8 year simple payback period timeframe.

This issue was documented in the Briefing Note titled "Energy Efficiency Improvements at Ted Reeve Arena" dated April 23, 2010 prepared by the Manager, Facilities Management, Energy and Strategic Initiatives (ESI), and was sent to Ted Reeve Arena's Board and Financial Planning Division staff. The Manager, Facilities Management, ESI, of the City of Toronto authorized, and the Board of Management of Ted Reeve Arena agreed to, the adjusted repayment obligation of $51,144 for Ted Reeve Arena.

Appendix C attached shows the accrued estimated energy savings for years 2007 to 2010 totalling $51,144. Ted Reeve Arena has not yet made any repayment to the City. Once Ted Reeve Arena pays back $51,144, the Arena Board will have fulfilled its financial obligation of the Energy Retrofit Program.

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SIGNATURE

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ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2011 Operating Surplus/ Deficit Settlement

Appendix B – George Bell Arena Status of Energy Retrofit Program Financial Obligation

Appendix C – Ted Reeve Arena Status of Energy Retrofit Program Financial Obligation

APPENDIX A

ARENA BOARDS OF MANAGEMENT

SUMMARY OF 2011 OPERATING (SURPLUS)/DEFICIT SETTLEMENT

Arena	2011 Council Approved Net Budget (Surplus)/Deficit $	2011 Audited Actual Operating Net (Surplus)/Deficit $	PSAB and Other Adjustments $	**Adjusted 2011 Actual Operating Surplus/(Deficit) $**	**Settlement of 2011 Operating Results** 2011 Operating (Surplus) Payable to the City $	**2011 Operating Deficit to be funded by the City** $	**Total Net Payable to (City)/Arena** $
	(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g)
George Bell Arena	(1,277)	15,492	(15,653)	**(161)**	**(161)**		**(161)**
William H. Bolton Arena	0	116,849	0	**116,849**		**116,849**	**116,849**
Larry Grossman Forest Hill Memoria	(1,832)	(4,422)	0	**(4,422)**	**(4,422)**		**(4,422)**
Leaside Gardens	(384)	(7,860)	0	**(7,860)**	**(7,860)**		**(7,860)**
McCormick Arena	(192)	(42,934)	0	**(42,934)**	**(42,934)**		**(42,934)**
Moss Park Arena	(479)	(4,181)	0	**(4,181)**	**(4,181)**		**(4,181)**
North Toronto Memorial Arena	(693)	(1,470)	0	**(1,470)**	**(1,470)**		**(1,470)**
Ted Reeve Arena	(457)	(855)	0	**(855)**	**(855)**		**(855)**
TOTAL	**(5,314)**	**70,619**	**(15,653)**	**54,966**	**(61,883)**	**116,849**	**54,966**

2011 Program Summary:						
Total Operating Surpluses			(61,883)	(61,883)		(61,883)
Total Operating Deficits			116,849		116,849	116,849
Program Net (Surplus)/Deficit			54,966	(61,883)	116,849	54,966

Funding Requirement:

Arena Boards of Management Program 2011 Operating Net Deficit	**$54,966**
Plus: 2010 settlement funded out of 2011 Operating Budget	**$3,218**
Total Funding Requirement	**$58,184**

Funding Source:

Approved provision from the 2011 Operating Budget	**$58,065**

Recommendation:

A funding provision be made through the 2012 Final Year-End Operating Variance	**$119**

Note 1:
Following ERP items considered as an inadmissable expenses/recovery from 2011 funding:
a. 2011 ERP repayment $15,653 charged to operations but not paid to City.
b. 2010 ERP repayment $15,653 not charged to operations and not paid to City. Added as an expense in settlement report.
Actual repayment of 2009 ERP installment $15,653 during the year 2011 was considered as an expense.

Appendix B

George Bell Arena

Status of Energy Retrofit Program Financial Obligation to December 31, 2011

Operating Year:	2007	2008	2009	2010	2011	Total
Actual Operating (Surplus)/Deficit:	$27,494	$26,253	$2,353	$4,279	($161) (see Note 1.)	
Status of Settlement of Actual Results:	Settlement completed.	Settlement completed.	Settlement completed.	Settlement completed.	Recommended for settlement.	
Energy Retrofit Program (ERP) obligation:						
Accrued estimated energy savings, payable to the City:	$15,653	$15,653	$15,653	$15,653	$15,653	$78,265
Actual payments made by the Arena:						($64,132)

Actual payments made by the Arena (details):	
March 2009:	7,850
May 2009:	9,323
January 2011:	15,653
December 2012:	15,653
March 2012:	15,653
Total payments :	64,132

Outstanding payment of accrued energy savings for years 2007 to 2011 inclusive, payable to the City by the Arena (see note 2):	**$14,133**

Note 1: George Bell Arena's 2011 operating results are adjusted to include a repayment of estimated energy savings of $15,653 for 2009, and reverse accruals of estimated energy savings of $15,653 for each of 2010 and 2011

Note 2: George Bell Arena has indicated that the balance of $14,133 has been made on October 18, 2012.

Appendix C

Ted Reeve Arena

Status of Energy Retrofit Program Financial Obligation to December 31, 2011

Operating Year:	2007	2008	2009	2010	2011	Total
Actual Operating (Surplus)/Deficit:	$1,191	($2,724)	($1,206)	($2,282)	($855)	
Status of Settlement of Actual Results:	Settlement completed.	Settlement completed.	Settlement completed.	Settlement completed.	Recommended for Settlement.	

Energy Retrofit Program (ERP) obligation: (Revised payback obligation is $51,144 in total.)

Included in the above Actual Operating (Surplus)/Deficit calculation and settlement is the accrued estimated energy savings payable to the City:

	2007	2008	2009	2010	2011	Total
Accrued estimated energy savings, payable to the City:	$33,645	$6,393	$6,393	$4,713 (see Note 1)	$0	$51,144
Actual payment made by the Arena:	$0	$0	$0	$0	$0	$0
Outstanding payment of accrued energy savings for years 2007 to 2010 inclusive, payable to the City by the Arena:						**$51,144**

Note 1: Adjustment to 2010 accrued estimated energy savings from $6,393 to $4,713, which is a reduction of $1,680 to the 2010 accrual, in order to arrive at the ERP financial obligation of $51,144 in total, the maximum amount recoverable from Ted Reeve Arena.