



**STAFF REPORT
ACTION REQUIRED**

**Arena Boards of Management 2014 Operating
Surpluses/Deficits Settlement**

Date:	June 8, 2016
To:	Budget Committee Executive Committee
From:	Deputy City Manager & Chief Financial Officer
Wards:	11, 16, 18, 20, 26, 27, 32
Reference Number:	P:\2016\Internal Services\Fp\Bc16013Fp

SUMMARY

This report recommends settlements with the eight Arena Boards of Management (Arenas) of their 2014 operating surpluses and deficits based on the audited financial statements for the year-ended December 31, 2014, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval.

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. The 2014 operating surpluses totalling \$3,278 from three Arenas (Larry Grossman Forest Hill Memorial, Ted Reeve and North Toronto) be paid to the City of Toronto and be used to partially fund the cumulative operating deficit of \$186,612 for five Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick, and Moss Park), resulting in an operating net deficit of \$183,334 to be funded by the City, as detailed in Appendix A, column (d), of the report; and
2. A funding provision for the 2014 net deficit of \$174,384 is made through the 2015 Final Year-End Operating Variance Report, as calculated in the attached Appendix A.

3. Leaside Memorial Community Gardens Arena's 2014 operating deficit of \$83,851 be added to the City loan balance outstanding related to the "Leaside Arena 2nd Pad Expansion Project".

Financial Impact

The Arena Boards of Management final net settlement for the year 2014 requires that surplus funds of \$3,278 be paid to the City from three Arenas and be used to partially fund the operating deficit of \$186,612 for the remaining five arenas, resulting in a net funding requirement from the City of \$183,334. A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

In addition, \$97,487 of the 2013 settlement was funded from the 2014 Operating Budget, resulting in a total 2014 settlement funding requirement of \$280,821.

Of this total funding requirement of \$280,821; \$106,437 was provided through the 2014 Final Year-End Operating Variance Report, leaving a balance of \$174,384 to be funded through the 2015 Final Year-End Operating Variance Report.

The City will recover Leaside Arena's 2014 operating deficit of \$83,851 over time, as the agreement for the loan to build Leaside Arena's second pad requires that any operating deficit during the life of the loan be rolled into the outstanding balance for repayment.

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 July 8, 2014, City Council received the report titled “Operating Variance Report for the Year Ended December 31, 2013”, including the Arena Boards of Management’s Net Expenditure Variance.

<http://www.toronto.ca/legdocs/mmis/2014/ex/bgrd/backgroundfile-70915.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

2014 Operating Results:

A review of the audited financial statements for the year ended December 31, 2014 indicates that three Arenas (Larry Grossman Forest Hill Memorial, Ted Reeve and North Toronto) reported surpluses amounting to \$3,278 and the remaining five Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick, and Moss Park) reported deficits amounting to \$186,612 as shown in Appendix A, column (d). Overall, the consolidated 2014 operating results of the eight Arena Boards add up to a net deficit of \$183,334 which is \$279,144 below the 2014 approved budgeted surplus of \$95,810 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 2014.

Table 1	2014 Operating Surplus/(Deficit)		
	Council Approved Budget	Adjusted Actual	Variance Fav/(Unfav)
Arena Boards of Management			
	\$	\$	\$
George Bell Arena	21	(1,137)	(1,158)
William H. Bolton Arena	15,010	(96,818)	(111,828)
Forest Hill Memorial Arena	1,393	2,455	1,062
Leaside Gardens	78,262	(83,851)	(162,113)
McCormick Arena	215	(4,421)	(4,636)
Moss Park Arena	67	(385)	(452)
North Toronto Memorial Arena	602	151	(451)
Ted Reeve Arena	240	672	432
Total Program Net Surplus/(Deficit)	95,810	(183,334)	(279,144)

Explanation of Major Variances to 2014 Approved Budgets:

William H. Bolton Arena's unfavourable variance of \$111,828 resulted primarily from the following:

- \$95,000 of lost ice programming revenue and sundry revenue; and
- Unanticipated expenses of \$26,000 for emergency building repairs, and \$30,000 related to one-time human resources costs.

Leaside Gardens Arena's unfavourable variance of \$162,113 resulted from the following:

Lost revenues

- Leaside Arena experienced lower volume for its ice programming at the Bert F. Grant rink as the on-site construction forced temporary closures of the facility (\$62,000).
- Outdoor signage was unavailable for clients' use, resulting in advertising revenue shortfalls (\$6,300).

Unanticipated expenditures

- Leaside Arena incurred the cost of one-time purchases of compressors, and an unexpected compressor repairs costs to an existing unit of \$25,000.
- The Arena incurred \$61,663 in hydro costs above the planned amount due to higher-than-normal usage at the second ice pad and did not deliver the expected cost savings as previously forecasted.
- Other extraordinary expenditures included fire alarm installations to comply with the building code, one-time staffing costs in responses to unexpected ice storm and yard maintenance around the Arena.

Arena Surplus/Deficit Settlement:

Appendix A attached provides a summary of the 2014 operating surplus/deficit net settlement calculation by Arena.

For the year 2014, three Arenas (Larry Grossman Forest Hill Memorial, Ted Reeve and North Toronto) have operating surpluses totalling \$3,278 that is payable to the City. These surpluses will be used to partially fund the operating deficits of the remaining five Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick, and Moss Park) that total \$186,612, resulting in a net deficit to the City of \$183,334 as detailed in Appendix A.

The 2014 overall operating net deficit of \$183,334, plus the 2013 net settlement of \$97,487 funded out of the 2014 Operating Budget, totals \$280,821.

Leaside Arena's Operating Deficit

The report "Leaside Arena 2nd Pad Expansion Project" was adopted and approved by City Council on January 17, 2012 (BU21.1ai/EX14.1ai – 2012), including authority for the loan agreement between the City, Leaside Gardens Memorial Arena Board of Management, and Infrastructure Ontario to facilitate the construction of the second ice pad.

The general terms and conditions associated with the City loan included the following:

"13. Should the Arena Board meet its repayment obligations in respect of both Loans, but incur an Operating Budget deficit in any year, the Arena Board will be deemed to be in default under the Loans, and the amount of the Operating Budget deficit will be added to the balance of the City Loan outstanding."

<http://www.toronto.ca/legdocs/mmis/2012/ex/bgrd/backgroundfile-44225.pdf>

The "Annual Report on City's Loan and Loan Guarantee Portfolios" (EX14.11) was adopted and approved by City Council on May 3, 2016, included the following on Leaside Arena's loan agreement:

"In accordance with the loan agreement any annual operating deficit amounts shall be added to the outstanding direct City loan balance and a revised amortization schedule to retire the amended loan balance be established."

<http://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-91844.pdf>

The following recommendation was approved in this report (EX14.11):

"City Council request the City Manager and Deputy City Manager & Chief Financial Officer to report out in the fall of 2016 with a revised loan amortization schedule for the Leaside Memorial Gardens Arena Board or other remedy"

measures to reconcile any remaining previous year end operating deficits in accordance with the loan agreement."

Through these provisions, the City will recover any deficit during the period of the loan through the ongoing repayment as part of Leaside Arena's loan balance outstanding.

Funding Provision:

Through the 2014 Year-End Operating Variance Report, an overall Arena Board deficit of \$106,437 was provided for based on pre-audited statements at that time. It is recommended that the remaining \$174,384 be funded from the 2015 Final Year-End Operating Surplus through the Final Year-End 2015 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 2014 audited year-end results for the Arena Boards of Management Program as a whole did not result in 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. This Reserve is primarily funded through annual contributions from the eight Arena Boards' operating budgets. The balance of this Reserve at December 31, 2015 is \$162,736.

CONTACT

Josie La Vita,
Executive Director, Financial Planning
Tel: 416-397-4229
Fax: 416-397-4465
E-mail: jlavita@toronto.ca

Iqbal M. Ali
Acting Director, Accounting Services
Tel: 416-397-4438
Fax: 416-392-8003
E-mail: iali@toronto.ca

SIGNATURE

Roberto Rossini
Deputy City Manager & Chief Financial Officer

ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2014 Operating Surplus/
Deficit Settlement

APPENDIX A							
ARENA BOARDS OF MANAGEMENT							
SUMMARY OF 2014 OPERATING SURPLUS / DEFICIT SETTLEMENT							
Arena	2014 Council Approved Net Budget Surplus/(Deficit) \$ (a)	2014 Audited Actual Operating Net Surplus/(Deficit) \$ (b)	PSAB and Other Adjustments \$ (c)	Adjusted 2014 Actual Operating Surplus/(Deficit) \$ (d) = (b) + (c)	Settlement of 2014 Operating Results		
					2014 Operating Surplus Payable to the City \$ (e)	2014 Operating (Deficit) to be funded by the City \$ (f)	Total Net Payable to City/(Arena) \$ (g)
George Bell Arena	21	26,753	(27,890)	(1,137)		(1,137)	(1,137)
William H. Bolton Arena	15,010	(79,499)	(17,319)	(96,818)		(96,818)	(96,818)
Larry Grossman Forest Hill Memorial	1,393	14,925	(12,470)	2,455	2,455		2,455
Leaside Gardens	78,262	159,338	(243,189)	(83,851)		(83,851)	(83,851)
McCormick Arena	215	2,892	(7,313)	(4,421)		(4,421)	(4,421)
Moss Park Arena	67	16,206	(16,591)	(385)		(385)	(385)
North Toronto Memorial Arena	602	16,618	(16,467)	151	151		151
Ted Reeve Arena	240	13,322	(12,650)	672	672		672
TOTAL	95,810	170,555	(353,889)	(183,334)	3,278	(186,612)	(183,334)
2014 Program Summary:							
Total Operating Surpluses				3,278	3,278		3,278
Total Operating (Deficits)				(186,612)		(186,612)	(186,612)
Program Net Surplus/(Deficit)				(183,334)	3,278	(186,612)	(183,334)
Funding Requirement:					Funding Source:		
Arena Boards of Management Program 2014 Operating Net (Deficit)				(\$183,334)	Approved provision from the 2014 Operating Budget		\$106,437
Plus: 2013 settlement funded out of 2014 Operating Budget				(\$97,487)			
Total Funding Requirement				(\$280,821)			
Recommendation:							
A funding provision be made through the 2015 Final Year-End Operating Variance				\$174,384			