



**STAFF REPORT
ACTION REQUIRED
With Confidential Attachment**

**Lakeshore Lions Arena Incorporated Review of
Liabilities, Employment and Service Contracts**

Date:	July 5, 2011
To:	City Council
From:	Deputy City Manager and Chief Financial Officer General Manager, Parks, Forestry and Recreation
Wards:	Ward 6
Reason for Confidential Information:	This report is about labour relations or employee negotiations
Reference Number:	P:\2011\Internal Services\cf\cc11022cf (AFS #14215)

SUMMARY

This report responds to a request from the Executive Committee to report directly to Council on the recommendations arising from the currently ongoing review of the liabilities of Lakeshore Lions Arena Inc. (LLAI), including any additional funding that may be required as a result; the employment and service contracts and other service contracts for the continued operation of the arena, particularly in regard to the length of the contracts, and the notice required by the City to cancel any of these contracts.

RECOMMENDATIONS

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

1. City Council not authorize the public release of the confidential information in Attachment 1.
2. The new city services corporation named Lakeshore Arena Corporation (the "Corporation") assume:
 - a. All unaudited trade liabilities of LLAI as at May 31, 2011 (estimated at \$535,267);

- b. All cash and unaudited trade receivables of LLAI as at May 31, 2011 (estimated at \$490,481); and
- c. All additional trade liabilities the Arena incurs in the normal course of business until the incorporation date, which have been approved by the City in accordance with the Memorandum of Understanding dated June 2, 2011 between the City and the Lakeshore Lions Arena Incorporated.

Implementation Points

City staff is recommending that Council establish a new city services corporation to act as an operating entity to manage and operate the Lakeshore Arena, upon assumption of the leasehold interest from the current operator, LLAI. LLAI have consented to transferring their leasehold interest in the Arena and will work cooperatively with the new corporation to implement this transfer. Existing LLAI arena operating staff will, if they choose, become employees of the new corporation, and all operating, tenant, and ice scheduling contracts will be honoured. The key objective of the Lakeshore Arena Corporation will be to stabilize the operations of the Arena, and to maximize future revenues at the Arena during the interim period while the City establishes a long term strategy for the Lakeshore Arena and potential options for divesture in a manner that minimizes financial risk to the City of Toronto. Staff is further directed to report to the Executive Committee meeting at 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.

Financial Impact

This report recommends that the new Lakeshore Arena Corporation assume liabilities which are currently estimated at \$535, 267 and cash and trade receivables estimated at \$490,481 as of May 31, 2011 from the current arena corporation plus additional trade related liabilities that are incurred by the arena and approved by City staff until the date of incorporation. The estimated net liabilities are included in the \$1 million line of credit to the new Corporation as recommended by Executive Committee.

BACKGROUND AND DECISION HISTORY

On June 20, 2011, Executive Committee 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 in order to protect the City's financial interest and avoid the loss that would arise from a default. Executive Committee further directed staff to report back to Council on the recommendations arising from the currently ongoing review of the liabilities of Lakeshore Lions Arena Inc. (LLAI), including any additional funding that may be required as a result; the employment and service contracts and other service contracts for the continued operation of the arena, particularly in regard to the length of the contracts, and the notice required by the City to cancel any of these contracts. That report can be viewed at:

Staff Report - Restructuring of Relationship with Lakeshore Lions Arena Incorporated
(June 6, 2011)

(<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-38923.pdf>)

Attachment 3 to Staff Report: By-Law of the Lakeshore Arena Corporation

(<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-38924.pdf>)

COMMENTS

Review of Liabilities

Lakeshore Lions Arena Inc. auditors are Jarvis Ryan Associates, Chartered Accountants and an annual audit will be conducted after the LLAI fiscal year end of June 30, 2011.

The City has signed a Memorandum of Understanding with the LLAI dated June 2, 2011 to outline the principles of the proposed restructuring subject to Executive Committee and Council approval as well as a City review of trade liabilities of the LLAI that the new city services corporation will assume.

Staff from the City of Toronto's Internal Audit Division has performed a review of the trade liabilities of the LLAI as of May 31, 2011 as well as any subsequent material transactions known to the Arena Manager and Arena's external auditor.

The methodology followed by the Internal Audit staff included verifying trade and accrued liabilities as at May 31, 2011 to ascertain that the liabilities are related to Arena operations and are supported by appropriate documentation. The review did not include obtaining direct written confirmation from vendors on the liability and we have confirmed that this will be conducted by the Arena's external auditor as at the year ending June 30, 2011. As a result, there may be subsequent adjustments to the current estimated liabilities and receivables for the new corporation from those noted in this report, for which the Lakeshore Arena Corporation would be responsible.

Based on the Internal Audit review, the Corporation will assume trade liabilities estimated at \$535,267 as at May 31, 2011 plus any additional liabilities that are incurred in the regular course of business between May 31, 2011 and the incorporation date approved by the City. The trade liabilities do not include any property taxes attributable to the commercial use of the tenants which are recoverable from tenants.

All additional liabilities incurred between May 31, 2011 and the incorporation date is subject to City approval. According to the Memorandum of Understanding between the City and Lakeshore Lions Arena Inc., LLAI agreed to:

1. not incur any liabilities in excess of \$10,000 without the prior written consent of the City;
2. not pay any invoices in excess of \$10,000 without the prior written consent of the City; and
3. provide 7 days written notice to the City of any staffing changes at the Arena, including the hiring of any new staff and the termination of any staff.

All liabilities and invoices over \$10,000 have been approved by the Director, Management Services, Parks, Forestry and Recreation starting from June 1, 2011. There are no extraordinary items and all such expenses relate to the ongoing Arena operations.

LLAI has cash and trade receivables estimated at \$490,481 to offset the trade liabilities. These receivables are expected to offset the majority of the \$535,267 in estimated trade payables. This amount is included in the line of credit as recommended by the Executive committee. The Executive Committee recommended a line of credit to the Corporation in an amount not to exceed \$1,000,000, with interest at the rate of 3% annually calculated monthly, for the purpose of covering periodic operating working capital cash shortfalls, to be repaid in full, and to be funded from the City's own working capital is sufficient to address the working capital needs.

Employment and Other Service Contracts:

The employment service contracts and other service contracts for the continued operation of the arena, particularly in regard to the length of the contracts, and the notice required by the City to cancel any of these contracts are reported in the Confidential Attachment.

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SIGNATURE

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ATTACHMENT

Lakeshore Lions Arena Incorporated Review of Liabilities, Employment and Service Contracts