



## STAFF REPORT ACTION REQUIRED

### Lakeshore Arena Corporation – Annual General Meeting and 2015 Audited Financial Statements

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|--------------------------|---|
| <b>Date:</b>             | June 20, 2016   |
| <b>To:</b>               | Executive Committee   |
| <b>From:</b>             | City Manager<br>Deputy City Manager & Chief Financial Officer |
| <b>Wards:</b>            | All   |
| <b>Reference Number:</b> | P:\2016\Internal Services\Fp\Ec16014Fp                        |

#### SUMMARY

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This report recommends the actions necessary to comply with the requirements of the *Business Corporations Act* (Ontario) for the holding of the Annual General meeting of the Shareholder of Lakeshore Arena Corporation, including receipt of its Annual Report and Audited Financial Statements for 2015, and appointment of the auditor for 2016.

This report also contains recommendations for receipt at the Annual General Meeting of the Shareholder of information disclosing the individual compensation of executive officers employed by Lakeshore Arena Corporation in 2015.

#### RECOMMENDATIONS

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**The City Manager and the Deputy City Manager & Chief Financial Officer recommend that:**

1. City Council treat the portion of the City Council meeting at which this report is considered as the Annual General Meeting of the Shareholder for Lakeshore Arena Corporation by:
  - a. Appointing Welch LLP Chartered Accountants as the Auditor for Lakeshore Arena Corporation for the fiscal year 2016, and authorizing the Board of Directors of Lakeshore Arena Corporation to fix the remuneration of the Auditor;

- b. Receiving the Lakeshore Arena Corporation 2015 Annual Report forming Attachment 1 to this report; and,
  - c. Receiving the Lakeshore Arena Corporation 2015 Audited Financial Statements, forming Attachment 2 to this report.
2. City Council receive the "Lakeshore Arena Corporation – 2015 Executive Compensation Disclosure" forming Attachment 3 to this report.
3. City Council direct the City Clerk to forward a copy of the Lakeshore Arena Corporation 2015 Audited Financial Statements, forming Attachment 2 to this report, to the Audit Committee for information.

### **Financial Impact**

Lakeshore Arena Corporation has operated since 2011 without any operating subsidy from the City of Toronto. The Corporation closed 2015 with an accumulated deficit of \$3.375 million after interest and amortization, and at December 31, 2015 had long term debt of \$40.095 million.

In November 2015, City Council approved an \$8.1 million shareholder capital contribution to reduce the short term interest only loan from the City. As a return on this capital contribution, the City will receive 50% of the Corporation's annual net operating income which is to be allocated to the "Lakeshore Arena Capital Reserve Fund" with the purpose of providing a funding source for Parks Forestry and Recreation capital repair projects associated with the Arena. This is conditional upon the Corporation obtaining permanent third party financing is secured for the remaining \$11.9 million balance of the loan, which is expected to take effect in the near future. The balance of the Arena's debt, \$19.6 million at December 31, 2015, is held as a leasehold second mortgage by a commercial bank with a maturity of October 31, 2017.

### **DECISION HISTORY**

On November 3, 2015, City Council authorized adjustments to City loans to Lakeshore Arena Corporation resulting in the reclassification of \$8.1 million in loans to a capital contribution, conditional upon obtaining permanent financing for the \$11.9 million balance, and amended the Unanimous Shareholder Declaration to require that Lakeshore Arena Corporation make an annual contribution to the City equal to 50 percent of net operating costs (before amortization and depreciation), treated as a return on capital, to a reserve fund to be used to offset the City's capital budget for the Arena.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX9.10>

On June 10, 2015, that portion of the City Council meeting where EX6.2 was approved by Council, was considered the previous Annual General Meeting of the Shareholder for Lakeshore Arena Corporation.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX6.2>

On July 11, 2012, City Council adopted the requirement that Shareholder Directions for all wholly-owned City corporations be amended to require public disclosure to the extent permitted by law of individual executive compensation as part of the annual reporting to the Shareholder and where required obtain consent from executives. City Council also required that individual variable pay remuneration (one-time lump sums) not exceed 25% of an executive's base salary.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX21.19>

## **ISSUE BACKGROUND**

City Council authorized the establishment of Lakeshore Arena Corporation on July 12, 2011 pursuant to section 148 of the *City of Toronto Act, 2006*, and Ontario Regulation 609/06. Lakeshore Arena Corporation was incorporated under the *Business Corporations Act* (Ontario) (OBCA) on July 19, 2011. The City is the sole shareholder.

Subsection 154 (1) of the OBCA requires that the Shareholder receive Lakeshore Arena Corporation's audited annual financial statements and the report of the auditor at the annual meeting of the Shareholder. Subsection 94 (1) requires that the directors of Lakeshore Arena Corporation call an annual meeting of its Shareholder by no later than fifteen months after holding the last preceding annual meeting.

Section 149 (2) of the OBCA requires that Lakeshore Arena Corporation's Shareholder at each annual meeting appoint one or more auditors to hold office until the close of the next annual meeting, and allows the Shareholder to authorize the directors to fix the auditor's remuneration.

## **COMMENTS**

### **1. Appointment of the Auditor**

The Corporation held a proposal call for audit services for 2016 and is recommending Welch LLP Chartered Accountants be appointed as the Auditor for fiscal year 2016. The Board of Directors of Lakeshore Arena Corporation will fix the annual remuneration of the Auditor.

### **2. Key Lakeshore Arena Corporation Achievements in 2015**

The 2015 Annual Report for Lakeshore Arena Corporation is Attachment 1 to this report. The Annual Report indicates that in 2011 when the Lakeshore Arena Corporation was established the long term debt was \$43.4 million and by the end of 2015 the debt has been reduced to \$40.095 million without any operating subsidy from the City. Due to strong working capital management the Corporation did not require a draw down during the year on a \$1 million line of credit for working capital provided by the City.

The Corporation closed 2015 with a net deficiency of \$0.467 million after interest and amortization however noted that since its inception, it would have returned net revenue to the City of \$6.3 million had the facility been debt free.

Lakeshore Arena continues to be a high demand facility with exceptional utilization rates for the industry. It continues to grow as a premier location for a wide range of hockey activities, including practice facilities for the Toronto Maple Leafs and other visiting National Hockey League teams.

Key accomplishments for the Corporation in 2015 include:

- Recruitment of a new Executive Director;
- Generation of \$5 million in revenues before interest and amortization, an increase of \$0.2 million due to higher ice utilization and food and beverage revenues; and,
- Securing approval from the City for an adjustment to the short term interest only loan thereby reducing the cash flow burden for debt servicing to the Corporation.

In 2016, the City's Parks, Forestry and Recreation division will undertake a project in Lakeshore Arena to address water accumulation and infiltration to the interior of the facility from the roof.

### **Adjustment to City Loan**

In November 2015, City Council authorized a reduction of \$8.1 million to the City's interest only loan, and determined that this be recognized as a shareholder capital contribution. In return, the Corporation will make an annual contribution to the City of 50% of net operating income before amortization and depreciation, to a cumulative limit of \$8.1 million. These funds will be placed into a discretionary reserve fund for the purpose of capital repair projects associated with the Arena.

City Council's decision is expected to take effect in the near future. It is subject to the Corporation obtaining permanent financing for the balance of the \$11.9 million loan from a third party lender, subject to the satisfaction of the Deputy City Manager & Chief Financial Officer.

### **3. Summary – Lakeshore Arena Corporation 2015 Audited Financial Statements**

This report provides a summary of Lakeshore Arena Corporation's Audited Financial Statements contained in Attachment 2 to this report. Lakeshore Arena Corporation had 2015 revenues of \$5.020 million comprised of \$3.167 million of ice rentals and other revenues such as tenant rents of \$0.966 million and snack bar sales of \$0.331 million.

Total 2015 expenditures were \$5.487 million. Major 2015 expenditures were salaries and benefits of \$0.953 million interest on long term debt of \$1.621 million, utilities of \$1.231 million, and building and equipment maintenance totalling \$0.503 million.

The 2015 operating deficit for Lakeshore Arena Corporation was \$0.467 million, higher than the budgeted deficit of \$0.157 million.

The 2015 end of year accumulated operating deficit for Lakeshore Arena Corporation was \$3.375 million compared to \$2.908 million in 2014.

#### **4. 2015 Executive Compensation**

Lakeshore Arena Corporation has disclosed executive compensation information for senior management in Attachment 3 to this report as requested by City Council.

The protection of individual privacy is required by the *Municipal Freedom of Information and Protection of Privacy Act* (MFIPPA). Specific compensation data of individual employees is protected personal information under MFIPPA.

Lakeshore Arena has indicated that senior management have consented to the public disclosure of individual compensation information contained in Attachment 3 and assured the City that there is no unauthorized release of personal information.

#### **CONTACT**

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#### **SIGNATURE**

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Peter Wallace  
City Manager

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Roberto Rossini  
Deputy City Manager & Chief Financial Officer

#### **ATTACHMENTS**

Attachment 1: Lakeshore Arena Corporation 2015 Annual Report  
Attachment 2: Lakeshore Arena Corporation 2015 Audited Financial Statements  
Attachment 3: Executive Compensation Disclosure