

Arena Boards of Management 2016 Operating Surpluses/Deficits Settlement

Date: November 13, 2017
To: Budget Committee and Executive Committee
From: Acting Chief Financial Officer
Wards: 11, 16, 18, 20, 26, 27, 32

SUMMARY

This report recommends settlements with the eight Arena Boards of Management (Arenas) of their 2016 operating surpluses and deficits based on the audited financial statements for the year-ended December 31, 2016, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval.

RECOMMENDATIONS

The Acting Chief Financial Officer recommends that:

1. City Council direct that the 2016 Operating Budget surpluses totalling \$43,265 from three Arenas (William H. Bolton, North Toronto Memorial and Red Reeve) be paid to the City of Toronto and be used, in part, to fund the 2016 Operating Budget deficits of \$199,490 for four Arenas (George Bell, Forest Hill Memorial, McCormick, and Moss Park), resulting in an operating net deficit balance of \$156,225 to be funded by the City, as illustrated in Appendix A, column (g), of the report;
2. City Council direct that the funding provision for the 2016 Arena Boards Operating Budget net deficit of \$26,325 be made through the 2017 Final Year-End Operating Variance Report, as calculated in the attached Appendix A – 2016 Program Summary.

FINANCIAL IMPACT

For 2016, the Arena Boards of Management adjusted actual was a deficit of \$185,636 or \$195,501 over the budgeted surplus of \$9,865. The net settlement for the year 2016 requires that surplus funds of \$43,265 from Bolton Arena, North Toronto Memorial Arena and Ted Reeve Arena be paid to the City and be used to partially fund the operating deficits totalling of \$199,490 from George Bell Arena, Forest Hill Arena,

McCormick Arena and Moss Park Arena. (See Appendix A) The funding requirement for this overall deficit is \$156,225, as shown below. The net deficit at Leaside Gardens Arena will be added to the outstanding second pad loan balance for future repayment by the arena, according to the loan agreement between Leaside Gardens and the City.

The total net deficit of \$156,225 for the 7 Boards (other than Leaside) will be partially funded by the \$129,900 which was reported as a pre-audit preliminary provision, in the 2016 Final Year-End Operating Variance Report. The balance of \$26,325 must be funded from the 2017 year-end results, which will occur through the 2017 Final Year-End Operating Variance Report.

The City will recover Leaside Arena's 2016 operating deficit of \$29,411 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.

Arena Boards of Management	2016 Council Approved Net Budget Surplus/ (Deficit) \$	2016 Final Adjusted Net Surplus/ (Deficit) \$	2016 Preliminary provision for deficit \$	Balance to be funded in 2017 \$
George Bell Arena	190	(90,748)		
William Bolton Arena	1,123	32,408		
Forest Hill Memorial Arena	1,591	(15,812)		
McCormick Arena	390	(20,202)		
Moss Park Arena	1,051	(72,728)		
North Toronto Memorial Arena	974	1,271		
Ted Reeve Arena	512	9,586		
Total without Leaside	5,831	(156,225)	129,900	(26,325)
Leaside Gardens	4,034	(29,411)	Added to loan balance	
Totals	9,865	(185,636)		

DECISION HISTORY

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 arenas will be funded by the City.

As the Audited Statements for all 8 of the Arena Boards are not normally available prior to the Final Year-End Operating Variance Report proceeding to Council, a preliminary

net result is reported each year. The variance between the adjusted audited results compared to that preliminary provision, requires subsequent authority to be sought for the City to settle with the Arena Boards each year.

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 4, 2017, City Council received the report titled "Operating Variance Report for the Twelve Month Period Ended December 31, 2016", including the Arena Boards of Management's Net Expenditure Variance.

<http://www.toronto.ca/legdocs/mmis/2017/ex/bgrd/backgroundfile-104863.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

2016 Operating Results

A review of the audited financial statements for the year ended December 31, 2016 indicates that three Arenas (William H. Bolton, North Toronto, and Ted Reeve) reported surpluses amounting to \$43,265 and the remaining five Arenas (George Bell, Larry Grossman Forest Hill Memorial, Leaside Memorial Community Gardens, McCormick Playground, and Moss Park) reported deficits amounting to \$228,901 for an overall deficit of \$185,636.

The Arena Boards' 2016 deficit of \$185,636 results in a negative year-end variance of \$195,501 when compared to the total 2016 Approved Operating Budget for the Arena Boards of Management of a \$9,865 surplus as shown in Table 1 below.

Table 1 below summarizes the approved budget, actual operating surplus/deficit, and variance to budget for each of the Arena Boards for the year 2016.

Arena Boards of Management	2016 Operating Surplus/(Deficit)		
	Council Approved Budget \$	Adjusted Actual \$	Variance Fav/(Unfav) \$
George Bell Arena	190	(90,748)	(90,938)
William H. Bolton Arena	1,123	32,408	31,285
Forest Hill Memorial Arena	1,591	(15,812)	(17,403)
Leaside Gardens	4,034	(29,411)	(33,445)
McCormick Arena	390	(20,202)	(20,592)
Moss Park Arena	1,051	(72,728)	(73,779)
North Toronto Memorial Arena	974	1,271	297
Ted Reeve Arena	512	9,586	9,074
Total Program Net Surplus/(Deficit)	9,865	(185,636)	(195,501)

Explanation of Major Variances to 2016 Approved Budgets

Arena Boards collectively reported unfavourable expenditure variances driven by overspending in utility costs to maintain ice surfaces through a warmer than average winter season.

William H. Bolton Arena generated a positive variance due to underspending on repairs and salaries. North Toronto's positive variance arose from revenue in excess of budget. Ted Reeve was underspent generally.

Unanticipated costs at George Bell arose from ice-resurfacers repairs and furnace repairs at McCormick. Leaside, Moss Park and Forest Hill all experienced lower than planned ice rental revenues.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2016 operating surplus/deficit net settlement calculation by Arena.

For the year 2016, three Arenas (William H. Bolton, North Toronto, and Ted Reeve) have operating surpluses totalling \$43,265 that is payable to the City. These surpluses will be used to partially fund the operating deficits of the remaining four Arenas (George Bell, Forest Hill Memorial, McCormick, and Moss Park) that total \$199,490, resulting in a net deficit to the City of \$156,225 as detailed in Appendix A. The \$29,411 deficit at Leaside Gardens will be added to the existing loan from the City, as discussed below.

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.

In 2016, Leaside Arena realized a deficit of \$29,411 after meeting its debt obligations. Therefore, this amount will be added to the existing loan balance.

Funding Provision

As a net preliminary operating deficit provision of \$129,900 was provided through the 2016 Final Year-End Operating Variance Report, and the actual net operating deficit is \$156,225, the shortfall of \$26,325 will be funded from 2017 year-end results through the 2017 Final Year-End Operating Variance Report. This calculation is provided in Appendix A - 2016 Program Summary, of this 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-resurfacers replacements for the Arena Boards.

As the 2016 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 2), 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, 2016 is \$267,125 and is projected to be \$267,125 as of December 31, 2017.

CONTACT

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

Sandra Califaretti
Director, Accounting Services
Tel: 416-397-4438
E-mail: sandra.califaretti@toronto.ca

SIGNATURE

Joe Farag
Acting Chief Financial Officer

ATTACHMENT

Appendix A – Arena Boards of Management Summary of 2016 Operating Surplus / Deficit Settlement

**APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2016 OPERATING SURPLUS / DEFICIT SETTLEMENT**

Arena	Budget	Adjusted Actual Operating Surplus/(Deficit)			Distribution of Operating Surplus/(Deficit)		
	2016 Council Approved Net Budget Surplus/(Deficit) \$ (a)	2016 Audited Actual Operating Net Surplus/(Deficit) \$ (b)	PSAB and Other Adjustments \$ (c)	Adjusted 2016 Actual Operating Surplus/(Deficit) \$ (d) = (b) + (c)	2016 Operating Surplus Payable to the City (e)	2016 Operating (Deficit) to be funded by the City (f)	2016 Total Payable to City/(Arena) before Reserve Allocation (g) = (e) + (f)
George Bell Arena	190	(28,509)	(62,239)	(90,748)		(90,748)	(90,748)
William H. Bolton Arena	1,123	38,554	(6,146)	32,408	32,408		32,408
Forest Hill Memorial Arena	1,591	2,048	(17,860)	(15,812)		(15,812)	(15,812)
McCormick Arena	390	(7,178)	(13,024)	(20,202)		(20,202)	(20,202)
Moss Park Arena	1,051	(54,616)	(18,112)	(72,728)		(72,728)	(72,728)
North Toronto Memorial Arena	974	19,763	(18,492)	1,271	1,271		1,271
Ted Reeve Arena	512	37,989	(28,403)	9,586	9,586		9,586
Subtotal w/o Leaside	5,831	8,051	(164,276)	(156,225)	43,265	(199,490)	(156,225)
Leaside Gardens	4,034	623,348	(652,759)	(29,411)		(29,411)	(29,411)
TOTAL	<u>9,865</u>	<u>631,399</u>	<u>(817,035)</u>	<u>(185,636)</u>	<u>43,265</u>	<u>(228,901)</u>	<u>(185,636)</u>

Note: The deficit balance for Leaside Gardens of \$29,411 will be applied to the loan balance.

2016 Program Summary:

Total Payable to City/(Arena) before Reserve Allocation	A	(156,225)
Allocation to Vehicle & Equipment Replacement Reserve (XQ1705)	B	0
Net Payable to City/(Arena) after Allocation to Reserve	C = A - B	(156,225)
Funding Source: Approved Provision for Net Payable by City/(Arena) - 2016 Final Year-End Operating Variance Report	D	129,900
Recommended Provision for Net Payable to City/(Arena) - 2017 Final Year-End Operating Variance Report	C + D	(26,325)