



REPORT FOR ACTION

Arena Boards of Management 2017 Operating Surpluses/Deficits Settlement

Date: May 16, 2019

To: Budget Committee and Executive Committee

From: Chief Financial Officer and Treasurer

Wards: 5, 8, 9, 13, 15, 18, 19

SUMMARY

This report recommends settlements with the eight Arena Boards of Management (Arenas) of their 2017 operating surpluses and deficits based on the audited financial statements for the year ended December 31, 2017, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council direct that the 2017 operating surpluses totalling \$5,857 from three Arenas (William H. Bolton, Forest Hill Memorial and North Toronto Memorial) be paid to the City of Toronto and be used, in part, to fund the cumulative operating deficit of \$126,531 for four Arenas (George Bell, McCormick Playground, Moss Park, and Ted Reeve), resulting in a net operating deficit of \$120,674 to be funded by the City, as illustrated in Appendix A, column (g), of the report;
2. City Council direct that the excess of \$24,558 from the funding provision made available in the 2017 Final Year-End Operating Budget Variance report of \$145,232 and the \$120,674 required to settle the actual 2017 deficits be applied to the 2018 Final Year-End Operating Budget variance for the Arena Boards, as shown in the attached Appendix A – 2017 Program Summary.

FINANCIAL IMPACT

The Arena Boards of Management final net settlement for the year 2017 requires that surplus funds of \$5,857 be paid to the City from three Arenas and be used to partially fund the operating deficit of \$126,531 for the remaining four arenas, resulting in a net funding requirement from the City of \$120,674. The \$120,674 required to settle the overall net deficits of the seven arenas is lower than the provision of \$145,232 made in the 2017 Final Year-End Operating Budget Variance Report by \$24,558. Consistent with past practice regarding shortfalls in year-end provision, this amount will be applied to the 2018 Final Year-End variance reported for the Arena Boards. A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

Since the combined Arenas did not meet their budgeted net operating surplus of \$19,702 there will be no proportional allocation to the Vehicle Reserve for those Arena Boards that actually exceeded their individual budgeted surplus.

The City will recover Leaside Memorial Community Gardens' 2017 operating deficit of \$18,748 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.

DECISION HISTORY

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 June 26, 2018, City Council received the report titled “Operating Variance Report for the Twelve Month Period Ended December 31, 2017”, 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

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 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.

2017 Operating Results

A review of the audited financial statements for the year ended December 31, 2017 indicate that three Arenas (William H. Bolton, Larry Grossman Forest Hill Memorial and North Toronto) reported surpluses amounting to \$5,857 and the remaining five Arenas (George Bell, Leaside Memorial Community Gardens, McCormick Playground, Moss Park and Ted Reeve) reported deficits amounting to \$145,279 for an overall deficit of \$139,422.

The Arena Boards 2017 deficit of \$139,422 results in a negative variance of \$159,124 in relation to the Council Approved 2017 Operating Budget of a \$19,702 surplus 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 2017.

Table 1	2017 Operating Surplus/(Deficit)		
	Council Approved Budget	Adjusted Actual	Variance Fav/(Unfav)
Arena Boards of Management			
George Bell Arena	\$ 509	\$ (41,084)	\$ (41,593)
William H. Bolton Arena	6,623	1,115	(5,508)
Forest Hill Memorial Arena	1,633	3,594	1,961
Leaside Gardens	7,929	(18,748)	(26,677)
McCormick Arena	401	(16,182)	(16,583)
Moss Park Arena	1,078	(20,180)	(21,258)
North Toronto Memorial Arena	1,001	1,148	147
Ted Reeve Arena	528	(49,085)	(49,613)
Total Program Net Surplus/(Deficit)	19,702	(139,422)	(159,124)

Explanation of Major Variances to 2017 Approved Budgets

George Bell Arena generated an unfavourable variance due to lost revenue from cancelled summer programming resulting in an operating deficit of \$41,084.

Leaside Memorial Community Gardens generated an unfavourable variance due to unanticipated building repairs and lower than expected snack bar revenues, resulting in an operating deficit of \$18,748.

Ted Reeve Arena generated an unfavourable variance due to unpaid revenues from a third party, resulting in an operating deficit of \$49,085.

Moss Park Arena and McCormick Playground generated unfavourable variances due to overspending in utilities caused by the warmer than average winter season, resulting in operating deficits of \$20,180 and \$16,182 respectively.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2017 operating surplus/deficit net settlement calculation by Arena.

For the year 2017, three Arenas (William H. Bolton, Larry Grossman Forest Hill Memorial and North Toronto) have operating surpluses totalling \$5,857 that are payable to the City. These surpluses will be used to partially fund the operating deficits of four Arenas (George Bell, McCormick Playground, Moss Park and Ted Reeve) that total \$126,531, resulting in a net deficit to the City of \$120,674 as detailed in Appendix A. The \$18,748 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) adopted and approved by City Council on May 3, 2016, included the following on the 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 2017, Leaside Arena generated a deficit of \$18,748 after meeting its debt obligations. Therefore, this amount will be added to the existing loan balance.

Funding Provision

As a net operating deficit provision of \$145,232 was provided through the 2017 Final Year-End Operating Variance Report, and the actual net operating deficit is \$120,674, the additional provision provided of \$24,558 is recommended to be applied to the 2018 net result from the Arena Boards. This calculation is provided in Appendix A – 2017 Program Summary, of the 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.

Since the 2017 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, 2017 is \$270,208.

CONTACT

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENT

Appendix A – Arena Boards of Management – Summary of 2017 Operating Surplus/
Deficit Settlement

APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2017 OPERATING SURPLUS / DEFICIT SETTLEMENT

	Budget	Adjusted Actual Operating Surplus/(Deficit)			Distribution of Operating Surplus/(Deficit)		
Arena	2017 Council Approved Net Budget Surplus/(Deficit) \$	2017 Audited Actual Operating Net Surplus/(Deficit) \$	PSAB and Other Adjustments \$	Adjusted 2017 Actual Operating Surplus/(Deficit) \$	2017 Operating Surplus Payable to the City \$	2017 Operating (Deficit) to be funded by the City and loan repayment \$	2017 Total Payable to City/(Arena) (no Reserve Allocation) \$
	(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g) = (e) + (f)
George Bell Arena	509	(49,661)	8,577	(41,084)		(41,084)	(41,084)
William H. Bolton Arena	6,623	23,011	(21,896)	1,115	1,115		1,115
Forest Hill Memorial Arena	1,633	14,519	(10,925)	3,594	3,594		3,594
McCormick Arena	401	(10,463)	(5,719)	(16,182)		(16,182)	(16,182)
Moss Park Arena	1,078	(19,473)	(707)	(20,180)		(20,180)	(20,180)
North Toronto Memorial Arena	1,001	15,330	(14,182)	1,148	1,148		1,148
Ted Reeve Arena	528	(31,092)	(17,993)	(49,085)		(49,085)	(49,085)
Subtotal w/o Leaside	11,773	(57,829)	(62,845)	(120,674)	5,857	(126,531)	(120,674)
Leaside Gardens	7,929	631,865	(650,613)	(18,748)		(18,748)	(18,748)
TOTAL	<u>19,702</u>	<u>574,036</u>	<u>(713,458)</u>	<u>(139,422)</u>	<u>5,857</u>	<u>(145,279)</u>	<u>(139,422)</u>

Note: The deficit balance for Leaside Gardens of \$18,748 will be applied to the loan balance.

2017 Program Summary:

Total Payable to City/(Arena) before Reserve Allocation	A	(120,674)
Allocation to Vehicle & Equipment Replacement Reserve (XQ1705)	B	0
Net Payable to City/(Arena) after Allocation to Reserve	C = A - B	(120,674)
Funding Source: Approved Provision for Net Payable by City/(Arena) - 2017 Final Year-End Operating Variance Report	D	145,232
Recommended Provision for Net Payable to City/(Arena) - 2018 Final Year-End Operating Variance Report	C + D	24,558