EX18.14

TORONTO

REPORT FOR ACTION

Arena Boards of Management 2018 Operating Surpluses/Deficits Settlement

Date: September 24, 2020
To: Budget 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 2018 cash-based operating surpluses and deficits for the year ended December 31, 2018, with operating surpluses payable to the City and operating deficits funded by the City upon Council's approval. City Staff report annually on the Arena Boards operating surpluses and deficits once their respective Boards financial statements have been audited and approved by City Council.

While normally the prior year end settlement reports for both Association of Community Centres and Arena Boards are submitted together to Council in the following year, the 2018 Settlement reports were delayed due to delays in completing the 2018 audits, and further delayed by the impact of COVID-19 on the City's priorities.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council direct that the 2018 operating surpluses totalling $86,659 from three Arenas (Forest Hill Memorial, North Toronto Memorial and Ted Reeve) be paid to the City of Toronto and be used, in part, to fund the cumulative operating deficit of $183,074 for four Arenas (George Bell, William H. Bolton, McCormick Playground, and Moss Park), resulting in a net operating deficit of $96,415 to be funded by the City, as illustrated in Appendix A, column (g), of the report;

2. City Council direct that the excess of $100,143 between the funding provision in the 2018 Final Year-End Operating Budget Variance report of $196,558 and the $96,415 required to settle the actual 2018 deficits be applied to the 2019 Final Year-End

Operating Budget variance for the Arena Boards, as shown in the attached Appendix A – 2018 Program Summary.

FINANCIAL IMPACT

The Arena Boards of Management final net settlement for the year 2018 requires that surplus funds of $86,659 be paid to the City from three Arenas and be used to partially fund the operating deficit of $183,074 for the remaining four arenas, resulting in a net funding requirement from the City of $96,415. This $96,415 required to settle the overall net deficits of the seven arenas is less than the provision of $196,558 made in the 2018 Final Year-End Operating Budget Variance Report by $100,143. Consistent with past practice regarding excess year-end provisions, this amount will be applied to the 2019 Final Year-End variance reported for the Arena Boards. A summary of net funding to the Arenas and cash surpluses payable to the City are detailed in Appendix A.

Since the combined Arenas operated at a net operating deficit position for 2018, 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' 2018 operating deficit of $3,604 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. This amount is reflected as an increase to Leaside Arena's loan payable balance on their financial statements for 2019.

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 July 16, 2019, City Council received the report titled "Operating Variance Report for the Year Ended December 31, 2018", including the Arena Boards of Management's Net Expenditure Variance. (https://www.toronto.ca/legdocs/mmis/2019/ex/bgrd/backgroundfile-134900.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. For the purposes of this report, PSAB specific entries are reversed in order to return accounting surplus or deficits to a cash-based value, consistent with the entity's budget.

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 cash operating deficit incurred by the arena will be funded by the City.

2018 Operating Results

A review of the audited financial statements for the year ended December 31, 2018, indicates that three Arenas (Larry Grossman Forest Hill Memorial, North Toronto and Ted Reeve) reported cash surpluses amounting to $86,659 and the remaining five Arenas (George Bell, William H. Bolton, Leaside Memorial Community Gardens, McCormick Playground, and Moss Park) reported cash deficits amounting to $186,678 for an overall deficit of $100,019.

The Arena Boards 2018 deficit of $100,019 results in a negative variance of $69,420 in relation to the Council Approved 2018 Operating Budget of a $30,599 deficit as shown in Table 1.

Table 1 below summarizes the approved budget, actual cash operating surplus/deficit, and variance to budget for each of the Arena Boards for the year 2018.

Table 1	2018 Operating Surplus/(Deficit)		
Arena Boards of Management	Council Approved Budget	Adjusted Actual	Variance Fav/(Unfav)
	$	$	$
George Bell Arena	47	(1,494)	(1,541)
William H. Bolton Arena	(46,704)	(162,532)	(115,828)
Forest Hill Memorial Arena	4,252	7,732	3,480
Leaside Gardens	10,907	(3,604)	(14,511)
McCormick Arena	906	(1,872)	(2,778)
Moss Park Arena	54	(17,176)	(17,230)
North Toronto Memorial Arena	490	340	(150)
Ted Reeve Arena	(552)	78,587	79,139
Total Program Net Surplus/(Deficit)	(30,599)	(100,019)	(69,420)

Explanation of Major Variances to 2018 Approved Budgets

In 2018, William H. Bolton underwent planned renovations from April to September which caused an unfavourable variance of $115,828 due to larger than expected building repairs and lower than expected program registrations, resulting in a cash operating deficit of $162,532.

Forest Hill Memorial and Ted Reeve generated a combined favourable variance of $82,619 from lower than expected utility costs, contributing to a cash operating surplus of $7,732 and $78,587 respectively.

Leaside Gardens experienced an unfavourable variance of $14,511 due to higher than expected building repairs, resulting in a cash operating deficit of $3,604.

Moss Park Arena experienced an unfavourable variance of $17,230 due to lower than expected program registrations and pro shop sales, resulting in a cash operating deficit of $17,176.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2018 cash operating surplus/deficit net settlement calculation by Arena.

For the year 2018, three Arenas (Larry Grossman Forest Hill Memorial, North Toronto and Ted Reeve) have cash operating surpluses totalling $86,659 that are payable to the City. These surpluses will be used to partially fund the cash operating deficits of four Arenas (William H. Bolton, George Bell, McCormick Playground, and Moss Park) that total $183,074, resulting in a net deficit to the City of $96,415 as detailed in Appendix A. The $3,604 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 2018, Leaside Arena resulted in a deficit of $3,604 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 $196,558 was provided through the 2018 Final Year-End Operating Variance Report, and the actual net operating deficit is $96,415, the additional provision provided of $100,143 is recommended to be applied to the 2019 net result from the Arena Boards. This calculation is provided in Appendix A – 2018 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 cash 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 2018 audited year-end cash results for the Arena Boards of Management 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, 2018 is $256,878.

CONTACT

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SIGNATURE

Heather Taylor
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ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2018 Operating Surplus/ Deficit Settlement

APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2018 OPERATING SURPLUS / DEFICIT SETTLEMENT

	Budget	**Adjusted Actual Operating Surplus/(Deficit)**			**Distribution of Operating Surplus/(Deficit)**		
Arena	2018 Council Approved Net Budget Surplus/(Deficit) $	2018 Audited Actual Operating Net Surplus/(Deficit) $	PSAB and Other Adjustments $	Adjusted 2018 Actual Operating Surplus/(Deficit) $	2018 Operating Surplus Payable to the City $	2018 Operating (Deficit) to be funded by the City and loan repayment $	2018 Total Payable to City/(Arena) (no Reserve Allocation) $
	(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g) = (e) + (f)
George Bell Arena	47	8,812	(10,306)	(1,494)		(1,494)	(1,494)
William H. Bolton Arena	(46,704)	(165,097)	2,565	(162,532)		(162,532)	(162,532)
Forest Hill Memorial Arena	4,252	25,145	(17,413)	7,732	7,732		7,732
McCormick Arena	906	5,321	(7,193)	(1,872)		(1,872)	(1,872)
Moss Park Arena	54	(16,469)	(707)	(17,176)		(17,176)	(17,176)
North Toronto Memorial Arena	490	20,297	(19,957)	340	340		340
Ted Reeve Arena	(552)	117,156	(38,569)	78,587	78,587		78,587
Subtotal w/o Leaside	(41,506)	(4,835)	(91,580)	(96,415)	86,659	(183,074)	(96,415)
Leaside Gardens	10,907	607,407	(611,011)	(3,604)		(3,604)	(3,604)
TOTAL	(30,599)	602,572	(702,591)	(100,019)	86,659	(186,678)	(100,019)

Note: The deficit balance for Leaside Gardens of $3,604 will be applied to the loan balance.

2018 Program Summary:

Total Payable to City/(Arena) before Reserve Allocation	A	(96,415)
Allocation to Vehicle & Equipment Replacement Reserve (XQ1705)	B	0
Net Payable to City/(Arena) after Allocation to Reserve	C = A - B	(96,415)
Funding Source: Approved Provision for Net Payable by City/(Arena) - 2018 Final Year-End Operating Variance Report	D	196,558
Recommended Provision for Net Payable to City/(Arena) - 2019 Final Year-End Operating Variance Report	C + D	100,143