REPORT FOR ACTION

Arena Boards of Management 2019 Operating Surpluses/Deficits Settlement

Date: September 24, 2021
To: Budget Committee
From: Chief Financial Officer and Treasurer
Wards: 5, 8, 9, 13, 15, 18, 19

SUMMARY

On an annual basis, the City of Toronto receives the audited financial statements from various Arena Boards of Management (Arenas). The financial statements allow the City to determine whether additional operating subsidy payments need to be provided to or clawed back from the Arenas to settle their operating deficits or surpluses.

This report recommends the settlement of seven of the Arenas' operating surpluses and deficits for 2019, based on audited financial results. At the time of preparation of this report, the audited financial statements for Leaside Memorial Community Gardens Arena was still in progress and therefore will be presented in a future report for consideration and approval purposes.

While normally the prior year end settlement reports for both Arena Boards and Association of Community Centres are submitted together to Council in the following year, the 2019 settlement reports were delayed due to delays in completing the Arena Board 2019 audits, and further delayed by the impact of COVID-19 on the City's 2020 priorities.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council direct that the 2019 operating surpluses totalling $30,309 from three Arenas (McCormick, 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 $205,582 for four Arenas (George Bell, William H. Bolton, Forest Hill Memorial, and Moss Park), resulting in a net operating deficit of $175,273 to be funded by the City, as illustrated in Appendix A, column (g), of the report;

2. City Council direct that the funding provision from the 2019 Final Year-End Operating Budget Variance report of $100,143 be applied to the 2019 net deficit and a funding provision of $75,130 be made through the 2021 Year-End Operating Variance Report, as shown in the attached Appendix A – 2019 Program Summary.

FINANCIAL IMPACT

On an overall basis, the City is required to provide additional operating subsidies of $175,273 (net) to its Arenas to satisfy the funding conditions noted in the Relationship Framework between the organizations. This $175,273 required to settle the overall net deficits of the seven arenas will be partially offset by the provision of $100,143 made in the Council-approved 2019 Final Year-End Operating Budget Variance Report. The remaining $75,130 must be considered during the 2021 Final Year-End Operating Variance Report. A summary of net funding to the Arenas and surpluses payable to the City are detailed in Appendix A.

Since the combined Arenas operated at a net operating deficit position for 2019, there will be no proportional allocation to the Arena Boards of Management Vehicle and Equipment Replacement Reserve for those Arena Boards that actually exceeded their individual budgeted surplus.

Following approval by City Council in 2012 (Item EX14.1 ai), Leaside Memorial Community Gardens entered into a loan agreement with the City for the construction of a second ice pad. As part of that loan agreement any annual operating deficit amounts incurred by Leaside Memorial Community Gardens shall be added to the outstanding loan balance. A revised amortization schedule to retire the amended loan balance will also be established. The Leaside Memorial Community Gardens Arena's 2019 audited financial statements were not available at the time of this report, and will be considered in a future report to determine if additional settlements are required.

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 December 16, 2020, City Council received the report titled "Operating Variance Report for the Year Ended December 31, 2019", including the Arena Boards of Management's Net Expenditure Variance.
(https://www.toronto.ca/legdocs/mmis/2020/ex/bgrd/backgroundfile-159000.pdf)

At its meeting July 14-16, 2021, City Council received a status update for those arenas remaining outstanding for the 2019 Audited Financial Statements (Report 3) and the overall status of the 2020 Audited Financial Statements from the Auditor General.
(https://www.toronto.ca/legdocs/mmis/2021/au/bgrd/backgroundfile-168465.pdf)

COMMENTS

Eight Arenas operate and manage ice arenas on behalf of the City 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.

2019 Operating Results

A review of the audited financial statements for the year ended December 31, 2019, indicates that three Arenas (McCormick, North Toronto and Ted Reeve) reported surpluses amounting to $30,309 and the remaining four Arenas (George Bell, William H. Bolton, Forest Hill Memorial, and Moss Park) reported deficits amounting to $205,582 for an overall net deficit of $175,273.

The Arena Boards 2019 deficit of $175,273 results in a negative variance of $185,698 in relation to the Council Approved 2019 Operating Budget of a $10,425 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 2019.

Table 1	2019 Operating Surplus/(Deficit)		
Arena Boards of Management	Council Approved Budget	Adjusted Actual	Variance Fav/(Unfav)
	$	$	$
George Bell Arena	1,235	(97,758)	(98,993)
William H. Bolton Arena	86	(11,170)	(11,256)
Forest Hill Memorial Arena	1,319	(11,575)	(12,894)
Leaside Gardens	N/A	N/A	N/A
McCormick Arena	416	12,355	11,939
Moss Park Arena	131	(85,079)	(85,210)
North Toronto Memorial Arena	136	27	(109)
Ted Reeve Arena	7,102	17,927	10,825
Total Program Net Surplus/(Deficit)	10,425	(175,273)	(185,698)

Explanation of Major Variances to 2019 Approved Budgets

George Bell experienced an unfavourable variance of $98,993 due to lower than expected ice rentals and a major equipment purchase, resulting in an operating deficit of $97,758.

William H. Bolton experienced an unfavourable variance of $11,256 due to lower than expected snack bar and pro shop sales, resulting in an operating deficit of $11,170.

Forest Hill Memorial experienced an unfavourable variance of $12,894 due to higher than expected spending on repairs and maintenance of the Arena, resulting in an operating deficit of $11,575.

Moss Park Arena experienced an unfavourable variance of $85,210 due to lower than expected hockey league registration and hockey school camp ice rentals, resulting in an operating deficit of $85,079.

McCormick and Ted Reeve Arena recognized a combined operating surplus of $30,282 or favourable variance of $22,764, which resulted from higher than projected ice rental revenues.

Arena Surplus/Deficit Settlement

Appendix A attached provides a summary of the 2019 operating surplus/deficit net settlement calculation by Arena.

For the year 2019, three Arenas (McCormick, North Toronto and Ted Reeve) have operating surpluses totalling $30,309 that are payable to the City. These surpluses will be used to partially fund the operating deficits of four Arenas (George Bell, William H. Bolton, Forest Hill Memorial, and Moss Park) that total $205,582, resulting in a net deficit to the City of $175,273 as detailed in Appendix A. The surplus/deficit at Leaside Gardens will be added/reduced from the existing loan to 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."

At the time of this report the 2019 audited financial statements for Leaside Gardens were not available and any deficit or surplus from the statements will be included in a future report.

Funding Provision

As a net operating deficit provision of $100,143 was provided through the 2019 Final Year-End Operating Variance Report, and the actual net operating deficit is $175,273 for 2019, the outstanding balance of $75,130 payable to the Arenas will be included in the 2021 Final Year-End Operating Variance Report. This calculation is provided in Appendix A – 2019 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 2019 audited year-end 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, 2019 is $274,028.

CONTACT

Stephen Conforti, Executive Director, Financial Planning
Tel: 416-397-4229, Fax: 416-397-4465, Email: Stephen.Conforti@toronto.ca

Sandra Califaretti, Director, Accounting Services
Tel: 416-397-4438, Fax: 416-392-8003, Email: Sandra.Califaretti@toronto.ca

SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A – Arena Boards of Management – Summary of 2019 Operating Surplus/ Deficit Settlement

APPENDIX A
ARENA BOARDS OF MANAGEMENT
SUMMARY OF 2019 OPERATING SURPLUS / DEFICIT SETTLEMENT

	Budget	**Adjusted Actual Operating Surplus/(Deficit)**			**Distribution of Operating Surplus/(Deficit)**		
Arena	2019 Council Approved Net Budget Surplus/(Deficit) $	2019 Audited Actual Operating Net Surplus/(Deficit) $	PSAB and Other Adjustments $	Adjusted 2018 Actual Operating Surplus/(Deficit) $	2019 Operating Surplus Payable to the City $	2019 Operating (Deficit) to be funded by the City and loan repayment $	2019 Total Payable to City/(Arena) (no Reserve Allocation) $
	(a)	(b)	(c)	(d) = (b) + (c)	(e)	(f)	(g) = (e) + (f)
George Bell Arena	1,235	(51,367)	(46,391)	(97,758)		(97,758)	(97,758)
William H. Bolton Arena	86	(8,041)	(3,129)	(11,170)		(11,170)	(11,170)
Forest Hill Memorial Arena	1,319	(7,389)	(4,186)	(11,575)		(11,575)	(11,575)
McCormick Arena	416	24,849	(12,494)	12,355	12,355		12,355
Moss Park Arena	131	(76,665)	(8,414)	(85,079)		(85,079)	(85,079)
North Toronto Memorial Arena	136	10,316	(10,289)	27	27		27
Ted Reeve Arena	7,102	90,149	(72,222)	17,927	17,927		17,927
Subtotal w/o Leaside	10,425	(18,148)	(157,125)	(175,273)	30,309	(205,582)	(175,273)
Leaside Gardens	7,251	N/A	N/A	N/A	N/A	N/A	N/A
TOTAL	17,676	(18,148)	(157,125)	(175,273)	30,309	(205,582)	(175,273)

Note: The actual data for Leaside Gardens Arena was not available at the time of drafting this report.

2019 Program Summary:

Total Payable to City/(Arena) before Reserve Allocation	A	(175,273)
Allocation to Vehicle & Equipment Replacement Reserve (XQ1705)	B	0
Net Payable to City/(Arena) after Allocation to Reserve	C = A - B	(175,273)
Funding Source: Approved Provision for Net Payable by City/(Arena) - 2019 Final Year-End Operating Variance Report	D	100,143
Recommended Provision for Net Payable to City/(Arena) - 2021 Final Year-End Operating Variance Report	C + D	(75,130)