

**TO:** Mayor Savage and Members of Halifax Regional Council

**SUBMITTED BY:** Original Signed by   
Jerry Blackwood, Acting Chief Administrative Officer

**DATE:** June 1, 2020

**SUBJECT:** Amendment to Canada Games Centre Society (Halifax) Management Agreement

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## **ORIGIN**

October 2, 2018 motion of Halifax Regional Council to:

1. Approve the management agreements between:
  - a. HRM and the Canada Games Centre Society, as set out in Attachment 1 of the staff report dated September 10, 2018;
  - b. HRM and the Community Builders Inc., as set out in Attachment 2 of the staff report dated September 10, 2018; and
  - c. HRM and the Alderney Landing Facility Association, as set out in Attachment 3 of the staff report dated September 10, 2018, and authorize the Chief Administrative Officer or their delegate to execute the agreements and to execute the agreements and to exercise at their discretion the renewal options set out in the agreements;
2. Subject to the execution of the management agreements as set out in recommendation 1 of the staff report dated September 10, 2018, approve that the total receivables and debts outstanding from the Canada Games Centre Society, the Community Builders Inc., and the Alderney Landing Association, to HRM as of the date of the execution of the management agreements be written out of the books of account, and any accumulated deficits be absorbed by HRM, reducing their outstanding receivables, debts and accumulated deficits to zero; and
3. Authorize the opening of bank accounts for the Canada Game Centre Society, Community Builders Inc., and Alderney Landing Facility Association, for the purposes of operating the respective facilities as authorized per standard Halifax Regional Municipality procedures.

## **MOTION PUT AND PASSED UNANIMOUSLY.**

This Report is in reference to Item #1 a. of the above motion.

## **LEGISLATIVE AUTHORITY**

*Halifax Regional Municipality Charter, S.N.S. 2008, c.39:*

*Section 61 (3)* The property vested in the Municipality, absolutely, or in trust, is under the exclusive management and control of the Council, unless an Act of the Legislature provides otherwise.

*Section 75 (1):* “The Municipality may agree with any person for the provision of a service or a capital facility that the Municipality is authorized to provide.”

*(2):* “An agreement made pursuant to subsection (1) may allow for the lease, operation or maintenance of the facility or provision of the service by a person...”

*Section 79A (1)* Subject to subsections (2) to (4), the municipality may only spend money for municipal purposes if

- (a) The expenditure is included in the Municipality’s operating budget or capital budget or is otherwise authorized by the Municipality;
- (b) The expenditure is in respect of an emergency under the Emergency Management Act; or
- (c) The expenditure is legally required to be paid.

## **RECOMMENDATION**

It is recommended that Halifax Regional Council:

1. Authorize the Chief Administrative Officer to negotiate and enter into an Agreement to Amend the Management Agreement with the Canada Games Centre Society, based on the key terms and conditions set out in Table 1 of the staff report dated June 1, 2020; and
2. Approve the expenditure of accumulated surplus funds by the Canada Games Centre Society for the operation of the Canada Games Centre, subject to the terms and conditions of the Management Agreement, as amended.

## **BACKGROUND**

The Canada Games Centre (CGC) is a key recreation, sport, and community facility in HRM. As one of HRM’s Multi-District Facilities (MDF), the CGC provides active living opportunities as well as opportunities for sports training and competition. The main features of the facility include an aquatic centre, field house, running track, community and activity spaces, fitness centre, and dedicated leased space. The facility is managed on HRM’s behalf by the Canada Games Center Society (Halifax) (CGCS), a not for profit society under a management agreement.

In October 2018, Regional Council unanimously approved a staff report recommending that Council direct and authorize the Chief Administrative Officer to execute a new management agreement with the CGC. The management agreement with CGC was entered into on January 7, 2019 and remains in effect. The agreement requires the CGC to transfer current accumulated surplus funds, and any future surpluses and existing reserves to the Multi-District Capital Reserve. Funds contributed to this reserve by a facility are allocated to that individual facility for future capital projects. The capital reserves offset the costs of maintaining facilities in a safe and functional manner and ensure the facilities are kept in a good state of repair. These reserves assist in delaying and mitigating high cost revitalization projects which will be required in future years. Planning and budgeting for facility capital work is conducted as part of the annual capital budget process. This process ensures that there is transparency and accountability through the HRM capital budgeting process with how the funds are spent at the individual facilities.

## **DISCUSSION**

In response to the loss of program and tenant revenues due to COVID-19, CGC has implemented various cost saving measures to reduce expenditures including staff layoffs involving part time and casual staff, mirroring HRM's direction regarding staffing. Remaining staff continue to maintain core operating functions and also assist with ongoing HRM led capital projects involving the facility. Similar to all recreation facilities, the required closure of Canada Games Centre has resulted in a significant loss of revenue, while it continues to incur costs. This situation is resulting in significant cash flow constraints for CGC.

### **Financial Impact & Surplus Funds**

CGCS has operated the facility in a prudent and responsible manner, which resulted in the CGC having an accumulated surplus. To date, a total of \$286,335 has been transferred into the capital reserve and the amount remaining to be transferred is \$1,392,570.60 which is currently in an investment account. This is based on the 2018/19 audited financial statements and could now be higher as the audited financial statements have not been received for 2019/20,

The intent was to transfer the surplus funds to the capital reserve at the maturation of the investment account later this fiscal. However, with the impact of COVID-19, it is proposed that those funds be able to be allocated to offset the lost revenue and support the ongoing operation of the facility.

Staff are proposing that any remaining surplus be transferred to HRM no later than one hundred twenty (120) days following the end of the 2020-2021 fiscal year. That would allow CGC to utilize these funds to continue with their reduced operation for the rest of the fiscal year, rather than requiring the outstanding surplus be transferred to the capital reserve in 2020-21.

The use of the surplus funds is required as the CGC operating account has been utilized to pay necessary expenses through March, April and May while the facility has been closed. With a healthy surplus, CGC is in a position to be able to utilize the funds to support their currently reduced operations and pay other creditors, until such a time as their operations are restored and they have sufficient level of cash-on-hand to maintain operations. Typical operation of CGC requires approximately \$300K per month which includes staff, vendors, utility costs and all other operational costs associated with the operation of the facility.

CGC did not request a subsidy from Regional Council for the 2020-21 fiscal year as their proposed budget was able to be achieved using revenue. However, the closure of the facility due to COVID-19 has impacted the finances, in particular, current cash flow requirements. Providing access to the surplus funds does not necessarily mean that CGC will need expend all the funds however with the significant impact of COVID 19 revenue loses this may be required. Without the amendment to allow the use of these surplus funds, the CGC would require an unplanned operating subsidy for the 2020-2021 fiscal year. In addition, with the recent announcement allowing the re-opening of fitness centres and gyms, CGC will need access to these funds to be able to rehire staff prior to receiving new revenues.

Other partner facilities have also experienced financial challenges as a result of COVID-19. the short-term impact of those challenges have been offset by initial access to a portion of their requested subsidy funding. Council should be aware that the current fiscal circumstances as a result of COVID-19 may result in an operating subsidy request from CGC in 2020-2021 even with access to the above noted reserves. CGC, as well as many other board operated facilities, will probably end the budget year 2021 in a deficit position as a result of significant revenue losses.

### **Amendments to Management Agreement**

The management agreement allows the board to request a subsidy if required from HRM, during the budget and business planning process. As noted, the CGC had not requested, nor required, an operating subsidy from the municipality prior to the impact of COVID-19. Allowing CGC to utilize funds that would otherwise be transferred to HRM for their accumulated surplus will provide CGC with the operating cash flow without a separate request for an operating subsidy from HRM . Due to the factors mentioned above, CGC has an

immediate need to access funds for cash flow. Amendments to the existing management agreement are required to enable the CGC to access funds to operate the facility that are otherwise required to be transferred to HRM's capital reserve. As noted, if there are any remaining funds the remaining surplus is required to be transferred to the capital reserve after the end of the 2020-21 fiscal year on an agreed upon date, to be no later than 120 days following the end of 2020-21 fiscal year. That will ensure the operation of the facility is able to continue for the year without requirement for a subsidy.

The proposed key terms and conditions for the agreement to amend the management agreement are set out in Table 1.

Table 1

Key Terms and Conditions for Agreement to Amend Management Agreement	
Parties	Halifax Regional Municipality (HRM) and Canada Games Centre Society
Key Terms	<p>Amend the existing Management Agreement between HRM and CGCS to:</p> <ul style="list-style-type: none"> <li>• Permit Canada Games Centre Society to use accumulated surpluses to fund its approved operating budget as required during fiscal year 2020-2021</li> <li>• Not require Canada Games Centre Society to transfer accumulated surplus to HRM during 2020-2021</li> <li>• Require Canada Games Centre Society to transfer accumulated surplus to HRM no later than 120 days following the end of fiscal year 2020-2021</li> <li>• All other terms and conditions of the Management Agreement shall remain in force and effect and shall apply fully to the Agreement to Amend Management Agreement</li> </ul>

**FINANCIAL IMPLICATIONS**

The proposed 2020-2021 operating budget does not include an operating subsidy for CGC. Utilization of these funds will reduce financial pressure on HRM's overall operating budget. The proposed amending agreement would require Canada Games Centre Society to transfer remaining accumulated surplus to HRM no later than 120 days following the end of fiscal year 2020-2021

**RISK CONSIDERATION**

There are no significant risks associated with the recommendations in this report. The risks considered rate Low. To reach this conclusion, consideration was given to operational and financial risks. The management agreement requires regular reporting and budget review which will ensure the funds are only used for necessary operational requirements.

There is greater risk in not proceeding with the recommendation as that would result in the financial impacts of COVID-19 on the facility operation not being able to be mitigated and require HRM to provide a financial subsidy for CGCS.

**COMMUNITY ENGAGEMENT**

The Canada Games Centre Society (Halifax) is comprised of members of the community.

**ENVIRONMENTAL IMPLICATIONS**

None.

**ALTERNATIVES**

Alternative 1: Regional Council could choose not to approve amendments to the management agreement to authorize the expenditure of accumulated surplus funds by the Canada Games Centre Society for the purpose of operating the Canada Games Centre. This would require a subsequent report to Regional Council for consideration of an operating subsidy.

**ATTACHMENTS**

None.

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A copy of this report can be obtained online at [halifax.ca](http://halifax.ca) or by contacting the Office of the Municipal Clerk at 902.490.4210.

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