City of Richmond

Report to Committee

To Parks, Rec & culture - Apr 24/07

To:	Parks, Recreation and Cultural Services Committee	**Date:**	April 11, 2007
From:	Kate Sparrow Director, Recreation & Cultural Services Jerry Chong Director, Finance	**File:**	03-1000-10-022 XR:0060-20-RACA1
Re:	**Referral Arising from the November 28, 2006 Submission from Richmond Arenas Community Association**		

Staff Recommendation

1. That the lease charge for the Richmond Ice Centre remain in the City's Arena budget; and,

2. That the annual operating fee which RACA pays to the City continue to be negotiated annually to ensure that increases to the City's Arena budget can be partially offset and that staff be directed, through the Financial Review Process, to look into the possibility of establishing a formula to provide RACA with more predictability.

K Sparrow

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ROUTED TO:	**CONCURRENCE**	**CONCURRENCE OF GENERAL MANAGER**	
Budgets	Y ☑ N ☐		
REVIEWED BY TAG	YES ☑ DW NO ☐	**REVIEWED BY CAO**	YES ☑ NO ☐

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Staff Report

Origin

At the regular Richmond City Council meeting of January 8, 2007, the following motion was approved by Council:

(1) That the Richmond Arenas Community Association submission (Schedule 1 to the minutes of the Parks, Recreation & Cultural Services Committee meeting held on Tuesday, November 28th, 2006), be forwarded to staff for analysis and that they report to the Committee on:

(a) the lease charge for the Richmond Ice Centre in the City's arena budget, and the of idea of charging it instead to the City's capital budget;

(b) the feasibility of freezing the operating fee which the RACA pays to the City; and

(2) That staff review the viability and possibility of purchasing the Richmond Ice Centre facility.

The purpose of this report is to address the first referral. The second referral is a closed matter, and a separate report will be forthcoming at a future Committee meeting.

Analysis

1. Lease charges for the Richmond Ice Centre are charged to the City's capital budget.

The City's annual capital budget outlines the funding for capital assets that the City will incur. These additions relate to capital assets that the City will have ownership over once the related expenditure has been incurred. Currently, the Riverport facility leases are not charged to the capital budget because under GAAP, the lease is considered an operating lease as opposed to a capital lease. One of the key criteria in distinguishing an operating versus a capital lease is that substantially all of the benefits and risks incident to ownership must be transferred to the City in order for the lease to be considered a capital lease.

Based on a review of the terms of the agreement and Accounting Guideline PSG-2 – leased tangible capital assets, substantially all of the risks and benefits have not been transferred to the City. Hence, the lease is not considered a capital lease.

Pursuant to PSG-2, the benefits and risks of ownership would be transferred to the government when, at inception of the lease, one or more of the following conditions are present:

a) There is reasonable assurance that the government will obtain ownership of the leased property by the end of the lease term (i.e. automatic transfer of title or a bargain purchase option exits at the end of the lease).

b) The lease term is of such duration that the City will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span (i.e. lease term must be >75% of the economic life of the leased property).

c) The present value, at the beginning of the lease term, of the minimum lease payments, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.

Based on the analysis performed, none of the above three criteria have been met. As per the terms of the agreement, there is no automatic transfer of title nor does a bargain purchase option exist at the end of the lease. The lease term is 25 years, whereas the economic life of the Richmond Ice Centre is over 40 years. As per calculation performed, the present value of the minimum lease payments does not equate to >90% of the fair value of the leased property at the inception of the lease.

The current lease charge for the Richmond Ice Center is unlike other facilities where the City has incurred debt, as in those instances the facilities are considered capital assets and the City owns the land and building. In the case of the Richmond Ice Center the City does not own the facility and it is not a City asset. The lease charge for the Richmond Ice Centre should remain as a charge to the City arena budget as the lease payment is considered an operating expenditure (similar to rent expense) versus a capital expenditure.

2. Freezing the operating fee which RACA pays to the City

The City is responsible for the majority of the Minoru Arenas and Richmond Ice Centre facility operational costs, including core staff, contracts, lease costs, maintenance, utilities, most supplies and marketing.

In 2006, the actual City Arena operating budget expenditures were $4.7 million, with the revenues related to 2006 being the negotiated agreement with RACA in the amount of $2.22 million, plus an additional $84,479 under the terms of the City's revenue sharing agreement with RACA, plus reimbursement for Minoru Arena concession expenses. The resulting net deficit of the City's Arena budget was $2.37 million.

Annually, the City negotiates with RACA to contribute increased payments to the City to offset a portion of the City's net operating budget increase, and thereby contribute to the financial sustainability of Richmond's Arena Services. Arenas is the only Parks, Recreation & Cultural Services operation involving a partnership with a community association that returns revenue to the City. Should the City freeze RACA's contribution to operating costs, this would move more towards the existing model as with other community recreation partners and associations where the city absorbs all increased operating costs which is not financially sustainable.

Since RACA receives all arena revenues ($3.44 million in 2006), the only mechanism by which the City can offset a portion of it's annual Arena budget increases is by negotiating a reasonable annual revenue increase with RACA. Increasing demand for arena programs translates into additional facility operational costs that need to be recovered from the additional program revenue. As a result, it would not be prudent for the City to freeze the annual operating fee that RACA pays to the City.

The City is currently undertaking a Financial Review with all Recreation and Cultural Services partners. In order to provide RACA with more predictability, one of the options that could be explored through this process is the establishment of a formula that could establish benchmarks for annual cost increases.

Financial Impact

None

Conclusion

The current lease charge will continue to be incurred in the Arena's operating budget, and it is not recommended to freeze Richmond Arenas Community Association's current annual operating fee, as future operating cost increases would be entirely incurred by the City. Through the Financial Review process, there may be an opportunity to explore the possibility of establishing a formula for annual cost increases.

for

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