City of Richmond

Report to Committee

To:	Parks, Recreation and Cultural Services Committee	**Date:**	June 27, 2007
From:	Kate Sparrow Director, Recreation & Cultural Services Jerry Chong Director, Finance	**File:**	
Re:	**Referral Arising from the May 29, 2007 Parks, Recreation and Cultural Services Committee Meeting regarding the Richmond Arenas Community Association's questions about the City's Arena Budget**		

Staff Recommendation

THAT:

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

2. The annual operating fee which the Richmond Arenas Community Association pays to the City continue to be negotiated annually to ensure that increases to the City's Arena budget can be partially offset.

Kate Sparrow
Director, Recreation & Cultural Services
(4129)

Jerry Chong
Director, Finance
(4064)

Att. 3

FOR ORIGINATING DEPARTMENT USE ONLY					
CONCURRENCE OF GENERAL MANAGER					
REVIEWED BY TAG	YES ☑	NO ☐	REVIEWED BY CAO	YES ☑	NO ☐

2250607

Staff Report

Origin

At the Parks, Recreation and Cultural Services Committee meeting of May 29, 2007 the following motion was approved by Committee:

(1) That staff provide a complete break down of the arena's budget as a whole with details outlining the overall impact of:

(a) removing the lease from the City's Arena's budget;

(b) charging the lease to the City's Capital budget; and

(c) freezing the Richmond Arenas Community Association's operating fee.

(2) That before the arena's next annual budget is set, staff provide acceptable and legitimate alternative options for dealing with the lease, taking into consideration history and fairness to the Richmond Arenas Community Association and other associations.

The purpose of this report is to address these referrals.

Analysis

1. Breakdown of the arena's budget

Arena revenues and expenses

City (based on data from 2005 to 2006 – year end Dec 31)

- Essentially all of the revenues under the City's Arena operations come from the Richmond Arenas Community Association (RACA) as per the agreement. Amount has ranged from approximately \$2.23M in 2005 to \$2.33M in 2006.
- Total City Arena expenditures have ranged from approximately \$4.50M in 2005 to \$4.70M in 2006.
  - Salary expenditures represent 32% of the total expenditures.
  - The operating lease represents 36% to 38% of the total expenditures.
  - Electric and gas utilities represent 10% to 11% of the total expenditures.
  - Preventative maintenance and repairs represent 4% to 7% of the total expenditures.
  - The rest of the expenditures are attributable to supplies, contracts, vehicle charges, other utilities (i.e. garbage pick-up, recycling, water & sewer), general maintenance, etc.

Arenas Revenues & Expenditures - City

	2006	2005
Revenues		
Community Revenue/Program fees	$2.33M	$2.22M
Other revenue	$0.00M	$0.01M
Total revenues	**$2.33M**	**$2.23M**
Expenses		
Salary expenditures	$1.49M	$1.44M
Lease expense	$1.71M	$1.72M
Utilities	$0.48M	$0.50M
Maintenance	$0.21M	$0.30M
Other expenses	$0.81M	$0.54M
Total expenses	**$4.70M**	**$4.50M**

RACA (based on data from 2005 to 2006 – year end June 30)

- RACA revenues over the past two years have ranged from approximately $3.33M in 2005 to $3.44M in 2006. The primary sources of revenue include the following:
  - Ice and floor rental revenue has represented 56% of total revenue;
  - Program revenue has ranged from 17% to 18%;
  - Stanley's Sports Bar revenue has ranged from 15% to 16%; and
  - Concession revenue has represented about 10%.
- RACA expenditures have ranged from approximately $3.23M in 2005 to $3.37M in 2006.
  - The total amounts paid to the City as per the agreement have ranged from 65% to 69% of the RACA expenditures;
  - Stanley's Sports Bar expenditures have represented 17% of total expenditures;
  - Concession expenditures have represented 9% of total expenditures; and
  - Program expenses have represented 6% of total expenditures.
  - The rest of the expenditures are attributable to general and administrative expenses such as bookkeeping, interest and bank charges, legal, audit, consulting, supplies, marketing etc.

Arenas Revenue & Expenditures - RACA

	2006	2005
Revenues		
Program revenue	$0.63M	$0.55M
Ice and floor rental	$1.93M	$1.88M
Stanley's Sports Bar	$0.53M	$0.53M
Concessions	$0.33M	$0.35M
Other	$0.02M	$0.02M
Total revenues	**$3.44M**	**$3.33M**
Expenses		
City operating expenses, per agreement	$2.23M	$2.11M
Stanley's Sports Bar	$0.55M	$0.54M
Concession	$0.29M	$0.30M
Program expenses	$0.19M	$0.18M
Other expenses	$0.11M	$0.10M
Total expenses	**$3.37M**	**$3.23M**

Please see Attachment 1 for more details.

1(a) Impact of removing the lease from the City's Arena's budget

Removing the lease from the arena's budget

In 2006, the City's Arena's revenues were $2.33M and the expenditures were $4.70M resulting in a deficiency of revenues over expenditures of $2.37M. Of the $4.70M in expenses, $1.71M is the cost of the operating lease. If the cost of the lease were to be removed from the Arena's budget and expensed elsewhere in the City's financials, the City would still have an operating deficiency of revenues over expenditures of $0.66M. Regardless of where the lease is charged within the City's budget, the lease payment still represents a cash outflow.

As per CICA Handbook Section 1000 – Financial Statement Concepts, for information provided in the financial statements to be useful, it must be relevant and reliable. Removing the lease from the Arena's budget and placing it elsewhere in the City's budget would misrepresent the true costs and the economic reality in operating the arenas.

New accounting standards

Under current accounting practices, capital purchases made in a given year are expensed in that same year (using the City's capital budget and within the statement of financial activities) with no impact on operating expenses. This will change, however, once Public Standard Accounting Board (PSAB) Section # 3150 – Tangible Capital Assets is adopted.

PSAB Section # 3150 will require all tangible capital assets to be capitalized in the year of purchase, and amortized over the useful life of the asset. As such, the City's operating expenditures will be impacted as there will be a depreciation charge on the City's financial statements. This section applies to local governments for fiscal years beginning on or after January 1, 2009. Since two years are reported on the City's financial statements, the City will need to start accounting for this in 2008. As a result of this new standard, regardless of whether a building is leased or built, there will be a charge to the operating expenditures either through a deprecation charge or a lease payment.

1(b) Impact of charging the lease to the City's Capital budget

The City's capital budget sets aside funding from reserves for purchases that the City will make over the course of each year. These purchases 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 generally accepted accounting principles (GAAP), the lease is considered an operating lease as opposed to a capital lease. In order for the lease to qualify as a capital lease, substantially all of the risks and benefits incident to ownership must be transferred to the City. 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 length of the lease term is less than 75% of the economic life of the leased property; and 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. Based on these criteria, the lease does not qualify as a capital lease. If the lease were charged to the capital budget, then this would not be in compliance with GAAP and this method would distort the presentation of actual costs related to the arena program.

1(c) Freezing the operating fee which RACA pays to the City

The operating agreement the City has with RACA provides the Arenas Association with all revenues generated from the Minoru Arenas and Richmond Ice Centre facilities. These revenues come primarily from admissions, programs, rentals and food and beverage sales. The City's operational budget includes the majority of the facility operational costs, including core staff, contracts, lease costs, maintenance, utilities, most supplies and marketing. RACA's operational budget expenses include an annual fee to the City, food and beverage staff and supply costs, selected program costs and some general and administrative expenses. The percentage breakdown of these revenues and expenses is outlined earlier in this report.

Annually, the City negotiates with RACA to agree upon an annual operating fee that the Association will pay to the City. This is the only revenue source that the City has for its arenas' operations. Factors considered in this negotiation include direct increases to the City's budget such as wage and utility costs. RACA's financial situation is also considered as it relates to anticipated revenue increases, and cost increases primarily in the areas of staff and supplies. Increases to the annual operating fee only offset a portion of the City's net operating budget increases.

When RACA agrees to increase its annual payment to the City, the increase is usually covered through two methods. Higher facility program and rental demands translate into additional revenues, and an annual review of fees and charges typically results in some modest fee increases. Attachments 2 and 3 provide the results of a Lower Mainland market survey of Arena rental rates for both Minor Sport and Adult groups. In the Minor Sport category, the 2007 mean rental rate for prime time is \$83.50 per hour, while Richmond's rate is \$67.00 per hour (2nd lowest in the survey).

Although Richmond's non-prime rental rate of \$67.00 is higher than the mean survey rate of \$55.72, RACA's past practice has been to not differentiate between prime/non-prime in this category. Non-prime time use also only represents about 15% of Minor Sport use. In the Adult category, Richmond's rental rates are lower than the mean survey rates in 14 of 16 weekly time slot groupings. Although participating in arena sports is more expensive than membership in many other sports, Richmond's arena rental rates continue to be among the lowest in the region.

Another key consideration in the annual operating fee negotiations is the strength of RACA's overall financial status. In RACA's 2006 year end audited financial statements, the Association had an operating surplus of \$70,128 and net assets of \$491,309 compared to net assets of \$421,181 in 2005 and \$316,703 in 2004.

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 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 current mechanism by which the City can offset a portion of its annual Arena budget increases is to negotiate a reasonable annual operating fee increase with RACA. Continued growing demand for arena programs and rentals translates into additional facility operational costs that need to be recovered from the additional revenue. As a result, it would not be prudent for the City to freeze the annual operating fee that RACA pays, unless the City wishes to fully fund future Arena budget increases through additional tax increases.

2. Options for dealing with the lease, taking into consideration history and fairness to RACA and other associations

There are three facilities leased by the City from private sector landlords, Watermania, the Richmond Ice Centre and a portion of Sportstown BC. In all of these facilities the lease charges are in the operating budget. Although Watermania is operated directly by the City, the manner in which the lease charges apply in the Aquatic operating budget is consistent with how the Richmond Ice Centre lease charges apply in the City's Arena operating budget. Similarly, the Sportstown BC lease charges are in the Parks operating budget. As a result, there is no unfairness to the Richmond Arenas Community Association in comparison with other associations on this matter.

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 the Richmond Arenas Community Association's current annual operating fee, as future operating cost increases would be entirely incurred by the City.

Rick Dusanj, CA
Business & Financial Analyst
(4103)

Dave McBride, Manager
Aquatic and Arena Services
(5355)

Attachment 1 - 2006 and 2005 City and RACA revenues and expenses

	2006				2005			
	City		Comm. Assoc.		City		Comm. Assoc.	
REVENUES								
Community Revenue/Program fees	$ 2,331,750		$ 628,571	18%	$ 2,221,249		$ 551,295	17%
Miscellaneous Operating Income	$ -		$ 24,468	1%	$ (302)		$ 26,095	1%
Ice and floor rental	$ -		$ 1,927,945	56%	$ -		$ 1,876,891	56%
Stanley's Sports bar	$ -		$ 525,201	15%	$ -		$ 532,916	16%
Concessions	$ -		$ 330,060	10%	$ -		$ 346,368	10%
Total Revenues	$ 2,331,750		$ 3,436,245	100%	$ 2,230,947		$ 3,333,565	100%
EXPENSES								
Operating expenses								
Salary expenditures	$ 1,488,713	32%	$ -	0%	$ 1,442,369	32%	$ -	0%
Leases - Other	$ 1,709,544	36%	$ -	0%	$ 1,719,517	38%	$ -	0%
City operating expenses, per agreement	$ -	0%	$ 2,234,129	66%	$ -	0%	$ 2,105,479	65%
Stanley's Sports bar	$ -	0%	$ 545,438	16%	$ -	0%	$ 542,572	17%
Concession	$ -	0%	$ 294,611	9%	$ -	0%	$ 296,513	9%
Program expenses	$ -	0%	$ 191,562	6%	$ -	0%	$ 179,862	6%
Total operating expenses	$ 3,593,923	76%	$ 3,366,117	100%	$ 3,560,137	79%	$ 3,229,087	100%
Facilities management expenses								
Utilities	$ 481,800	10%	$ -		$ 501,891	11%	$ -	
Maintenance	$ 210,166	4%	$ -		$ 299,468	7%	$ -	
Total facilities management expenses	$ 691,966	15%	$ -		$ 801,359	18%	$ -	
TOTAL EXPENSES	$ 4,698,551	100%	$ 3,366,117		$ 4,501,052	100%	$ 3,229,087	
Excess (deficiency) of reveneues over expenditures	$ (2,366,801)		$ 70,128		$ (2,270,105)		$ 104,478	
Less the lease	$ 1,709,544				$ 1,719,517			
Excess (deficiency) of reveneues over expenditures	$ (657,257)				$ (550,588)			

Note that only significant revenue and expenditure accounts were shown above (i.e. those representing more than 5% of total revenues and expenses respectively).

Note that the figures shown above for the City represent a January to December fiscal year, whereas the Comm. Assoc. figures represent a July to June fiscal year.

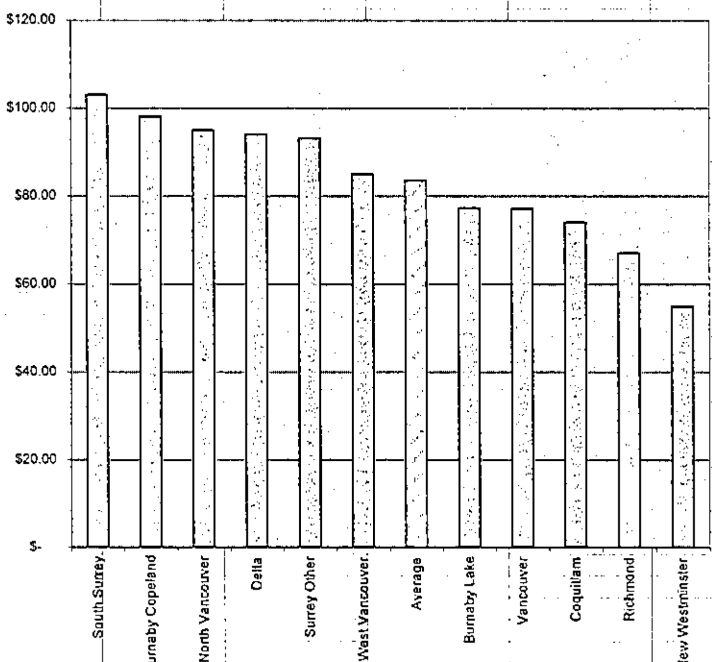
CITYHALL-#2251798-v1-RACA_-_Attachment_1.XLS

2007 Minor Sport Arenas Rental Rates - Lowermainland Rate Comparison

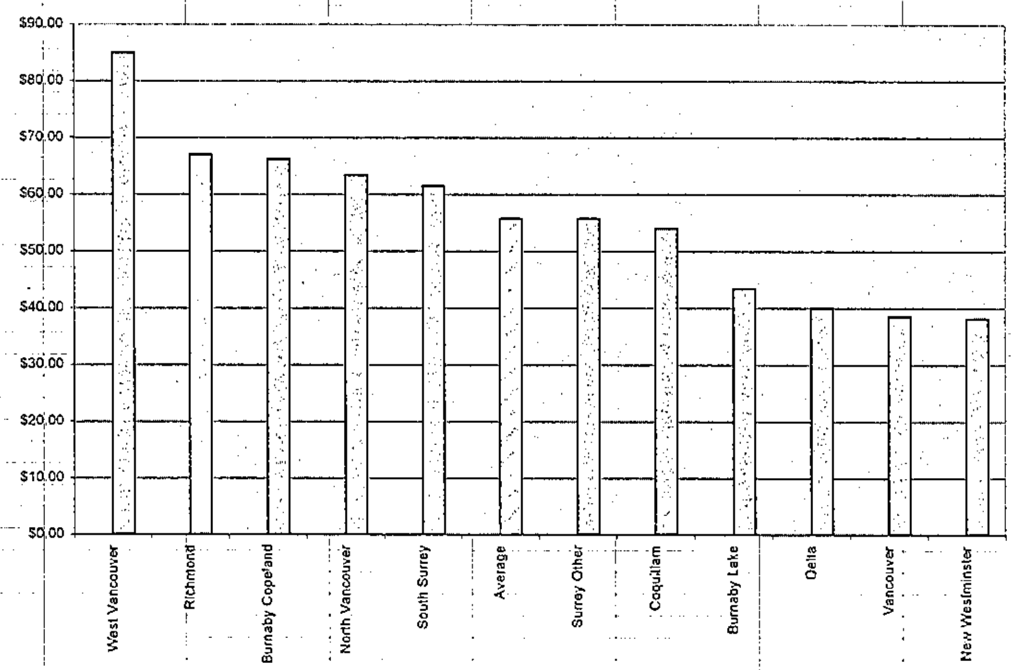
Type of Rate	Average	Richmond	Burnaby		Vancouver	New Westminster	West Vancouver	North Vancouver	Surrey		Coquitlam	Delta
			Burn. Lake	Copeland					South Surrey	Others		
Prime	$ 83.50	$ 67.00	$ 77.24	$ 98.12	$ 77.10	$ 54.91	$ 85.00	$ 95.00	$ 102.97	$ 93.15	$ 74.00	$ 94.00
Mon-Fri		3:00-11:00pm	3:00-11:00pm	3:00-11:00pm	5:30-11:00pm	6:00pm-12:00am	3:30-11:00pm	6:00-11:00pm	4:00pm-12:00am	4:00pm-12:00am	4:00-11:00pm	3:00-11:00pm
Sat/Sun		8:00am-10:00pm	8:00am-11:00pm	8:00am-11:00pm	7:30am-11:00pm	6:00am-12:00am	6:00am-11:00pm	8:00am-10:00pm	8:00am-12:00am	8:00am-12:00am	All Day	8:00am-10:00pm
Non Prime	$ 55.72	$ 67.00	$ 43.41	$ 66.24	$ 38.55	$ 38.11	$ 85.00	$ 63.40	$ 61.49	$ 55.70	$ 54.00	$ 40.00

Up to 2,600 hours total/year

Minor Sport
Prime Time Rate



Minor Sport
Non Prime Time



2007 Fall/Winter Arenas Rental Rates - Lower Mainland Rate Comparison

Type of Rate	Average	Richmond	Burnaby		Vancouver	New Westminster	West Vancouver	North Vancouver	Surrey		Coquitlam	Delta
			Copeland	Burn. Lake					South Surrey	Others		
Fall/Winter- Adult												
Monday - Friday												
5:00-9:00am	$ 106.01	$ 91.00	$ 97.22	$ 97.22	$ 62.05	$ 91.51	$ 115.00	$ 138.00	$ 118.58	$ 118.58	$ 137.00	$ 100.00
9:00am-4:00pm	$ 105.24	$ 91.00	$ 97.22	$ 97.22	$ 90.50	$ 91.51	$ 115.00	$ 101.00	$ 118.58	$ 118.58	$ 137.00	$ 100.00
4:00-5:00pm	$ 166.96	$ 160.00	$ 113.58	$ 109.93	$ 90.50	$ 91.51	$ 230.00	$ 138.00	$ 235.41	$ 197.68	$ 210.00	$ 260.00
5:00-6:00pm	$ 180.32	$ 160.00	$ 113.58	$ 109.93	$ 237.45	$ 91.51	$ 230.00	$ 138.00	$ 235.41	$ 197.68	$ 210.00	$ 260.00
6:00-10:00pm	$ 232.02	$ 254.00	$ 258.69	$ 220.20	$ 237.45	$ 183.02	$ 230.00	$ 265.75	$ 235.41	$ 197.68	$ 210.00	$ 260.00
10:00-11:00pm (Mon-Fri)	$ 226.84	$ 197.00	$ 258.69	$ 220.20	$ 237.45	$ 183.02	$ 230.00	$ 265.75	$ 235.41	$ 197.68	$ 210.00	$ 260.00
11:00pm plus (Fri)	$ 163.77	$ 160.00	$ 113.58	$ 109.93	$ 123.90	$ 183.02	$ 230.00	$ 138.00	$ 235.41	$ 197.68	$ 210.00	$ 100.00
11:00pm Plus (Mon-Thurs)	$ 152.25	$ 111.00	$ 113.58	$ 109.93	$ 123.90	$ 183.02	N/A	$ 138.00	$ 235.41	$ 197.68	$ 210.00	$ 100.00
Saturday & Sunday												
5:00-7:00am	$ 141.51	$ 111.00	$ 113.58	$ 109.93	$ 123.90	$ 183.02	$ 230.00	$ 138.00	$ 118.58	$ 118.58	$ 210.00	$ 100.00
7:00-8:00am	$ 151.83	$ 111.00	$ 113.58	$ 109.93	$ 237.45	$ 183.02	$ 230.00	$ 138.00	$ 118.58	$ 118.58	$ 210.00	$ 100.00
8:00am-12:00pm	$ 227.11	$ 200.00	$ 258.69	$ 220.20	$ 237.45	$ 183.02	$ 230.00	$ 265.75	$ 235.41	$ 197.68	$ 210.00	$ 260.00
12:00-6:00pm	$ 227.11	$ 200.00	$ 258.69	$ 220.20	$ 237.45	$ 183.02	$ 230.00	$ 265.75	$ 235.41	$ 197.68	$ 210.00	$ 260.00
6:00-11:00pm (Sat)	$ 222.83	$ 200.00	$ 258.69	$ 220.20	$ 190.35	$ 183.02	$ 230.00	$ 265.75	$ 235.41	$ 197.68	$ 210.00	$ 260.00
6:00-10:00pm (Sun)	$ 232.02	$ 254.00	$ 258.69	$ 220.20	$ 237.45	$ 183.02	$ 230.00	$ 265.75	$ 235.41	$ 197.68	$ 210.00	$ 260.00
10:00-11:00pm (Sun)	$ 200.68	$ 197.00	$ 258.69	$ 220.20	$ 237.45	$ 183.02	$ 230.00	$ 138.00	$ 235.41	$ 197.68	$ 210.00	$ 100.00
11:00pm plus	$ 152.25	$ 111.00	$ 113.58	$ 109.93	$ 123.90	$ 183.02	N/A	$ 138.00	$ 235.41	$ 197.68	$ 210.00	$ 100.00
Weighted average	$ 168.22	$ 145.86	$ 155.73	$ 141.87	$ 149.09	$ 147.61	$ 192.35	$ 171.35	$ 192.99	$ 168.96	$ 186.10	$ 160.95

Note the weighted average rates are based on the average rates charged per hour

Adult Fall & Winter Average rate