

Analyst Briefing Notes

Budget Committee

(January 28, 2008)

2008 OPERATING BUDGET

Executive Summary	2
Recommendations	4

Section A: 2007 Budget Variance Analysis 5

2007 Experience	5
Impact of 2007 Operating Variance on the 2008 Recommended Budget	6

Section B: 2008 Operating Budget Overview 7

3-Year Operating Budget Overview	7
Challenges and Issues.....	7

Section C: 2008 Recommended Base Budget..... 8

2008 Recommended Base Budget	9
2008 Key Cost Drivers and Reduction Strategies.....	9

Section D: 2008 Recommended Service Priorities N/A

Summary of 2008 New / Enhanced Service Priorities	N/A
---	-----

Section E: Issues for Discussion N/A

2008 Operating Budget Issues.....	N/A
-----------------------------------	-----

Appendices:

Appendix 1: Summary of Recommended Base Budget Changes from 2007 Approved Budget.....	10
Appendix 2: Summary of Service Level Adjustments	N/A
Appendix 3: Summary of 2008 Recommended New/Enhanced Service Priorities	N/A
Appendix 4: Inflows/Outflows to/from Reserves and Reserve Funds.....	11

Contacts: Judy Skinner, Manager, Financial Planning Division
Tel: (416) 397-4219

May Chong, Financial Planning Analyst
Tel: (416) 397-4473

January 25, 2008

2008 OPERATING BUDGET**Executive Summary**

- The 2007 preliminary year-end net expenditure of \$0.170 million is expected to be \$0.019 million or 10.3% below the 2007 Approved Budget. The favourable variance is attributable to cost containment measures implemented in 2007, resulting in one-time discretionary savings of \$0.018 million. As these are all one-time savings, there is no impact on the 2008 Recommended Operating Budget.
- The 3-Year Operating Budget supports the Arena Boards of Management Program's strategic directions:
 - To provide equitable access to high quality indoor and outdoor ice sport recreational opportunities that respond to community needs; and
 - To effectively and efficiently manage operations using best available practices to minimize the need for operating support from the taxpayer.
- Key service challenges for 2008 and beyond include:
 - Aging facilities and equipment requiring more frequent and more costly repairs and maintenance puts pressure on the Arena Boards' ability to break even financially or to minimize City operating budget impact; and
 - Providing equitable access to primetime ice to meet emerging demands from girls and women's hockey leagues and associations.
- The 2008 Recommended Operating Budget for the Arena Boards of Management Program of \$0.042 million net is \$0.148 million or 77.8% lower than the 2007 Approved Budget and the target.

Table 1: 2008 Recommended Budget

	2007		2008 Recommended Operating Budget			Change - 2008 Recommended from 2007 Approved Budget		FY Incremental Outlook	
	2007 Approved Budget	2007 Projected Actual	2008 Base	2008 New /Enhanced	2008 Operating Budget			2009	2010
	(In \$000s)					\$	%	\$	\$
GROSS EXP.	5,977.4	5,957.4	6,024.7	0.0	6,024.7	47.3	0.8	0.0	0.0
REVENUE	5,787.6	5,787.1	5,982.6	0.0	5,982.6	194.9	3.4	0.0	0.0
NET EXP.	189.8	170.3	42.1	0.0	42.1	(147.7)	(77.8)	0.0	0.0
Approved Positions	63.5	63.5	63.5	0.0	63.5	0.0	0.0		
TARGET			189.8		189.8				
\$ Over / (Under) Program Target			(147.7)		(147.7)				
% Over / (Under) Program Target			-77.8%		-77.8%				

- The 2008 Recommended Operating Budget is comprised of base funding of \$0.042 million net with no funding for new/enhanced service priorities.
- The base budget incorporates the Program's key cost drivers including salary/wage increases, non-labour inflationary increases and other base changes that total \$0.047 million. These higher operating costs are offset by additional revenues of \$0.195 million resulting from the return of William H. Bolton Arena to normal operations in 2008, proposed ice rental rate increases tied to inflation indexing, and recognition of the higher volume and service levels achieved in 2007 from sales of more ice time, more program participants in expanded programs and the increased revenue from the snack bar/vending and pro shop ancillary operations.
- The 2008 Recommended Operating Budget maintains the same level of service as in 2007 except at William H. Bolton Arena and Forest Hill Memorial Arena which will be back to normal operations in 2008. All eight arenas are expected to operate without disruption of service in 2009 and 2010, with no operating impact of capital anticipated, as there are no major arena renovations planned in the Parks, Forestry and Recreation 5-Year Capital Plan for the eight Board-managed arenas.
- The 2008 Recommended Operating Budget enables the Arena Boards of Management Program to deliver a total of 38,000 hours of available ice time, comprising of 21,000 hours of primetime ice and over 17,000 hours of daytime ice, to the community by the eight Arena Boards. It also supports the ongoing delivery of hockey and skating programs, house leagues, hockey schools, camps and the provision of accessory services such as snack bars/vending, pro shops, skate sharpening, and meeting/banquet facility rental to the local community and users. All eight arenas are operating at full capacity (prime time ice usage) and will continue to be in the future.

Recommendations

The City Manager and Chief Financial Officer recommend that:

1. the 2008 Recommended Operating Budget for the Arena Boards of Management of \$6.025 million gross and \$0.042 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross (\$000s)</u>	<u>Net (\$000s)</u>
George Bell Arena	529.2	(0.6)
William H. Bolton Arena	751.9	(0.1)
Larry Grossman Forest Hill Memorial Arena	907.4	(1.7)
Leaside Memorial Community Gardens	953.0	45.0
McCormick Playground Arena	655.0	(0.1)
Moss Park Arena	689.4	(0.1)
North Toronto Memorial Arena	781.3	(0.3)
Ted Reeve Arena	757.6	0.0
	<hr/>	<hr/>
Total Program Budget	6,024.7	42.1
	<hr/>	<hr/>

Section A: 2007 Budget Variance Analysis

Table 2: 2007 Budget Variance Review

	2006 Actuals	2007 Approved Budget	2007 Projected Actuals*	2007 Appvd. Budget vs Projected Actuals Variance	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	5,705.4	5,977.4	5,957.4	(20.0)	(0.3)
REVENUES	5,484.8	5,787.6	5,787.1	(0.5)	(0.0)
NET EXP.	220.6	189.8	170.3	(19.5)	(10.3)
Approved Positions	63.5	63.5	63.5	0.0	0.0

Source: *Projected Actuals Based on the September 30, 2007 Variance Report.

2007 Experience

The Arena Boards of Management Program is projecting a favourable year-end net variance of \$0.019 million or 10.3% as a result of savings associated with cost containment measures implemented throughout the year.

2007 Cost Containment Savings

As reported in the 3rd Quarter Variance Report, the Arena Boards of Management Program expects to achieve cost containment savings of \$0.018 million in 2007 through the measures itemized in the table below. As these are all one-time savings, there is no impact on the 2008 Recommended Budget.

Net Cost Containment Savings	2007 (\$000s) Savings	2008 (\$000s) Continued Savings	Comments
Hiring Freeze Savings:			
Leaside Gardens one vacant F/T operator position until November	10.0		
Service Level Adjustments:			
N/A			
Discretionary Savings:			
Deferral of staff training (accreditation/certification) until 2008	4.0		One-time
Leaside Gardens additional revenue from movie shoot	3.0		One-time
Other discretionary savings	1.1		One-time
Sub-total	8.1	0.0	
TOTAL COST CONTAINMENT	18.1	0.0	

Impact of 2007 Operating Variance on the 2008 Recommended Budget

In 2007, William H. Bolton Arena's closure in the Spring to accommodate a planned Parks, Forestry and Recreation 2007 Capital state-of-good-repair project to rehabilitate the facility was longer than anticipated. As well, ancillary operations (the Pro Shop and Snack Bar) were disrupted in the Fall to accommodate the completion of the renovation work. This resulted in a net loss of \$0.104 million or \$0.042 million more than budgeted. However, William H. Bolton Arena will be back to normal operations in 2008 and expects to break even financially.

The 2007 projected actual incremental ice rental revenues from increased program participants at each of the arenas are reflected in the 2008 Recommended Base Budget, with the exception of one-time summer revenues obtained from a one-time contract at Forest Hill Memorial Arena.

Operating efficiencies realized in 2007, including utility savings from the arenas' own energy conservation initiatives, are also reflected in the 2008 Recommended Base Budget.

Cost containment measures implemented in 2007 will not result in any savings in 2008 as these discretionary savings were one-time only. Continuation of the 2007 cost containment measures into 2008 would negatively impact service levels.

Section B: 2008 Operating Budget Overview**3-Year Operating Budget Overview**

- The 3-Year Operating Budget enables the Arena Boards of Management to continue its focus on the following strategic directions and priorities:
 - To provide high quality facilities and recreational opportunities that respond to community needs.
 - To effectively and efficiently manage operations using best available practices to minimize the need for Operating Budget support from the City.
- The Arena Boards of Management Program is expected to be back to normal operations in 2008. The 2008 Recommended Operating Budget enables seven Arena Boards to continue delivering the 2007 level of services and allows William H. Bolton Arena to return to normal operations.
 - All eight arenas are expected to operate without disruption of service in 2009 and 2010, with no operating impact of capital anticipated. There are no major arena renovations planned in the Parks, Forestry and Recreation 5-Year Capital Plan for the eight Board-run arenas. The 2009 and 2010 Outlooks provide for the same service levels as in 2008.
- The Arena Boards of Management anticipate that they will maintain their level of net expenditures over the 3-year period with annual inflationary cost increases to be offset by increased revenues primarily through ice rate increases indexed to inflation and/or additional volume.

Challenges and Issues

The Arena Boards of Management, over the three year period, will continue to address these key service challenges:

- Annual increases in labour and operating costs driven by economic factors and City contractual obligations (such as making annual contributions to the Arena Boards of Management Vehicle and Equipment Replacement Reserve) poses a challenge to the Arena Boards' ability to break even financially or minimize impacts on the City's Operating Budget. To alleviate these pressures, the Arena Boards must raise ice rental rates and user fees annually (increases indexed to inflation) and/or generate more revenues from more diversified streams, such as rink board advertising, parking fees and film shoots.
- Aging facilities and equipment are requiring more frequent and more costly repairs and maintenance (all the "under \$0.050 million" projects are included in the arena's own operating budget) while major capital replacements and capital state-of-good-repair projects are being pushed out further into the future due to Parks, Forestry and Recreation's Capital Budget constraints and priorities.
- Providing equitable access to prime time ice to meet emerging demands from girls and women's hockey leagues and associations is a challenge as all the arenas are operating at full capacity during prime time.

Section C: 2008 Recommended Base Budget

Table 3: 2008 Recommended Base Budget

(In \$000s)	2007 Approved Budget	2007 Projected Actual	2008 Recommended Base	Change 2008 Recommended Base vs. 2007 Approved Budget		FY Incremental Outlook	
	\$	\$	\$	\$	%	2009 \$	2010 \$
GROSS EXP.							
George Bell	499.9	497.8	529.2	29.3	5.9		
Wm H. (Bill) Bolton	705.4	698.4	751.9	46.5	6.6		
Forest Hill	986.8	981.7	907.4	(79.4)	(8.0)		
Leaside	971.9	960.4	953.0	(18.9)	(1.9)		
McCormick	633.7	633.3	655.0	21.3	3.4		
Moss Park	684.0	683.2	689.4	5.4	0.8		
North Toronto	746.2	780.5	781.3	35.0	4.7		
Ted Reeve	749.6	722.2	757.6	8.0	1.1		
Total Expenditures	5,977.4	5,957.4	6,024.7	47.3	0.8	0.0	0.0
REVENUES							
George Bell	478.2	495.3	529.8	51.6	10.8		
Wm H. (Bill) Bolton	643.0	594.0	752.0	109.0	17.0		
Forest Hill	987.0	984.1	909.1	(77.9)	(7.9)		
Leaside	877.9	882.1	908.0	30.1	3.4		
McCormick	632.9	633.5	655.0	22.1	3.5		
Moss Park	683.2	683.2	689.5	6.3	0.9		
North Toronto	746.1	780.7	781.6	35.5	4.8		
Ted Reeve	739.4	734.3	757.6	18.3	2.5		
Total Revenues	5,787.6	5,787.1	5,982.6	194.9	3.4	0.0	0.0
NET EXP.							
George Bell	21.7	2.5	(0.6)	(22.3)	(102.8)		
Wm H. (Bill) Bolton	62.4	104.4	(0.1)	(62.5)	(100.2)		
Forest Hill	(0.2)	(2.4)	(1.7)	(1.5)	618.5		
Leaside	94.0	78.3	45.0	(49.0)	(52.1)		
McCormick	0.7	(0.2)	(0.1)	(0.8)	(107.9)		
Moss Park	0.8	(0.0)	(0.1)	(0.8)	(108.0)		
North Toronto	0.2	(0.2)	(0.3)	(0.5)	(302.0)		
Ted Reeve	10.3	(12.1)	0.0	(10.3)	(100.0)		
Total Net Expend.	189.8	170.3	42.1	(147.7)	(77.8)	0.0	0.0
Approved Positions	63.5	63.5	63.5	0.0	0.0	0.0	0.0
NET TARGET			189.8				
\$ Over / (Under) Program Target			(147.7)				
% Over / (Under) Program Target			-77.8%				

2008 Recommended Base Budget

The 2008 Recommended Base Budget of \$0.042 million net is \$0.148 million less than the 2007 Approved Budget and 2008 target, while maintaining the same level of service as in 2007, except at William H. Bolton Arena and Forest Hill Memorial Arena which will both be back to normal operations in 2008. All eight arenas are expecting a normal operating year in 2008 with no disruption of service.

Other changes in the 2008 Recommended Base Budget include:

- lower utility consumption as a result of the arenas' own energy conservation initiatives implemented for expected savings of \$0.065 million;
- less building and equipment repairs and maintenance requirement in 2008 and less costly repair/maintenance projects for savings of \$0.090 million; and
- Leaside Gardens' debt retirement for savings of \$0.022 million.

Base revenues are expected to increase by \$0.115 million in 2008 or 2.0% as a result of William H. Bolton Arena returning to normal operations and ice rental rate increases related to inflation indexing.

2008 Key Cost Drivers and Reduction Strategies

The primary cost driver for the Arena Boards is increased operating costs driven by inflationary increases and repairs/maintenance of aging facilities and equipment.

- Labour costs of \$3.4 million represent 57% of the gross expenditure budget with salaries/wages and benefits increases averaging 3% or \$0.176 million more than in 2007.
- Utilities costs of \$1.1 million in 2008 represent 18% of gross expenditures and is 3% less than the 2007 budget as a result of energy savings initiatives implemented by the arenas.
- Repairs and maintenance costs of \$0.315 million represent 5% of gross expenditures in 2008 and is a decrease of 25% or \$0.108 million less than the 2007 budget as there is less need for small repair/maintenance projects in 2008 and the projects to be undertaken are less costly in project dollar value terms.

As revenues grow, the expenditures required to support the increased volume, expanded programs and to meet operational requirements are expected to grow proportionately.

2009 and 2010 Outlook: Net Incremental Impact

The Arena Boards of Management Program projects no net increase in its 2009 and 2010 net operating budgets. The 2009 and 2010 Outlooks maintain the 2008 recommended level of service. All eight arenas are expected to operate without disruption in 2009 and 2010 as there are no major arena renovations planned in the Parks, Forestry and Recreation 5-Year Capital Plan for the eight Board-operated arenas. The Arena Boards have not committed themselves to any projected salary/wage increase amounts for 2009 and 2010 at this time. As is the Arena Boards' budget strategy, any budgetary pressures arising from salary/wage increases, inflationary increases due to economic factors, are usually offset by increasing revenue through ice rental rate increases tied to inflation, selling more ice time, expanded programs and increased sales in their snack bar/vending and pro shop ancillary operations.

Appendix 1

Summary of Recommended Base Budget Changes From 2007 Approved Budget

(In \$000s)	Summary of 2008 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2009	2010
		\$	\$	\$	\$	\$
2007 Council Approved Operating Budget	63.5	5,969.3	5,787.6	181.7	0.0	0.0
In-year approvals and technical adjustments						
Corporate adjustments		8.1		8.1		
2007 Approved Operating Budget	63.5	5,977.4	5,787.6	189.8	0.0	0.0
Prior year impacts (Bolton Arena shutdown)		26.5	80.0	(53.5)		
Zero base items						
Economic factors		164.8		164.8		
Adjusted Base Budget	63.5	6,168.7	5,867.6	301.1	0.0	0.0
Other base changes		(144.1)		(144.1)		
Base revenue changes			114.9	(114.9)		
Recommended Service Level Adjustments:						
Service efficiencies						
Revenue adjustments						
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	0.0	(144.1)	114.9	(259.0)	0.0	0.0
2008 Recommended Base Budget	63.5	6,024.7	5,982.6	42.1	0.0	0.0
2008 Program Operating Target	N/A	N/A	N/A	189.8	0.0	0.0
% Over (Under) Program Target				-77.8%	0.0%	0.0%
% Over (Under) 2007 Appvd. Budget				-77.8%	0.0%	0.0%

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2007	Proposed Withdrawals (-) / Contributions (+)		
			2008	2009	2010
		\$	\$	\$	\$
Arena Boards of Management Ice Resurfacer Replacement Reserve	XQ1705	274.4	58.6	74.8	74.8
Insurance Reserve Fund	XR1010	24,027.8	81.6	81.3	81.3
Sick Leave Reserve Fund	XR1007	58,585.1	5.0	5.0	5.0
Total Reserve / Reserve Fund Draws / Contributions			145.2	161.1	161.1