



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Services Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	October 7, 2015
SUBJECT/REPORT NO:	Feasibility and Options for Annual Base Funding for the Hamilton Waterfront Trust (FCS15077) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Tony Del Monaco (905) 546-2424, ext. 3020
SUBMITTED BY:	Brian McMullen Acting General Manager Finance & Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That the City of Hamilton provide a one-time grant, funded from the Tax Stabilization Reserve (110046), to the Hamilton Waterfront Trust (HWT) in the amount of \$137,500 representing the incremental costs borne by HWT for the operation and maintenance of the City's outdoor rink, washrooms and related grounds maintenance, for the 2015 spring, summer and autumn seasons;
- (b) That City staff be directed to engage HWT representatives for the purpose of reporting back to Committee on potential amendments to the current operating agreement between the City of Hamilton and Hamilton Waterfront Trust in relation to the annual outdoor rink operation, washrooms and grounds maintenance;
- (c) That City staff report back through the 2016 budget process on the recommended amendments to the operating and maintenance agreement between City of Hamilton and HWT including the related increase in contractual funding and options for dedicated capital funding for the purpose of preserving the value of HWT infrastructure; and
- (d) That the matter respecting "Feasibility and Options for Annual Base Funding for the Hamilton Waterfront Trust" be removed from the General Issue Committee's Outstanding Business List.

EXECUTIVE SUMMARY

General Issues Committee at its meeting of March 30, 2015 directed staff to explore and report back on the feasibility of options that would see annual base funding transferred to the Hamilton Waterfront Trust (HWT) in an amount no greater than \$310,000 to address increased operational service requirements.

HWT has consistently been experiencing net losses year over year. Based on HWT's own projections this is expected to continue into the foreseeable future.

Based on updated HWT projections, the net loss for 2015 is projected to be \$375,600. The operating loss (which excludes amortization expense on capital assets) is projected to be \$180,000.

The City currently provides HWT with approximately \$150,000 to operate the outdoor ice rink in the winter months only. However, the rink is also used in the spring, summer and autumn months as a roller skating rink. HWT is projecting 2015 maintenance expenses relating to the rink to be about \$165,000. HWT currently receives no funding to offset these expenses; however, they are projecting to earn \$40,000 on the associated skate rentals.

Staff are recommending that a one-time grant of \$137,500 be provided to HWT and funded from the City's Tax Stabilization Reserve for 2015. The amount of \$137,500 is based on the projected grounds maintenance expenses (\$165,000) less the projected skate rental earnings (\$40,000), with a 10% management fee.

Staff are also recommending that HWT representatives work with staff on potential amendments to the operating agreement in relation to the outdoor rink operation, washrooms, and grounds maintenance and options for potential dedicated capital funding. Recommendations will be reported through the City's 2016 budget process.

Alternatives for Consideration – See Page 8

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The Hamilton Waterfront Trust has requested annual base funding of \$310,000 per year to address increased operational service requirements. Staff are recommending that a one-time grant of \$137,500 be provided for 2015 from the City Tax Stabilization Reserve and that potential amendments to future dedicated funding be deferred to the 2016 budget process.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Hamilton Waterfront Trust (HWT) was born out of a settlement agreement between the City of Hamilton and the Hamilton Harbour Commissioners dated November 21, 2000. The agreement identifies the Hamilton Harbour as a resource that serves both economic and social needs.

HWT's goal is to provide amenities and opportunities that will enhance Hamilton's waterfront for everyone's use by:

- providing an integrated trail system;
- protecting, enhancing and regenerating natural areas including fish and wildlife habitat;
- educating the public as well as stimulating awareness and appreciation of the waterfront;
- building amenities and activities that enhance the enjoyment of the waterfront.

In 2011, the City of Hamilton entered into an outdoor rink management agreement with HWT. Under the agreement, the City provides approximately \$150,000 per year to HWT for the winter operations of the ice rink. The rink has become one of HWT's most popular attractions and is used in the spring, summer, and autumn months as a roller skating rink.

HWT is required to submit annual, audited financial statements to Council. HWT has consistently been experiencing net losses year over year.

General Issues Committee at its meeting of March 30, 2015 directed staff to explore and report back on the feasibility of options that would see annual base funding transferred to the Hamilton Waterfront Trust (HWT) in an amount no greater than \$310,000 to address increased operational service requirements.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

None.

RELEVANT CONSULTATION

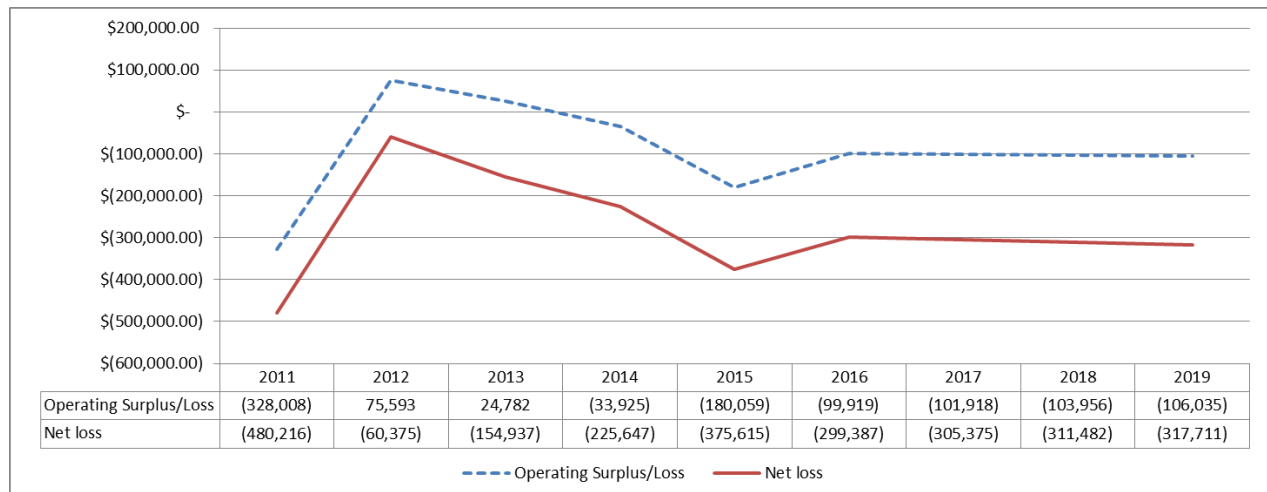
Financial projections included in this report are based on information received from the Hamilton Waterfront Trust.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

(Include Performance Measurement/Benchmarking Data if applicable)

The Hamilton Waterfront Trust (HWT) has consistently been experiencing net losses year over year. Based on HWT's own projections this is expected to continue into the foreseeable future.

Figure 1 - HWT Operating and Net Losses from 2011 with projections to 2019



****Net loss excludes loss from discontinued operations.**

Data for the 2011 to 2014 period has been taken from HWT's audited financial statements. Data for 2015 to 2019 are based on projections provided by HWT.

Operating losses refers to the deficiency of revenues over expenses before non-cash items such as amortization expense. Net loss includes amortization expense. In both cases, losses from any extraordinary items such as discontinued operations have been excluded.

For example, the \$225,647 net loss in 2014 includes \$192,722 in amortization expenses. Excluding this amortization expense yields an operating loss of only \$33,925. Amortization expense is a non-cash expense that is included in financial statements to demonstrate the use or consumption of capital assets in a reporting period.

HWT is projecting an operational loss of \$180,000 and a net loss of \$375,600 in 2015.

As illustrated in Figure 2, HWT reported revenues of \$2,978,800 in 2014. One of the primary sources of revenue, shown as "Administration" is related to funds received for waterfront development initiatives and associated funds for contract management. While HWT incurs corresponding expenses related to the waterfront initiatives, the contract management fees help to offset some of their other expenses. HWT has

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reported contract management revenue in the amount of \$78,384 and \$64,686 in 2014 and 2013 respectively. However, since no further projects have been confirmed, HWT is projecting contract management revenue to decline to \$35,000 in 2015 and \$0 thereafter.

Figure 2 - Breakdown of 2014 Revenues of \$2,978,800

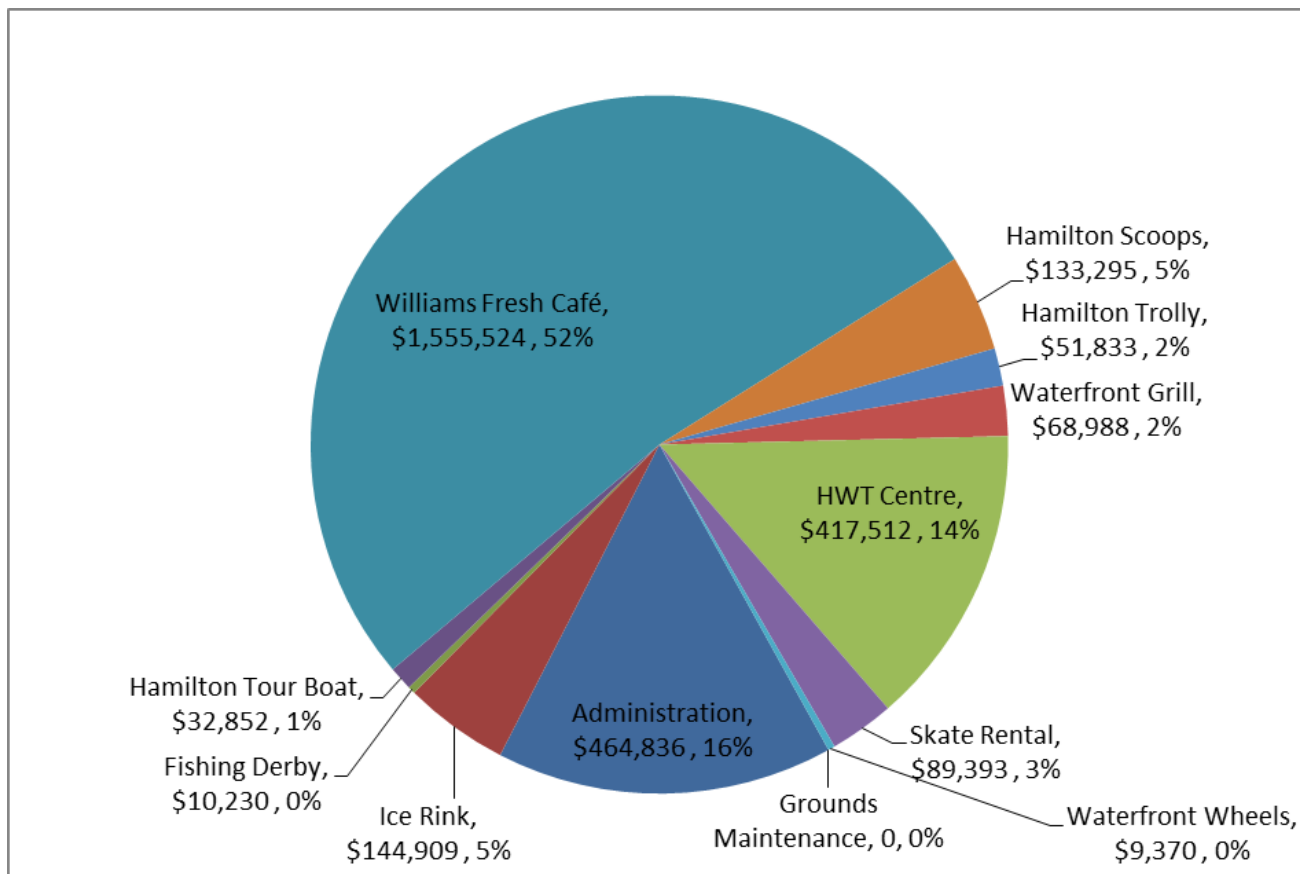
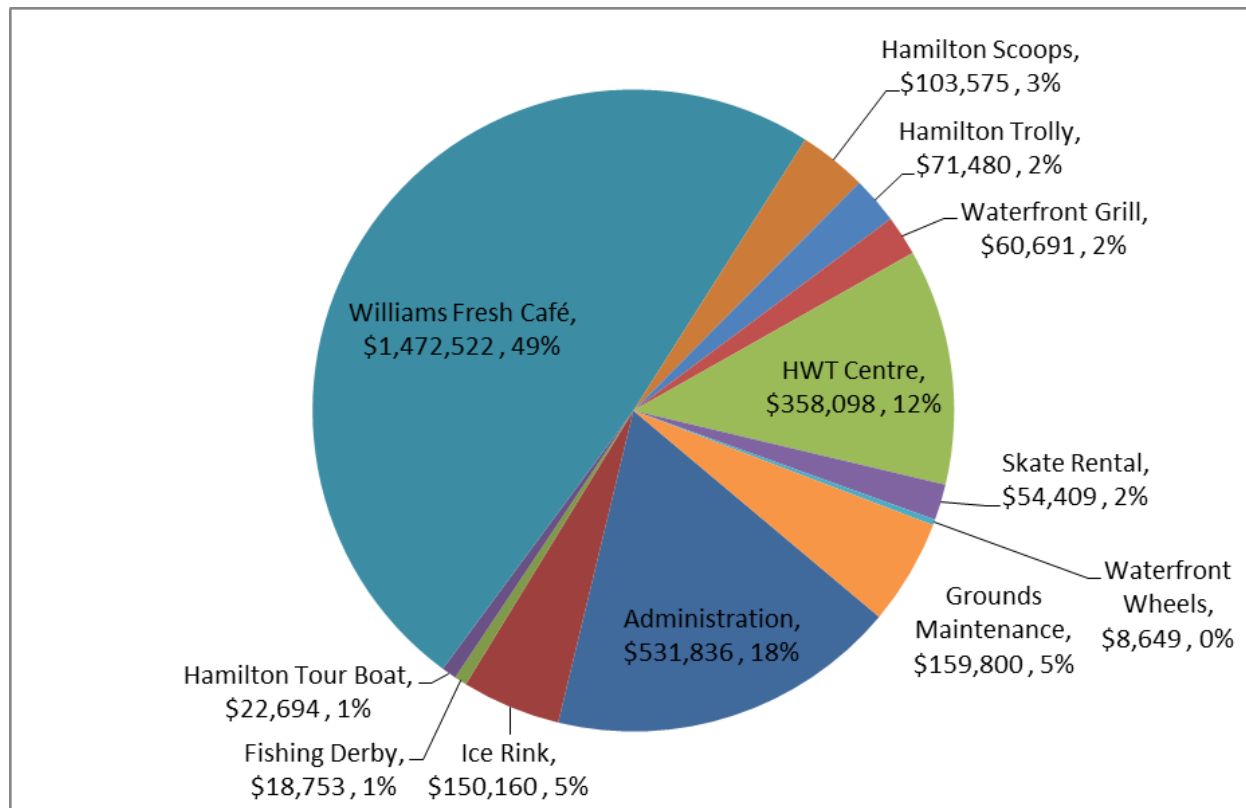


Figure 3 - Breakdown of 2014 Expenses of \$3,012,700

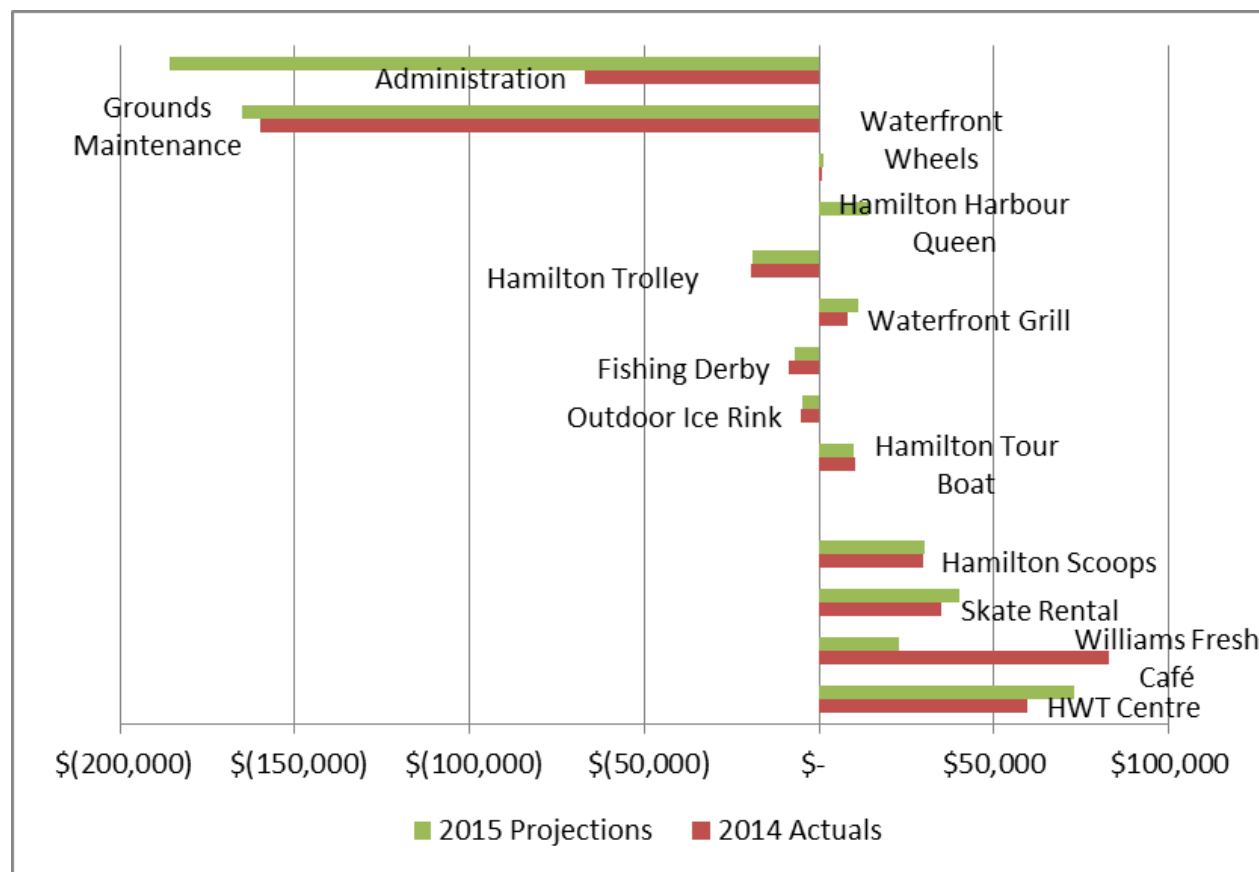


As illustrated in Figure 3, operating expenses were reported as \$3,012,700 in 2014. Administration expenses include \$254,777 related to waterfront development initiatives.

Ice Rink revenues and expenses only relate to the operations of the ice rink in the winter season. However, the rink is operation year round and serves as a roller skating rink in the spring, summer, and autumn months. Grounds maintenance expenses incurred to operate the rink in the spring, summer, and autumn months are not currently funded by the City.

Figure 4 provides a breakdown of the actual and projected operating profit and loss by functional area for 2014 and 2015. While most of the functional areas provide a revenue boost, it is not enough to offset administration and grounds maintenance expenses. The program areas produced a profit of \$193,000 in 2014 based on directly attributable revenues and expenses. However, administration and grounds maintenance produced a loss of \$227,000. Overall, this resulted in an operational loss of \$34,000 in 2014.

Figure 4 – HWT 2014 Actuals vs 2015 Projections of Profit (Loss) by Function



HWT is projecting administration losses to increase in 2015 and beyond. All other projections for 2015 are expected to be similar to 2014 with the exception the Williams Café operations which is projected to produce a \$22,800 profit compared to \$83,000 in 2014.

Grounds maintenance expenses relates to the grounds maintenance of the ice rink in the spring, summer, and autumn months. There is currently no funding provided to offset this expense. HWT did, however, receive \$89,400 in revenues related to skate rentals in 2014 and only incurred expenses of \$54,400 which resulted in a \$35,000 profit on skate rentals.

Grounds maintenance expenses are projected to be \$165,000 in 2015 and skate rental revenues are projected to be \$40,000 higher than expenses in 2015. This nets out to a \$125,000 incremental cost to operate the rink in the spring, summer, and autumn months.

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Staff are recommending that a one-time grant be provided to offset this incremental cost in 2015 which is projected to be \$125,000 plus 10% administration fee totalling \$137,500.

Staff are also recommending to engage HWT representatives for the purpose of potential amendments to the operating agreement relating to the rink and options for potential dedicated capital funding for HWT infrastructure.

Capital Assets

HWT lists capital assets with a historical cost and net book value of \$4,222,069 and \$3,057,158 respectively. The difference is the accumulated amortization or accumulated depreciation that has been recorded against the value of the capital assets.

The following is taken from HWT's 2014 financial statements:

	<u>2014 Net Book Value</u>
Boats	\$27,501
Building	11,663
Computer Equipment	6,479
Dock	9,223
Furniture & Equipment	94,809
Trolleys	195,926
Leasehold Improvements	<u>2,711,557</u>
	\$3,057,158

HWT's ability to liquidate some of its capital assets to boost cash flow is likely limited given that most of HWT's capital assets relate to leasehold improvements.

HWT's capital assets have finite useful lives and will eventually need replacement or refurbishment. However, no reserves have been set aside for this purpose.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Alternative 1 – City provide additional funding of \$310,000 per year as requested by HWT

By providing HWT with this level of funding, HWT would more than offset their projected operating losses. Losses may still be incurred if the budget projections are too optimistic. Operations are sensitive to weather and other entertainment options. Losses are projected to keep increasing so this may only be a short-term fix.

Providing this level of funding would help to offset capital asset amortization expenses. As a result, some of the funding should be set aside in a reserve for future capital asset replacement and refurbishment.

The City's Tax Stabilization Reserve would be the source to fund the one-time increase to funding provided to HWT for 2015. The increase in funding for 2016 and future years would be referred to the City's 2016 budget process.

Alternative 2 – City provide no additional funding to HWT

Based on projections from HWT, their operations are not sustainable in the long-run unless they have access to another source of revenues or they decrease their expenses.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.