



# Value for Money Assessment

## *Active Communities Alberta – Regional Sport and Community Campus Business Case*

Final Report

September 28, 2020



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# Section A. Project Overview

# Report Limitations and Intended Use

1. *The attached report is intended for the use of the recipient to whom it is addressed and may contain confidential, and/or privileged information. Do not distribute, copy, or send to additional recipients without prior consent from the City of St. Albert.*
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# Objective and Scope

The objective of this report is to provide the City of St. Albert ("COSA" or "the City") with both a general review and a value for money analysis of Active Communities Alberta's ("ACA") proposed Sport and Community Campus project. In this sense, it is a hybrid report that may not reflect the same process and structure of conventional value for money analysis.

The report is a commentary on both quantitative and qualitative (potential) impacts of various elements of ACA's proposal which is intended to improve the understanding of the implications (i.e., both benefits and risks) of the proposal to the City's capital and operational budgets, its facilities, programs, and future recreational plans as well as to the broader community and potential facility users. It examines the key components of ACA's proposal (at the time of writing) with the aim of providing insight into the quantitative and/or qualitative implications of each component independently and, where relevant, in conjunction with one another and in consideration of relevant external factors.

The findings described herein:

1. Are based on information provided by ACA and COSA to MNP which is understood to be current and accurate at the time of writing (September 2020) and which may be subject to change in the future;
2. Are based on best and most relevant data and information available during the review period which may not reflect *all* available data information nor any future adjustments, updates, or newly generated details that may have a direct or indirect impact on said findings;
3. Reference information provided by other Canadian recreation facilities / operators that may or may not have direct relevance to the COSA and ACA's proposal;
4. Rely on reasonable assumptions and extrapolations of services, products, and markets (i.e., does not include a detailed analysis of all relevant services, products or markets); and,
5. Do not constitute a financial analysis that can be utilized or substituted (in full or in part) as a formal set of financial projections.

# Methodology and Approach

MNP conducted a detailed review of documents shared by both COSA and ACA. Key documents reviewed include the ACA Regional Sport and Community Campus Business Case (the “Business Case” or the “proposal”) dating from December 2019, ACA financial projections and relevant COSA reports, research, etc.

To support our analysis, MNP also conducted a series of interviews with board members of ACA, COSA administration, internal MNP subject matter experts, and other individuals and groups active in the recreation and leisure space (see Page 7 for a detailed list). This report provides a summary of MNP’s analysis and its associated findings and recommendations. It is organized around six key categories of review and analysis. These are:

1. Funding and Ownership
2. Location and Facility
3. Governance and Operating Structure
4. Financial and Operational
5. Economic Impact
6. Socio-Political Considerations

While this categorization is helpful in structuring the report, it is important to understand the interrelated nature of these categories and the items reviewed within them. In other words, the impacts and implications of many items may expand beyond the category in which they are reviewed in the report. It was not within the scope of this analysis to conduct an detailed needs/capacity assessment of recreational facilities in St. Albert.

# Stakeholder Engagement

The following organizations and individuals were interviewed by MNP personnel as part of the review process.

Organization (Stakeholder)	Date of Engagement	Focus of Engagement
Active Communities Alberta (1 <sup>st</sup> )	August 5 <sup>th</sup>	Preliminary questioning/clarification on business case
City of St. Albert (Diane Enger)	August 7 <sup>th</sup>	Strategic perspective of COSA (Parks and Recreation Department)
Recreation Excellence (Tom Watson)	August 12 <sup>th</sup>	Strategic and operational perspectives from a private recreation management company
City of St. Albert (Susannah Wood, Kelly McConnell, Danielle Podlubny)	August 13 <sup>th</sup>	Strategic and operational perspectives of Parks and Recreation Department
VIVO Centre (Cynthia Watson)	August 14 <sup>th</sup>	Strategic and operational perspectives from a charity-based recreation management entity
City of Lethbridge (Robin Harper)	August 27 <sup>th</sup>	Ownership and operating structure from a comparable municipal perspective
Go Centre (Brian Kropman)	August 28 <sup>th</sup>	Governance, ownership and operating perspectives from a not-for profit run recreational facility
Saville Centre (Greg Lembke)	August 31 <sup>st</sup>	Governance, funding and operating perspectives from a university owned and operated recreational facility
Active Communities Alberta (2 <sup>nd</sup> )	September 4 <sup>th</sup>	Follow up conversation on a item-by-item basis

# Section B. Summary of Recommendations

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# High-Level Observations And Overall Recommendation

The report contains a detailed review of many (but not all) components of the ACA proposal. MNP was asked to focus the review on those elements possessing the highest possible impact to the City and its residents. This request is reflective of the importance to the community, to COSA, to ACA, and to the broader region surrounding the proposed facility. As a lead-in to that detailed analysis and our associated findings, the following high-level observations should be brought to the reader's attention. MNP will also provide more detailed recommendations in subsequent sections of the report to support the overall recommendation below.

1. Recreation facilities have high operating costs and are often expected to provide low-cost and broad accessibility to the communities they serve; it is not impossible for a recreation facility like the one proposed to break-even or to generate a relatively small profit, but it is important to note that operating these facilities typically comes with financial challenges and significant operational risks;
2. In financial terms, a balance of profitability and sustainability is the key objective for any recreation facility's operations, with one supporting the other; MNP's analysis demonstrates the inherent sensitivity of both these financial objectives to a wide-range of variables and factors;
3. Throughout the review process, MNP has observed a desire from all parties to provide the community with a high-quality and long-lasting recreation amenity that will boost quality of life, health, and well-being amongst users; there appears to be genuine alignment in this regard;
4. Leading or best practices can be elusive in this industry in particular because facility operating models vary greatly as do the physical facilities themselves (in terms of size, age, and components); furthermore each comparable facility must be understood in its local and regional context which adds another layer of complexity to any analysis or decision-making process (our analysis acknowledges this while still utilizing data and insights from comparable facilities as inputs into our findings and recommendations) – there is no directly comparable model for exactly what has been proposed by ACA; and,
5. The ACA Business Case and supporting documentation provided by ACA to MNP is generally well-organized and well-researched; projections are typically reasonable and grounded in an appreciation of many of the risks of constructing and operating a recreation facility with the physical components outlined in the Business Case.

**MNP recommends that a decision regarding the \$20 Million in capital funding for the ACA's proposed facility be tabled until the recommendations in this report are addressed.**

# Detailed Recommendations

At the time of writing, although there is no single element that stands out to MNP as a “deal breaker,” there are items of significant risk that have yet to be satisfactorily addressed prior to COSA committing to an investment. Many of those items are explored in the Business Case and reviewed in this report. However, there are financial impacts to the City not reflected in the Business Case or other extant documentation at the time of writing that could vary based on any agreement arrived at between the parties especially pertaining to items of facility ownership, relationships with Sport Partners, and facility utilization relative to other City-owned facilities and facilities in the broader region.

The following pages summarize each key area of risk and provide a recommendation for how each should be advanced by COSA before a funding decision is made.

Area	Base Case	MNP Recommends that ...
1. Asset Ownership	COSA is expected to lease the land to ACA; ACA is expected to own the facility	COSA and ACA explore the possibilities of the P3 structure and refine it if required as motivations and rationale are made more explicit, <i>and</i> COSA determine an ownership and/or borrowing structure that will conform to MGA financing rules (i.e., lending and borrowing restrictions)
2. Financial Impact on COSA	There is no direct ROI for COSA's proposed investment of \$20 million; calculations of secondary economic benefits may require refinement; COSA borrows at a rate of 2.038% which, along with principal repayment equates to \$1.22M/year for 20 years (totalling \$24.45M)	COSA assess the full impacts of the final ownership and operating model on city budgets, including borrowing costs, potential subsidies to Sports Partners, operating grants, and lost facility revenue
3. Operational Autonomy	Independent ACA operation is expected to allow for greater flexibility / control of market offerings, pricing, governance, etc.	COSA/ACA explore what level of support (if any) ACA might receive through a shared service agreement with COSA considering the proposed ownership structure
4. Accessibility / Affordability	ACA proposes a facility that generally aligns with COSA accessibility / affordability principles and practices but does not have the same relationships in place with Sport Partners as COSA*	Future discussions between ACA and COSA centre on how to ensure community needs around affordability and usage are met without undermining the desired flexibility and responsiveness of the private operator model; financial implications will need to be addressed in the agreement including potential COSA operational funding or offsetting grants to Sports Partners

\*COSA refers to Sport Partners as community-based, often youth sports organizations <https://stalbert.ca/rec/community/groups/sports/>

# Detailed Recommendations (Cont'd)

Area	Base Case	MNP Recommends that ...
5. Asset Condition	ACA is presumably solely accountable for the condition of the facility (as facility owner)	The parties explore the development of covenants that protect the asset (e.g., regular maintenance inspections, schedules, etc.), especially in consideration of the Dissolution Clause [see also Recommendation #6]
6. Dissolution Clause	The facility will revert to COSA in the event of operational failure	What constitutes "failure" or "insolvency" is defined and, if the decision is to go forward, eventually included in an Operating Agreement or other legally binding document
7. Facility Components	Two ice surfaces, four gymnasiums, fitness centre, retail spaces, etc.	COSA examine its completed needs assessments and review ACA's analysis of demand for various recreation amenities in the St. Albert region and make the determination if the proposed facility components will satisfy public demand and fit within the broader suite of amenities in the area [see also Recommendation #8]
8. User Cannibalization	ACA does not anticipate significant impact of its facility on usership levels at COSA-operated facilities	COSA quantify risk and impact to City revenue of the new facility competing with existing St. Albert amenities for users, particularly key group users during low-season (e.g. figure skating, hockey camps, etc.)
9. Sponsorship and Donations	ACAA expects their non-municipal status to be beneficial in obtaining donations	COSA assess the risk to the sustainability of the business case in ACA's ability to raise donations and sponsorships at (or beyond) the amounts projected in the Business Case
10. Management Experience	Knowledgeable and experienced boards and committees to provide guidance for the management team	COSA request more detail from ACA in terms of proposed facility management team roles and qualifications which may include ACA exploring the possibility of hiring and/or contracting an experienced facility manager
11. Staffing	The staffing environment is expected to be non-union, operationally flexible, potentially lower cost, with some expected reliance on volunteers	COSA request more clarity from ACA on projected staffing of the facility, perhaps in part through additional research into comparable organizations and/or scenario analyses

# Section C. Financial Analysis

# Methodology and Approach

MNP's analysis of ACA's financial projections includes a combination of:

1. **"Base Case" Initial Analysis** which includes a review of ACA's financial model for functionality and accuracy
  - "Base Case" definition: slightly adjusted version of ACA's financial model from which all other analyses and snapshots were developed
2. **Sensitivity Analysis of Base Case** to assess changes to Year 1 profit due to changes in high impact line items including, but not limited to:
  - Ice Rentals  
(26%-34% of projected annual revenue)
  - Facility Memberships  
(20%-35% of projected annual revenue)
  - Staffing  
(59%-60% of project annual operating costs)
  - Utilities  
(15% of project annual operating costs)
  - Repairs, Maintenance and Supplies  
(13% of project annual operating costs)

*Further financial analysis in the form of three "financial snapshots" is provided in Appendix A [pages 58-71].*

# C1. Base Case Initial Analysis

# Base Case Financial Projection

ACA provided MNP with a raw Microsoft Excel spreadsheet of its financial projections. This model was successfully tested for functionality and completeness.

The financial projections and underlying assumptions (as presented in the ACA Business Case) were then assessed for reasonability, accuracy, and validity.

In order to facilitate further analysis, MNP created its own model\* based on ACA's projections with the following minor adjustments:

1. Removal of the 2% growth rate on Year 1 retail lease revenue; and,
2. Incorporation of more nuanced projections for ice rental revenue instead of using averages from comparator facility analysis [see pages 73-75 of the Business Case].

These adjustments created a nominal reduction to the annual operating surplus of approximately (\$6,000) per year (through to Year 5).

*\*This adjusted set of projections is considered the "Base Case" model throughout this report.*

## REVENUE

	Year 1	Year 2	Year 3	Year 4	Year 5
Ice Rental	\$1,146,579	\$1,169,511	\$1,192,901	\$1,216,759	\$1,241,094
Gym Rental	\$270,000	\$275,400	\$280,908	\$286,526	\$292,257
Meeting Room Rental	\$180,000	\$183,600	\$187,272	\$191,017	\$194,837
Advertising	\$123,660	\$126,133	\$128,656	\$131,229	\$133,854
Sponsorship (naming rights)	\$339,000	\$339,000	\$339,000	\$339,000	\$339,000
Retail Leases	\$307,194	\$313,338	\$319,605	\$325,997	\$332,517
Memberships	\$673,750	\$842,188	\$1,052,734	\$1,315,918	\$1,644,897
Admissions	\$134,750	\$168,438	\$210,547	\$263,184	\$328,979
Vending Machines	\$37,000	\$37,740	\$38,495	\$39,265	\$40,050
Donations	\$125,000	\$127,500	\$130,050	\$132,651	\$135,304
Gaming Revenue	\$32,000	\$32,000	\$32,000	\$32,000	\$32,000
	\$3,368,933	\$3,614,847	\$3,912,168	\$4,273,545	\$4,714,790

## EXPENSES

Staffing	\$1,795,500	\$1,885,275	\$1,979,539	\$2,078,516	\$2,182,442
Contracted Services	\$205,000	\$213,200	\$221,728	\$230,597	\$239,821
Utilities	\$445,000	\$467,250	\$490,613	\$515,144	\$540,901
R&M and Supplies	\$400,000	\$416,000	\$432,640	\$449,946	\$467,943
Advertising and Marketing	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775
Insurance	\$50,000	\$51,000	\$52,020	\$53,060	\$54,121
Professional Fees	\$40,000	\$40,800	\$41,616	\$42,448	\$43,297
Bank & Administrative	\$20,000	\$20,400	\$20,808	\$21,224	\$21,648
Miscellaneous	\$50,000	\$51,000	\$52,020	\$53,060	\$54,121
	\$3,055,500	\$3,197,425	\$3,346,109	\$3,501,876	\$3,665,069

## OPERATING SURPLUS

	\$313,433	\$417,422	\$566,059	\$771,670	\$1,049,720
Reserve Contributions	\$210,000	\$294,000	\$420,000	\$630,000	\$840,000
	-	-	-	-	-
Net Surplus	\$103,433	\$123,422	\$146,059	\$141,670	\$209,720

Reserve Fund	\$210,000	\$504,000	\$924,000	\$1,554,000	\$2,394,000
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# Base Case Initial Analysis

## Implications

The fundamental assumptions that drive the Base Case projections are best understood as “point-in-time” estimates (as per the ACA Business Case dated December, 2019). They are based on a reasonably conservative/pragmatic interpretation of demand/usership, affordability, accessibility, facility requirements, and operational efficiency. They are well-prepared and well-organized and generally based on balanced and fair interpretations of industry comparables and the business context specific to the proposed facility.

The minor adjustments MNP has made to the projections do not reflect any appreciable weakness in the projections themselves, but they do point to the multiple considerations and viewpoints that inform a set of reasonable operating projections.

That said, there is room to improve the projections and challenge some of the key assumptions, especially in areas of high risk. Furthermore, it should be understood that several of ACA’s assumptions may be impacted—even fundamentally so—by a clearer articulation of COSA’s position. For instance, Base Case assumptions around ice rentals have been made without clarity around the relationship and expectations between the facility (ACA) and local Sport Partners. Should further discussions provide greater clarity on motivations, positions, and limitations, there is reason to believe that ACA and COSA can effectively explore the impact of any potential changes to the financial Base Case.

It is hoped that the subsequent sensitivity analysis and financial snapshots provide more insight into specific assumptions, their relationships to one another, and their respective levels of risk, leading to more informed dialogue between involved parties from this point forward.



## C2. Base Case Sensitivity Analysis

# Base Case Sensitivity Analysis

## Overview

MNP performed a sensitivity analysis of ACA's financial projections to better understand possible changes to profitability and sustainability due to deviations away from the Base Case. The revenue and expense items chosen for the sensitivity analysis [see below] because they demonstrated the highest variability and / or largest potential impact on profitability for recreation facilities. For illustrative purposes, the changes to profitability in Year 1 were highlighted, with the exception of membership growth rates, which do not take effect until Year 2.

This analysis will provide COSA with a better understanding of possible financial outcomes (based on specific management decisions made or due to known variability in some line items [e.g., utilities]) for ACA's Regional Sport and Community Campus given that recreation facility financial models have a considerable amount of intrinsic sensitivity and variability / volatility.

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## Line Items Subjected to Sensitivity Analysis

### Revenues

1. Ice Rentals
  - 1.1 Sport Partner Allocation Percentage
  - 1.2 Utilization and Rates
2. Memberships
  - 2.1 Growth Increases
3. Sponsorships / Donations
4. Retail Leases

### Expenses

1. Staffing
2. Utilities
3. Repairs and Maintenance

The adjustments made to each line items were performed independently (one at a time).

The magnitude of the adjustment made for each line item was chosen based on MNP's research into the proposed facility and its location / context as well as comparable organizations included in the scope of this review

# Base Case Sensitivity Analysis (Cont'd)

Sensitivity analysis of the Base Case shows that there is high sensitivity in profitability based on sometimes marginal changes (both positive and negative, yellow/green and red respectively) to the line items described (1 through 10). See the next page for additional implications.

Item	Base Case	Projected Negative Impact on Profit				Projected Positive Impact on Profit			
		Adjustment	Resulting Profit	Profit Change (\$)	Profit Change (%)	Adjustment	Resulting Profit	Profit Change (\$)	Profit Change (%)
1 Prime Time Allocation (Sport Partner / Adult) for Ice	60/40	90/10	\$ 218,551	-\$ 94,882	-30%	50/50	\$ 348,146	\$ 34,713	11%
1.1 Sport Partner Ice Rental Rate - Prime Time	\$190/Hour	\$140/hr	\$ 246,321	-\$ 67,112	-21%	\$200/hour	\$ 329,632	\$ 16,199	5%
2 Blended Ice Rental Rates (All)	See Slide 24	-5%	\$ 256,104	-\$ 57,329	-18%	5%	\$ 370,762	\$ 57,329	18%
3 Utilization (Ice)	See Slide 24	-5%	\$ 218,765	-\$ 94,668	-30%	5%	\$ 408,101	\$ 94,668	30%
4 Membership Volume	1750	-10%	\$ 232,583	-\$ 80,850	-26%	10%	\$ 394,283	\$ 80,850	26%
4.1 Membership Fees	\$ 385.00	-10%	\$ 232,583	-\$ 80,850	-26%	10%	\$ 394,283	\$ 80,850	26%
5 Membership (Growth Rate)	25%	15%	\$ 336,572	-\$ 80,850	-26%	30%	\$ 457,847	\$ 40,425	13%
6 Sponsorships	\$ 339,000	No title sponsor	\$ 173,433	-\$ 140,000	-45%	10%	\$ 347,333	\$ 33,900	11%
6.1 Sponsorships	\$ 339,000	14/17 Spots	\$ 280,433	-\$ 33,000	-11%	4%	\$ 328,433	\$ 15,000	5%
7 Retail Leases	\$ 307,194	5/6 Spaces	\$ 271,194	-\$ 42,239	-13%	Cannot add additional lease opportunities.			
8 Staffing (Wages)	\$ 1,795,500	16%	\$ 19,438	-\$ 293,995	-94%	-10%	\$ 492,983	\$ 179,550	57%
8.1 Staffing (FTEs)	30.5	32.5	\$ 188,433	-\$ 125,000	-40%	29	\$ 379,433	\$ 66,000	21%
9 Utilities	\$ 445,000	15%	\$ 268,933	-\$ 44,500	-14%	-15%	\$ 357,933	\$ 44,500	14%
10 Repairs and Maintenance	\$ 400,000	15%	\$ 253,433	-\$ 60,000	-19%	-15%	\$ 373,433	\$ 60,000	19%
Base Case Operating Surplus (Y1)		\$	313,433						
Base Case Operating Surplus (Y2)		\$	417,422						

- Year 1 unimpacted by change to membership growth rate (Line 5). Year 2 impact has been shown.
- FTE (Full-time Equivalent)

# Base Case Sensitivity Analysis (Cont'd)

## Implications

In the table on the previous page, the adjustments made to each line item have varying degrees of impact on profitability. This activity provides insight into operational sustainability based on these adjustments (made in isolation). Adjustments were made to reflect a “what-if” situation of either inherent volatility in a specific line item (e.g., utilities) or a potential management decision (e.g., changes to rental rates). Notable implications include:

1 - Prime Time Allocation (Sport Partner / Adult) for ice time was adjusted to a ratio of 90/10 had a -30% impact on profitability, while a ratio to 50/50 had a +11% impact to profitability

**Implication:** ACA will need to be considerate of changes to Sport Partner allocation

3 - Utilization was adjusted closer to 55% (overall, with a 5% absolute increase to all rates) had a -30% impact on profitability (likewise, same increase on utilization rates had a +30% impact to profitability)

**Implication:** ACA will need to focus efforts on ensuring the arenas are utilized to their fullest

6 – Sponsorships were adjusted to reflect a loss of the title sponsor had a -45% impact on profitability, while a 10% increase to sponsorship received had a +11% impact to profitability)

**Implication:** It will be important for ACA to obtain a title sponsor, or find other ways to cover this amount, and maximize sponsorship revenue

8 – Staffing wages were adjusted to align with internal MNP wage analysis (by SME) which had a -94% impact on profitability (close to break-even), while a -10% adjustment in wages (should ACA be over estimating salaries) had a +57% impact on profitability, and,

8.1 – Staffing positions increased to 32.5 FTEs had a -40% impact on profitability (i.e., adding 1 office administrator to support bookings and 1 other staff to support marketing or health and safety, for example)

**Implication:** ACA may need to perform additional analysis on wages (based on market rates) and confirm required FTEs since this is the biggest cost incurred by recreation facilities

**Risk to COSA:** The financial sustainability of the facility when net surplus is only 3% of revenue is a significant risk when so many factors could contribute to deficit positions and/or limiting reserve contributions.

# Section D. Structural Analysis

# Structural Analysis Overview

The following pages summarize MNP's research into comparable recreation facilities. It is important to recognize that direct comparison between two or more facilities is extremely challenging in that they often differ in size, age, components (i.e., amenities), geographic location, proximity to other services, and regional profile.

Perhaps for this reason, a variety of ownership, governance, and operating structures are evident at these facilities with some differences being fundamental and others more nuanced depending on their unique histories and circumstances.

The analysis that follows provides useful context with which to examine the structural components put forward in the ACA Business Case.

# Structural Examples

## Comparable Facilities

### Recreation Excellence

City of Lethbridge funded the capital projects for Fritz Sick, Stan Siwik & Nicholas Sheran Pools

City of Lethbridge owns these facilities and land

City of Lethbridge hired Recreation Excellence to operate the facilities

Recreation Excellence staffs / contracts labour as required

### VIVO Centre

VIVO funded the capital project; City of Calgary contributed operating capital for Y1

City of Calgary owns land and facility

VIVO leases from City of Calgary and operates

### Go Centre

Go Centre consists of three partner organizations (Volleyball, Gymnastics, Basketball)

Go Centre funded the project through a fundraising campaign

University of Alberta owns land and facility

University of Alberta operates

### Saville Centre

University of Alberta funded the project with significant private donation

University of Alberta owns land and facility

University of Alberta operates

# Structural Examples (Cont'd)

## Foundational Stakeholders

	City of Lethbridge	University of Alberta (Go Centre and Saville Centre)
Funding	<ul style="list-style-type: none"> <li>Operators are responsible for all operational costs, the City does not subsidise operations</li> <li>The City does not require operators to contribute to capital reserves</li> <li>The City is responsible for all major infrastructure maintenance and repairs</li> </ul>	<ul style="list-style-type: none"> <li>The Go Centre was funded through fundraising (led by three community groups), sponsorship, municipal, provincial and federal funding</li> <li>The UofA became a partner with the land for both facilities</li> <li>The Saville Centre was funded by the UofA and a large donation by Bruce Saville</li> </ul>
Ownership	<ul style="list-style-type: none"> <li>The City of Lethbridge operates all recreational and cultural facilities (with the exception of ice arenas) on a fee for service model where the City owns the facilities and contracts out all operational duties</li> <li>This allows the City to build and maintain strong relationships with local community groups, but does add additional administrative duties for contract management, procurement, etc. onto City administrative staff</li> </ul>	<ul style="list-style-type: none"> <li>Both facilities and the land are owned by the UofA</li> </ul>
Governance	<ul style="list-style-type: none"> <li>The City is not directly involved in the governance of the facilities, however they do have the opportunities to review operational changes and provide suggestions to operators</li> <li>All contracts with operators have termination clauses including termination without cause</li> </ul>	<ul style="list-style-type: none"> <li>The Go Centre is governed by a board comprised of representatives from the three community groups (Edmonton Grads Basketball, Ortona Gymnastics and Edmonton Volleyball Centre Society), UofA representatives and an independent chair</li> <li>The Saville Centre is governed by the Faculty of Kinesiology, Sport and Recreation</li> </ul>
Operations	<ul style="list-style-type: none"> <li>Facilities are solely operated by contracted third party organizations and community groups</li> </ul>	<ul style="list-style-type: none"> <li>Both facilities are operated by the UofA</li> <li>The Go Centre operates under a Operating Committee with representatives from all four partners</li> </ul>



# Proposed Organizational Design



- The proposed organizational design shows a high reliance on volunteer board and council members
- With three councils and a board of directors, the proposed structure is “top-heavy” relative to leading practices which focus on clear and efficient governance
- A stronger COSA presence in the structure may be a reasonable expectation:
  - A direct line of accountability to the City is not evident in the proposed structure
  - If deemed important to have municipal representation, a non-elected City official with direct experience in recreation and sport would be best suited to an oversight / advisory role as opposed to an elected official
- While an assessment of the skills and knowledge of the proposed team members is beyond the scope of this review, the involvement at these early stages of individuals experienced in recreation facility operations is a strength of ACA’s proposed team

# Section E. Detailed Findings

# Legend

For the items reviewed in this section of the report, icons are used to visually contextualize MNP's findings / response

References to our recommendations on pages 10-11 are provided for each finding as appropriate



## Low

The review of the item does not raise any significant concerns and/or the item represents an area of low risk.



## Medium

The review of the item may raise some concerns and/or the item represents an area of moderate risk.




## High

The review of the item raises significant concerns and/or the item represents an area of significant risk.

# E1. Funding and Ownership



# 1. Funding and Ownership

Item Reviewed		Review Process	Findings	
1.1	<p><b>Proposed Funding Arrangement</b></p> <p>Capital cost of construction of the facility is expected to be \$42M (or less*)</p> <p>City of St. Albert – (up to) \$20 million</p> <p>Government of Alberta - \$10 million</p> <p>Government of Canada - \$10 million</p> <p>ACA – \$2 million</p>	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Interview with ACA</li> <li>• Review of GoA and GoC webpages for relevant funding sources</li> <li>• Interview with internal MNP Tax Resource</li> </ul>	<ul style="list-style-type: none"> <li>• At the time of writing ACA's funding request of COSA is unchanged at \$20 million</li> <li>• If not in this facility, the City can determine how that \$20 million might be otherwise invested</li> <li>• ACA is confident that provincial funding will be obtained and has recently been invited to apply for upcoming provincial stimulus grant programs.; the identification of a single proposed location addresses one of the Province's key concerns with past versions of the proposal               <ul style="list-style-type: none"> <li>• COSA may consider speaking directly with the granting body to get more insight into their perspective and willingness to contribute funding</li> <li>• Failure of other similar projects (e.g. Lewis Farm Rec Centre) to finalize** provincial or federal funding may anecdotally point to an area of risk</li> </ul> </li> <li>• ACA has submitted grant applications to the Investment in Canada Program (ICIP) and are expecting further opportunities to arise as the federal government develops additional stimulus programs; ICIP is essentially administered by the Province</li> <li>• It appears reasonable for ACA to raise \$1 million through fundraising in addition to obtaining matching provincial grant funding through the Community Facility Enhancement Program (CFEP); ACA cites past success in fundraising campaigns such as the one for the Humboldt Broncos; the ability to cite additional examples of fundraising experience would increase confidence in this area</li> <li>• While not part of ACA's anticipated funding, obtaining bank financing at &lt;\$2 million also appears viable; ACA would need to incorporate payback implications/interest into their financial calculations</li> <li>• Furthermore, it is MNP's understanding that the City would very likely incur borrowing costs on the funding it would provide for the facility; a \$20 million commitment would cost the City approximately \$173,000 - \$203,000 in biannual interest costs in each of the first five years of operation (to a 20 year total of approximately \$4.5M in interest) - from a COSA perspective these costs should be considered in the overall operational impact of the facility</li> <li>• Both the COSA and ACA would receive a input tax credit (ITC) for building the facility</li> </ul>	 <p>See Rec 1</p>





\* A construction estimate received by ACA in mid-September provides a revised figure of \$41.79M

\*\* Lewis Farms Recreation Centre Shelved Amid Budget Crunch: <https://www.cbc.ca/news/canada/edmonton/edmonton-city-council-lewis-farms-rec-centre-1.5394916>

# 1. Funding and Ownership (Cont'd)

Item Reviewed		Review Process	Findings	
1.2	<b>Facility Ownership</b>  ACA's proposal indicates the desire to have ownership of the facility	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Interview with ACA</li> <li>• Interviews with COSA</li> <li>• Benchmarking Interviews</li> </ul>	<ul style="list-style-type: none"> <li>• A decision needs to be made on the facility ownership item prior to the finalization of any financial/operational projections and it will require the support of a detailed operating agreement</li> <li>• COSA may be unable to borrow the proposed \$20M (or any other amount) if it does not have ownership of the asset, due to obligations of the MGA.</li> </ul> <p><i>OBSERVATIONS FROM COMPARABLE FACILITIES:</i></p> <ul style="list-style-type: none"> <li>• Non-municipally operated recreation facilities are seldom owned by their operators; a lease arrangement appears more typical</li> <li>• None of the comparator private organizations we examined have direct ownership of the facility; that said, there are examples in the region (e.g., Castle Downs YMCA and Knights of Columbus Twin Arenas); each is a unique arrangement between the municipality and the private entity</li> <li>• For this reason, it is difficult to identify a leading or best practice</li> </ul>	 See Recs 1, 5, 6
1.3	<b>Land Ownership</b>  Rohit Communities is expected to donate the facility site, 55-59 acres cleared and graded, to the City  The City is expected to lease the land to ACA for a nominal amount	<ul style="list-style-type: none"> <li>• Interview with ACA</li> <li>• Interviews with COSA</li> </ul>	<ul style="list-style-type: none"> <li>• A decision eventually needs to be made on the land ownership item and it will require the support of a detailed Lease Agreement</li> </ul> <p><i>OBSERVATION FROM COMPARABLE FACILITIES:</i></p> <ul style="list-style-type: none"> <li>• The municipality owns the land in most, but not all, comparable situations where a recreation facility is built and operated through a collaboration between a municipality and a private entity</li> </ul>	 See Rec 1

# 1. Funding and Ownership (Cont'd)

Item Reviewed		Review Process	Findings	
1.4	<b>Operational Failure</b>  The Dissolution Clause proposed in the Business Case outlines that if the facility fails, ownership will be transferred to the City and any other contributing municipalities	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Interview with ACA</li> <li>• Interview with COSA</li> <li>• MGA Review</li> </ul>	<ul style="list-style-type: none"> <li>• The Dissolution Clause will protect the City's investment and encourage ACA to operate the facility in a financially prudent and sustainable fashion</li> <li>• In the event of operational failure, there is risk of COSA assuming building/assets in an unknown state (based on how the facility has been maintained prior to the transfer of ownership)</li> <li>• The Dissolution Clause will be most effective as part of a detailed Operating Agreement; a clear and mutually agreed upon definition of "operational failure" will need to be developed as the cornerstone of the clause</li> </ul>	 See Recs 5 & 6
1.5	<b>Legal Liability</b>		<ul style="list-style-type: none"> <li>• Legal liability, (i.e. the parties that could be subject to a lawsuit or other legal proceeding relating to the facility's operations, funding, governance, etc.) is largely dependent on the facility ownership structure [see Item 1.2]</li> <li>• Involved parties should determine the appropriate stage at which to involve legal professionals</li> </ul>	 See Rec 1
1.6	<b>Operating and Financial Policies</b>	<ul style="list-style-type: none"> <li>• Interview with ACA</li> <li>• Interviews with COSA</li> </ul>	<ul style="list-style-type: none"> <li>• This is also largely dependent on facility ownership structure [see Item 1.2]</li> </ul> <p><i>OBSERVATION FROM COMPARABLE FACILITIES:</i></p> <ul style="list-style-type: none"> <li>• The City of Lethbridge has a wealth of experience in working with third party recreation service providers and may have lessons to share that are of value to ongoing conversations between COSA and ACA</li> </ul>	 See Recs 1 & 3
1.7	<b>Role of the St. Albert Soccer Association (SASA) and other potential "collocational" partners</b>	<ul style="list-style-type: none"> <li>• Interview with ACA</li> </ul>	<ul style="list-style-type: none"> <li>• At the time of writing, SASA appears to be separately pursuing their own initiative to build a soccer field house</li> <li>• There may be potential for ACA and other recreation partners like SASA to explore coordination of construction and operation given that the proposed land parcel is large enough to accommodate multiple structures</li> </ul>	

## E2. Location and Facility





## 2. Location and Facility

Item Reviewed		Review Process	Findings
2.1	<b>Facility Location</b>  The facility is expected to be located in the northwest part of St. Albert	<ul style="list-style-type: none"> <li>• Interview with ACA</li> <li>• Interviews with COSA</li> <li>• Business Case Review</li> <li>• 6<sup>th</sup> Ice Surface Conceptual Plan</li> <li>• RC Strategies Ice Study</li> </ul>	<ul style="list-style-type: none"> <li>• The location of the proposed facility appears to be strong given that St. Albert is expanding both north and west, and that many of the City's current recreational assets are in southern quadrants</li> <li>• At 55-59 Acres, the proposed land area will be large enough to accommodate future expansion; onsite conceptual planning has not been completed at the time of writing</li> <li>• The location is adjacent to major travel routes and would have improved ease of access</li> <li>• The arrangement with the land owner appears to benefit all parties; further internal review by COSA may be advisable to ensure proposed terms and conditions are acceptable</li> <li>• Naming rights have not yet been decided upon at the time of writing</li> <li>• Past studies conducted through ACA and COSA have shown that other locations could also be feasible for additional ice surfaces</li> <li>• ACA has noted that should the facility not receive the funding requirement, it will explore locating the facility elsewhere</li> <li>• From a geographical perspective, the location appears to fill in a regional gap (especially given that the development of Lewis Farms Rec Centre in West Edmonton has been put on hold); that said, users, especially of ice surfaces, are accustomed to driving relatively large distances to access amenities, particularly during prime time / high-season hours [see Appendices for visuals provided from ACA illustrating the proposed site's proximity to surrounding facilities and location of existing COSA recreation facilities somewhat saturated in the SE quadrant of the City]</li> </ul>





See Rec 8

## 2. Location and Facility (Cont'd)

Item Reviewed		Review Process	Findings	
2.2	<b>Facility Components</b>  The two-storey facility is expected to include two ice surfaces, four gymnasiums, a fitness centre, and six retail spaces (for lease)	<ul style="list-style-type: none"> <li>• Interview with ACA</li> <li>• Interviews with COSA</li> <li>• Business Case Review</li> <li>• Recreational Amenity Assessment (2019)</li> </ul>	<ul style="list-style-type: none"> <li>• While pool and aquatics were identified as the highest community need, COSA's needs assessment from 2019 indicates relatively strong demand for additional ice and fitness centre amenities</li> <li>• ACA research across the province indicates an ice shortage for minor hockey and minor ringette in the region; according to ACA research, St. Albert requires more than 7 ice surfaces and currently only has 5</li> <li>• ACA engaged with the community and local business to determine the number and type of retail spaces to be included in the facility</li> <li>• An independent review of user demand was not within the scope of MNP's review; While it seems reasonable that the change in demand for the fitness memberships will only be nominal for the city, the demand for low season ice could be consequential (i.e. figure skating, hockey schools), reducing city revenues</li> </ul>	 See Rec 7
2.3	<b>Construction Budget and Timelines</b>  The construction budget is estimated at \$42 million (or less)  The project is expected to take approximately two years	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Interview with COSA</li> <li>• Interview with ACA</li> </ul>	<ul style="list-style-type: none"> <li>• A detailed review of the anticipated cost of the facility was outside of the scope of MNP's review; anecdotally, the estimate appears reasonable and it should be appreciated that it is subject to change as design components are finalized and market conditions continue to change</li> <li>• Updated construction budgets have been provided to ACA in mid September and may reflect marginally lower costs than originally anticipated</li> <li>• Construction timelines may vary and have not been completely confirmed at the time of writing; there is some dependency on the timing of funding from various levels of government and ACA and on the completion of the transfer of the land from the developer to COSA</li> </ul>	


## E3. Governance and Operating Structure

### 3. Governance and Operating Structure


Item Reviewed		Review Process	Findings	
3.1	<b>ACA Purpose and Mission</b>  <i>"To be viewed as the leader in delivering recreation facilities and healthy living activities for the benefit of all Albertans." (Business Case, p.14)</i>	<ul style="list-style-type: none"> <li>• Interview with ACA</li> <li>• Business Case Review</li> <li>• "Active for Life" Review</li> </ul>	<ul style="list-style-type: none"> <li>• ACA board members all have ties to the community and have a shared drive to advocate for the needs of residents - in several cases, including their own families</li> <li>• ACA's long-term goal is to develop similar not for profit recreational facilities across the Province of Alberta; COSA could be their pilot project</li> <li>• ACA cites the "Active for Life" philosophy* as a guiding set of principles for the proposed facility and its operations which means providing access and opportunity for adults as well as youth, non-athletes as well as athletes and promoting positive health and wellness outcomes in the community</li> </ul>	
3.2	<b>Non Profit Organization (NPO) or Not for Profit Status</b>  ACA has indicated that it intends to operate as a non profit organization	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Review and commentary from internal MNP expert</li> <li>• Interview with VIVO, CEO</li> </ul>	<ul style="list-style-type: none"> <li>• NPOs are typically are organized in a way that amplifies public good, rather than generating revenue or significantly contributing to reserves; most NPOs would not have sufficient net surplus to save 6%-18% of revenue as a reserve</li> <li>• ACA does not have tax included in their projections; if their NFP status is not upheld, taxation may become a significant expense</li> </ul> <p><b>OBSERVATION FROM COMPARABLE FACILITIES:</b></p> <ul style="list-style-type: none"> <li>• VIVO created a separate research and development arm that receives cash generated by the recreation facility (though have drawn from reserves for the past few years to fund operations)</li> </ul>	 <b>See Rec 1</b>

\* <https://sportforlife.ca/portfolio-view/active-for-life-durable-by-design/>

# 3. Governance and Operating Structure (Cont'd)

Item Reviewed		Review Process	Findings
3.3	Governance Structure	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Interview with Recreation Excellence</li> <li>• Municipal Government Act</li> <li>• P3 Framework and Guideline Document (GOA)</li> <li>• Interviews with benchmark organizations</li> </ul>	<ul style="list-style-type: none"> <li>• The Business Case refers to the enterprise as a public-private partnership (P3); for Alberta P3 projects, the public sector retains ownership of the infrastructure and remains accountable for providing services to Albertans</li> <li>• City involvement at the governance level (as the largest direct funder of the proposed facility) is not evident in the ACA proposal</li> <li>• Depending on the ownership structure, COSA's governance role is to be determined; the degree of City involvement in direct governance may also be impacted by its confidence in any Operating Agreements and/or associated reporting</li> <li>• The proposed governance model is top heavy (multiple advisory councils and committees) which may impact optimally efficient operations [see Page 25]</li> </ul> <p><i>OBSERVATION FROM COMPARABLE FACILITIES:</i></p> <ul style="list-style-type: none"> <li>• Volunteer boards tend to have higher turn-over rates which can create inconsistency in leadership; this in turn impacts staff satisfaction/retention in that they must frequently deal with changes in leadership, vision, strategy, etc.</li> <li>• It is increasingly common practice to avoid having elected officials on boards and to use other mechanisms to allow for municipal oversight</li> <li>• Consistency and predictability at the board is advisable (i.e., manage volunteer turnover)</li> </ul> <div>  <p>See Rec 10</p> </div>

# 3. Governance and Operating Structure (Cont'd)

Item Reviewed		Review Process	Findings
3.4	Operating Structure	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>Benchmark Interviews</li> </ul>	<ul style="list-style-type: none"> <li>The proposed operating structure is clear until it reaches the facility management level where it has yet to be fully sculpted; a staff contingent has been described and analyzed but not yet at the in-depth level that would include lines of reporting and authority as supported by clearly defined roles and responsibilities</li> <li>ACA has indicated that its initial vision was directly hiring into the roles described in the staffing analysis, but that it is also open to exploring the engagement of a management company if one with requisite experience, knowledge, and resources be available in the market</li> </ul> <p><i>OBSERVATION FROM COMPARABLE FACILITIES:</i></p> <ul style="list-style-type: none"> <li>Municipally-operated facilities can often take advantage of shared services such as communications, marketing, procurement, contract management, asset management, etc.; in instances where a private-municipal relationship exists, the ownership structure may determine how many (if any) of these services are made available to the facility, at what cost / benefit, and their potential impact on the operating structure and estimated staffing requirements</li> </ul> <div>  <p>See Recs 10 &amp; 11</p> </div>

## E4. Financial and Operational

## 4. Financial and Operational

Item Reviewed		Review Process	Findings
4.1	<b>Profitability / Sustainability</b>  ACA projects a marginal annual net surplus of between \$110,000 - \$216,000 after a 0.5% - 2.0% annual contribution to reserves (cost recovery percentage of 110%)	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> <li>• Dashboard Outputs for Servus Place via Parks and Recreation Dep't</li> <li>• Comparator Analysis Spreadsheet (.xls)</li> <li>• Sensitivity Analysis</li> <li>• Development of Financial Snapshots</li> </ul>	<ul style="list-style-type: none"> <li>• ACA predicts they will be generating a profit after reserve contributions have been made</li> <li>• Though some facilities are able to generate a profit, recreation facilities often run deficits, even when private organizations with dedicated/experienced staff run them</li> <li>• ACAs reserve contributions are appropriate given the building estimate of \$42 million and were projected by estimating the major maintenance and replacement costs of this capital asset over its useful life (including unforeseen repairs)</li> <li>• Long-term profitability can present challenges in aging facilities               <ul style="list-style-type: none"> <li>• As a recreation facility ages it is typical for ongoing regular maintenance and special maintenance costs to increase; as these costs mount, it can be difficult for an older facility to continue to attract high numbers of users and/or to set user fees high enough to offset rising repairs and maintenance costs</li> <li>• Establishing and maintaining a healthy reserve fund is one way to mitigate for this long-term trend</li> <li>• Another mitigation is to "keep the facility young" by ensuring maintenance, repairs, and cosmetic updates are effectively budgeted, planned, and executed</li> </ul> </li> </ul>

[CONT'D]

4.1 Continued on Next Slide




## 4. Financial and Operational

Item Reviewed		Review Process	Findings
4.1	<b>Profitability / Sustainability</b>  ACA projects a marginal annual net surplus of between \$110,000 - \$216,000 after a 0.5% - 2.0% annual contribution to reserves (cost recovery percentage of 110%)	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> <li>• Dashboard Outputs for Servus Place via Parks and Recreation Dep't</li> <li>• Comparator Analysis Spreadsheet (.xls)</li> <li>• Sensitivity Analysis</li> <li>• Financial Snapshots</li> </ul>	<p><i>OBSERVATIONS FROM COMPARABLE FACILITIES:</i></p> <ul style="list-style-type: none"> <li>• VIVO has been successful in generating profit, though this strength has declined in recent years (2017-2020), where they have been unable to add to reserves</li> <li>• At the outset of their operations, VIVO received seed money from the City of Calgary for its reserves and is required to sustain a certain amount in reserves (of which appear to be very healthy)</li> <li>• TransAlta Tri Leisure Centre (TLC) has incurred deficits for 2013 onward and requires substantial partnership operating (and capital) contributions to remain viable</li> <li>• TransAlta TLC has had a 0.7% per year contribution (of original building cost of \$28 million) putting ACA's estimate a bit higher (average of 1% over 5 years)</li> <li>• Servus Place expense recovery for 2019 was approximately 84% (incurring deficits since 2014)</li> <li>• Servus Place capital costs approx. \$50 million in 2006, 2019 reserve contributions are 2% of build cost</li> <li>• Overall, the profitability projected by ACA appears to be somewhat high and additional research may be required especially to support specific expenses including Salaries, Utilities, Marketing, and Repairs and Maintenance which were somewhat low compared to TransAlta TLC (Adjusted to remove aquatics related expenses). As noted in Sensitivity Analysis, profitability is particularly sensitive to Salary expenses providing additional supporting evidence that special consideration to project these expenses should be made (also see 4.2 Staffing)</li> </ul>





See Recs  
3, 4, 5, 7,  
9, 11


## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings	
4.2	<b>Staffing and Wages</b>  Annual staffing costs are estimated at just under \$1.8 million	<ul style="list-style-type: none"> <li>• Business Case Review and Financial Projections</li> <li>• Benchmark Interviews</li> <li>• High-level review by internal MNP human resources expert (.xls)</li> <li>• Comparator Analysis Spreadsheet (.xls)</li> <li>• Sensitivity Analysis</li> <li>• Financial Snapshots</li> </ul>	<ul style="list-style-type: none"> <li>• Staffing is one of the largest expenses recreation facilities incur which is reflected in the ACA projections</li> <li>• While ACA expects that 59% of their total expenses will be allocated to staffing, this item may require additional review because of its significant impact to overall profitability</li> <li>• Once the ownership structure is clear, positions and associated salaries should be assessed for consistency to market averages for this industry since this is the largest recurring expense for recreation facilities</li> </ul> <p><i>OBSERVATION FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>• Some organizations leverage youth/students where possible which may reduce operational costs and provide additional social benefit to the surrounding community (by investing in youth)</li> <li>• Staffing levels vary significantly from facility to facility and are dependent on the amenities present in the facility, the physical layout of the facility, and its operational history</li> <li>• Comparison to TransAlta TLC (with aquatics-related staff removed), internal MNP compensation review by HR expert, and sensitivity analysis show that this expense item requires additional investigation since ACA projections appear to be on the low side (as previously noted this expense in particular can have a major impact on profitability)</li> </ul>	 <i>See Rec 11</i>

## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings	
4.3	<b>Reliance on Volunteers</b>  ACA intends to utilize volunteers but have not included volunteer effort in their financial projections	<ul style="list-style-type: none"> <li>• Interview with ACA</li> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> </ul>	<ul style="list-style-type: none"> <li>• Volunteer positions at the governance and advisory level are well documented in the Business Case; the knowledge, skills and expertise are all beneficial to ACA and its operations</li> <li>• Volunteers would primarily be used for admissions, gymnasium supervision, staffing events</li> <li>• ACA has not incorporated volunteer effort into its financial projections which is appropriate given the considerations above</li> </ul> <p><i>OBSERVATION FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>• ACA intends to use volunteers to provide additional cost savings; however, many comparator organizations echoed their inability to rely on volunteers consistently and also found associated risks with using volunteers considering OH&amp;S regulations, time to on-board, etc..</li> </ul>	 See Rec 11
4.4	<b>Reliance on Non-unionized Labor</b>  ACA expects to utilize non-unionized staff	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> </ul>	<ul style="list-style-type: none"> <li>• ACA suggests that their ability to operate efficiently and cost-effectively is supported by non-unionized staff, which has been echoed by other private operators</li> <li>• Having non-unionized staff provides the needed financial flexibility/operational resiliency should major operational disruption occur (e.g., COVID-19) or to pivot toward changing demands/user preferences</li> </ul> <p><i>OBSERVATION FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>• COSA Recreation doesn't currently utilize a high percentage of unionized labour</li> </ul>	 See Rec 11



## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings
4.5	<p><b>Repairs and Maintenance</b></p> <p>ACA projects an average repairs and maintenance cost to be approximately \$433,000/year</p> <p>Approximately 11% of total Revenues and 13% of total Expenses</p>	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> <li>• Comparator Analysis Spreadsheet (.xls)</li> <li>• Sensitivity Analysis</li> <li>• Financial Snapshots</li> </ul>	<ul style="list-style-type: none"> <li>• Given that this expense is often variable (which was echoed during benchmark interviews and analysis of comparator organizations) it is difficult to project.</li> <li>• As previously noted, this is an important expense to budget for given it will increase the useful life of the building and help prevent major potential repairs of the expensive equipment that are needed to support arena operations (for example)</li> <li>• ACA also noted this is an expense that can vary greatly; however, the methodology and assumptions used in the Business Case are reasonable</li> </ul> <p><i>OBSERVATION FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>• Relative to TransAlta TLC, ACA's projections regarding Repairs and Maintenance would also be reasonable (aquatics related expenses removed) even though they are slightly lower</li> </ul> <div>  <p><i>See Rec 5</i></p> </div>

## 4. Financial and Operational (Cont'd)

Item Reviewed	Review Process	Findings
<p><b>4.6 Other Expense or Revenue Projections and Operational Efficiency Considerations</b></p> <p>Additional expenses reviewed at a high-level include: Utilities, Marketing, Insurance, as well as overall considerations regarding operational efficiency/financial performance</p>	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> <li>• Comparator Analysis Spreadsheet (.xls)</li> <li>• Sensitivity Analysis</li> <li>• Financial Snapshots</li> </ul>	<ul style="list-style-type: none"> <li>• ACAs methodology used to calculate expense projections for Utilities, Marketing, and Insurance are appropriate but could still be somewhat low</li> <li>• Since COVID-19, Insurance expenses may be higher, especially since this type of business disruption can have a major impact on profitability for recreation facilities</li> <li>• Utilities are highly variable and difficult to project and are especially difficult to find comparators for since they are depended on usage, square footage, and the components of the facility (or type of equipment), etc.</li> <li>• Further, considerations should be made to utilization (down-time, and conversion to dry floor, seating capacity of the rinks, etc.) that can have an impact on overall profitability</li> </ul> <p><i>OBSERVATIONS FROM COMPARABLE FACILITIES</i></p> <ul style="list-style-type: none"> <li>• ACA may want to consider ways to reduce the variability of utility expenses (such as energy efficiency practices in place at leading facilities) and improve financial sustainability</li> <li>• Though VIVO and TransAlta TLC aquatics-related utility expenses could not be determined, overall utilities expenses were on average over \$1 million per year (where as ACA allocated close to \$500,000 for this expense, on average)</li> <li>• Marketing expenses for TransAlta TLC and VIVO were approximately 180% and 136% higher (on average) than ACAs projections (respectively) over the past 5 years</li> <li>• Utilities expenses for TransAlta TLC and VIVO were approximately 93% and 179% higher (on average) than ACAs projections (respectively) over the past 5 years</li> <li>• Scheduling software and staff dedicated to filling the facility is key; for example, COSA beginning to centralize this service to provide greater financial performance at their facilities</li> </ul> <div data-bbox="2242 656 2356 714"> </div> <p><b>See Rec 3</b></p>

## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings	
4.7	<b>Inflation Rate</b>  An inflation rate of 2% is used in the projections	<ul style="list-style-type: none"> <li>Compare against other business case financial projections and historic inflation rates</li> </ul>	<ul style="list-style-type: none"> <li>2% is a reasonable inflation rate to employ in projections</li> <li>Inflation is appropriately applied to a variety of revenue and expense line items in the projections which is a reasonable facsimile and, in some cases (e.g. donations), may be on the conservative side</li> </ul>	
4.8	<b>Donations and Sponsorships</b>  ACA anticipates being able to generate approximately 9% of annual revenue through sponsorships and another 3.5% through donations	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>Benchmark Interviews</li> </ul>	<ul style="list-style-type: none"> <li>ACA expects St. Albert residents and businesses to be keen on donating funds to aid in the construction of the facility</li> <li>One ACA board member was previously involved in a local fundraiser for the remembrance of local Humboldt Broncos hockey players, where they raised \$400,000 in a single event</li> <li>Sponsorships and donations can be highly variable and are difficult to project</li> </ul> <p><i>OBSERVATIONS FROM COMPARABLE FACILITIES</i></p> <ul style="list-style-type: none"> <li>TransAlta TLC had (on average over the past 5 years) \$322,789/year in sponsorships and donations which is comparable to ACA (approximate \$469,000/year on average over 5 year projections)</li> <li>VIVO received a very large donation of &gt;\$17 million for both 2018 and 2019</li> <li>The Saville Centre capital project was funded (in-part) through a large private donation</li> <li>In general, it may be easier for a private organization (i.e., not the municipality) to raise funds through donations and sponsorships (either directly and/or through a foundation)</li> </ul>	 See Rec 9

## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings
4.9	<b>Rental Rates - Ice</b>  The financial projections have a major reliance on ice rental for its source of revenue	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• Benchmark Interviews</li> <li>• COSA posted rates</li> <li>• Additional information on ACA's projected rate calculations</li> </ul>	<ul style="list-style-type: none"> <li>• ACA projections provide four rates: (1) prime-time high season, (2) non prime-time high season, (3) prime-time low season, and (4) non prime-time low season; this is typical.</li> <li>• Atypically, ACA projections use a blended rate of adult / youth / minor sport user rates that is then compared to other local and regional ice rate (e.g., a proposed \$245/hr for the prime-time rate vs \$300-350/hr at River Cree)</li> <li>• However, Servus Place charges Sport Partners \$139/hr prime time and \$96/hr for non prime-time during high season (\$161/hr for low season) which is significantly lower than ACA's blended rate</li> <li>• The blended rate presents challenges in terms of "apples to apples" comparison, the adult rate was determined to be \$330/hr while the Sport Partner rate is \$190 (at 60/40 ratio this equates to \$245/hr blended rate) [see Other Appendices]</li> <li>• Should Sport Partner associations expect/request subsidization for paying the higher rate (\$190/hr vs \$140/hr) this may create an additional cost to the City of &gt;\$60-70,000/year (using ACAs Base Case projections)</li> <li>• Definitions used (i.e., division of hours between prime and non-prime; high and low season) may also required additional investigation</li> <li>• COSA's rate policy speaks to affordability and accessibility but doesn't stipulate rates for various user groups at its facilities</li> <li>• VIVO used a % revenue in their projections (according to ACA) which is an alternate approach but one that still might not shed light on alignment to COSA's policy</li> <li>• Depending how rates are structured, there is also the risk of loss of long-term low season ice users at Servus Place (hockey camps, figure skating) to the new facility [see Item 6.2 Cannibalization]</li> </ul>



See Recs  
2, 4, 7, 8

## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings
4.10	Memberships	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>Benchmark Interviews</li> <li>Dashboard Outputs for Servus Place via Parks and Recreation Dep't</li> </ul>	<ul style="list-style-type: none"> <li>ACA estimates that upon opening, the facility would serve 1750 members; this number may be a conservative projection, expected to increase yearly as the facility becomes established in the community</li> <li>ACA estimates that memberships will grow by 25% YOY; though this growth estimate could not be verified</li> <li>Methodology and assumptions used to develop membership projections are generally sound considering Servus Place opened with close to 7000 members its first year</li> <li>Memberships were projected to provide 20-35% of revenues over the first 5 years of operation and thus will need to be balanced with spontaneous use, market demands, and consumer preferences to drive the highest utilization of all facility services</li> </ul> <p><i>OBSERVATIONS FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>Anecdotally, fitness centres are a strong draw when the amenity is fresh and new; long-term user retention can be difficult as the facility will compete in a somewhat saturated market with niche organizations offering similar but separate services</li> <li>Membership levels at other facilities, including Servus Place, may not be an appropriate comparator due to the draw of aquatics amenities at those facilities</li> <li>Additional research around demand and needs of the local market in which the proposed facility will be located is required to best understand membership revenue estimates and the potential to cannibalize users from other COSA facilities, given that users are only willing to travel a certain distance to meet their recreation needs</li> </ul>



See Rec 8



## 4. Financial and Operational (Cont'd)

Item Reviewed		Review Process	Findings
4.11	Retail Lease Revenue	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>Benchmark Interviews</li> <li>Comparator Analysis Spreadsheet (.xls)</li> </ul>	<ul style="list-style-type: none"> <li>Lease revenues are driven by types and sizes of spaces available, economic growth, foot traffic, rental rates, and a number of other factors. As such, leasing revenue is difficult to project and is variable between facilities</li> <li>ACA may be overestimating the ability to reach a 100% occupancy rate in early years given the anecdotal evidence that many facilities have struggled with keeping tenants, though this is likely a result of recent economic hardships in the retail space due to COVID-19. That said, 100% occupancy in year 1 may be a challenge given Alberta's current economic strength and pessimistic outlook for Alberta retail*.</li> <li>ACA was conservative on rental rates for spaces and did not incorporate a few smaller lease spaces in their projections. Compared to other organizations, their estimates are somewhat conservative.</li> </ul> <p><i>OBSERVATIONS FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>TransAlta TLC generated approximate \$300,000/year in leasing revenue over the past 3 years while VIVO generated \$263,750/year over the past 4 years though both of these locations have fewer available space for lease than ACA</li> </ul>






See Rec 7

\*Alberta Economic Outlook (ATB). <https://www.atb.com/siteassets/pdf/company/insights/outlook/atb-alberta-economic-outlook-december-2019.pdf>



## E5. Economic Impact

# 5. Economic Impact



Item Reviewed		Review Process	Findings	
5.1	<b>Economic Impact by Category</b>	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>High-level review by internal MNP expert (Susan Mowbray, Partner specializing in Economic Impact)</li> </ul>	<ul style="list-style-type: none"> <li>ACA's estimates produced by category (i.e. direct GDP, direct wages and salaries, etc.) are consistent with benchmarks for similar spending in Alberta based on Statistics Canada's input-output multipliers</li> </ul>	
5.2	<b>Total Economic Impact Projections</b>  ACA suggests a total economic impact of \$35.8 million annually and \$1.9 billion over an estimated facility lifetime of 50 years	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>High-level review by internal MNP Partner specializing in Economics / Economic Impact Assessments</li> </ul>	<ul style="list-style-type: none"> <li>Total economic impacts are potentially overstated due to double counting. The economic impact modelling performed (use of STEAM program) has some limitations in that it is a gross measure and not net economic impact</li> <li>ACA calculated total economic impact by summing GDP, wages and taxes (see page 88 of the Business Case); however, wages and taxes on production would already be included in GDP and should not be added in again</li> <li>Total economic impact is typically reported as in total output, total GDP and total taxes               <ul style="list-style-type: none"> <li>There appears to be another item included in this calculation which deserves further analysis; that said, because the Business Case generally focused on economic impact for Alberta, ACA may consider incorporating or highlighting additional information on local impacts and increased economic activity</li> </ul> </li> </ul>	  <i>See Rec 2</i>
5.3	<b>Anticipated Return on Investment (ROI)</b>  The ACA Business Case (Dec 2019) provides a calculation of ROI on provincial funding via incremental tax revenue	<ul style="list-style-type: none"> <li>Business Case Review</li> </ul>	<ul style="list-style-type: none"> <li>ACA's analysis supports the request for Provincial funding, which is not well understood given recent budgetary cuts and holds put on funding other recreation facility projects (i.e., Lewis Farms)</li> <li>The ROI for the City's \$20 million is less tangible in documentation reviewed to date; though without an ownership stake in the facility, any return on the City's investment would be indirect</li> </ul>	  <i>See Rec 2</i>

## E6. Socio-Political Considerations


## 6. Socio-Political Considerations

Item Reviewed		Review Process	Findings	
6.1	Brand / Reputation	<ul style="list-style-type: none"> <li>ACA Interview</li> <li>Interviews with COSA</li> </ul>	<ul style="list-style-type: none"> <li>Active Communities Alberta is not a recognized brand at the time of review</li> <li>COSA has a well-developed “brand” and may be perceived to be the owner and operator of the facility by many members of the public whether they are or not given taxpayer investment; this exposes the City to reputational risk</li> <li>This risk should be understood as an ongoing concern – the facility will age over time and the key individuals driving ACA today might not always be in place to guide operations and public relations</li> <li>The degree to which this facility will cater to minor sports is unclear at this time which is understood to be an area of sensitivity</li> <li>Reciprocal use with schools has not been addressed in ACA’s Business Case, nor the economic impact on the financial model; but may not be a requirement</li> <li>Effective partnerships with sporting leagues/clubs is a priority to ensure collaboration and overall success of both parties; ACA has several letters of recommendation from various leagues / organizations</li> </ul>	 <p>See Recs 1, 5, 6, 8</p>
6.2	Cannibalization of Other Facility Users	<ul style="list-style-type: none"> <li>ACA Interview</li> <li>Interviews with COSA</li> <li>Business Case Review</li> </ul>	<ul style="list-style-type: none"> <li>ACA claims that cannibalization will not be an issue to concern Council or taxpayers; this is borne out in their estimates but it remains to be seen how this item might play out in reality with certainty that at least some users of current COSA recreation infrastructure would utilize the new facility to meet their needs at least some of the time</li> <li>This item could pertain to memberships, drop-in users, and/or regular users of the facility spaces with perhaps the greatest risk to COSA being in losing key low-season users (e.g. summer hockey camps, figure skating) to the new facility</li> <li>COSA remains concerned about cannibalization; this appears partly attributable to different understanding of community needs and demands between the City and ACA, especially in relation to ice surfaces in St. Albert and the surrounding area where additional infrastructure exists (a detailed analysis of demand / capacity was beyond the scope of this review)</li> </ul>	 <p>See Recs 2 &amp; 8</p>

## 6. Socio-Political Considerations (Cont'd)

Item Reviewed		Review Process	Findings	
6.3	<b>Strategic Alignment</b>  ACA claims that their proposal aligns with 7 of 10 key priorities defined in the City's strategic documents	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• ACA Interview</li> <li>• COSA Interview</li> </ul>	<ul style="list-style-type: none"> <li>• Our initial review suggests relatively strong alignment with 7 of 10 COSA strategic priorities as claimed by ACA, however, much hinges on the ownership question</li> <li>• This does not necessarily mean that ACA priorities completely align with COSA Council priorities, nor the needs of the surrounding community; the City must determine its level of comfort with this potential discrepancy and mitigate as appropriate through additional conversations and an effective Operating Agreement (if required)</li> <li>• It may be that other more mature organizations can demonstrate a more direct alignment to certain City priorities and values which is not to say that ACA and COSA could not eventually achieve substantive alignment in this regard</li> </ul>	
6.4	<b>Reliability and Resiliency</b>	<ul style="list-style-type: none"> <li>• Business Case Review</li> <li>• ACA Interview</li> <li>• COSA Interview</li> </ul>	<ul style="list-style-type: none"> <li>• Now front of mind for many organizations, at the time of writing, the December 2019 Business Case does not directly address the possibility of a large-scale disruption or operational interruption which could negatively impact performance</li> <li>• Subsequent conversations with ACA and COSA indicate that, like many organizations, ACA is actively putting additional thought into this item</li> <li>• COSA may want to ask ACA to address this by speaking to the strategies and protocols it envisions to ensure it remains highly reliable and resilient even in periods of exceptional stress</li> </ul> <p><i>OBSERVATION FROM COMPARABLE ORGANIZATIONS:</i></p> <ul style="list-style-type: none"> <li>• Non-municipally owned-operated facilities may have some advantages in respect to labour flexibility but may suffer from having more limited financial resources to support through a time of protracted pressure</li> </ul>	 <i>See Rec 10</i>

## 6. Socio-Political Considerations (Cont'd)

Item Reviewed		Review Process	Findings
6.5	Regional Relationships	<ul style="list-style-type: none"> <li>Business Case Review</li> <li>ACA Interview</li> <li>COSA Interview</li> </ul>	<ul style="list-style-type: none"> <li>Letters of support from several organizations have been provided by ACA</li> <li>MNP has reviewed relevant letters of support at a high-level, but it is out of the scope of this report to comment on how indicative these letters of regional support are to questions of utilization and regional demand</li> <li>That said, the anecdotal evidence suggests that there is at least some demand for the facility's proposed amenities from out-of-City users</li> <li>Regional agreements and initiatives, e.g., Intermunicipal Collaboration Frameworks, may need to be considered in relation to the proposed facility</li> </ul> 

# Section F. Appendices



# Appendix A. Financial Snapshots

# Financial Snapshots

Recreation facilities have many operational components to manage. When multiple revenue and/or expense items differ from projected levels in a given period, the impacts on profitability and sustainability can be compounded. To illustrate this point and further demonstrate the sensitivities inherent in operating a recreation facility like the one proposed by ACA, the following three financial snapshots have been prepared.

The **Sport Partner Focused** Snapshot adjusts down some key components of the operating model to illustrate how lower than projected revenues might be offset by reducing projected costs. The **Higher** and **Lower Profit Snapshots** are illustrative of potential large swings in projected profitability (and resulting sustainability of operations) if multiple variables all trend in the same direction, at the same time. These analyses have been performed to illustrate the lower and upper bounds of profitability (i.e., like a “worst-case” or “best-case” scenario, respectively).

All three snapshots are intended for illustrative purposes only and are not specifically designed to be a commentary on viability or the likelihood of a certain real-world scenario.

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## Financial Snapshots

### Sport Partner Focused Snapshot

- Focuses on potential reductions to ice rental revenues and administrative costs based on management decisions
- Illustrates ability of these items to offset one another

### Higher Profit Snapshot

- Illustrates “best case” financial / operational scenario in which revenues are relatively high and costs relatively low

### Lower Profit Snapshot

- Illustrates “worst case” financial / operational scenario in which revenues are relatively low and costs relatively low

# Sport Partner Focused Snapshot

## Overview

Through primary and secondary research, it was revealed that there is often a spectrum of operational involvement and investment by municipalities in the delivery of recreation services and associated assets. See Section C for a comparison of the organizational / governance structure of recreation facilities with different operating models and levels of private / public sector involvement.

MNP updated the Base Case projections provided by ACA with a few minor adjustments to the operating assumptions in the Regional Sport and Community Campus business case. The outcome of this and financial snapshot produced may be used to better understand the financial impacts of delivering recreation services using this different model. Additional insight on why certain adjustments were made can be found on the following pages.

### Line Items Adjusted

#### Revenues

1. Ice Rentals
  - 1.1 Sport Partner Allocation Percentage
  - 1.2 Sport Partner Rates

#### Expenses

3. Staffing
4. IT Services
5. Advertising and Marketing

The adjustments made to each line item were done simultaneously to produce a financial snapshot **for illustrative purposes**.

The magnitude of the adjustments made to each line item were done to reflect a hypothetical situation and have not been rigorously tested for validity / feasibility.

# Sport Partner Focused Snapshot (Cont'd)

The following tables provides a summary of the financial impacts of focusing on accessibility for Sport Partner groups. These management decisions would have a negative impact on revenue, but could potentially be offset by finding cost savings (or sharing services) for certain expenses. Below are just a few cost saving examples that, taken together, offset the decrease in revenue by aligning Item 1 to something similar to what is currently in place for other City ice amenities.

Item		Adjustment	Change to Profit from Base Case (Negative)	Operating Surplus (Loss)
1	Ice Arena Allocation and Ice Rental Rates	Adjust allocation ratios (to prioritize Sport Partners for all ice time) to 90/10 ratio (Sport Partner/Adult) and reduce Sport Partner ice rental rate to \$140/hr	(\$317,912)	(\$4,479)
Reserve Contribution				\$210,000
Total Operating Surplus (Loss) after Reserve Contribution				(\$214,479)

Item		Potential Adjustments to Cover Revenue Loss	Approximate Cost Savings	Totals
2	Number of FTEs and Salary Expense	Remove bookings and events coordinator, marketing and sponsorship coordinator, and one front desk associate.	\$185,750	Approximate Total Cost Savings \$215,750
3	IT Services Expense	Reduce IT services expense by 50%	\$20,000	
4	Advertising and Marketing Expense	Reduce advertising and marketing expense by 20%.	\$10,000	
Approximate Net Impact				\$1,271

# Sport Partner Focused Snapshot (Cont'd)

## Implications

In the table on the previous page, the adjustments made to each line item have varying degrees of impact on profitability. This analysis provides insight into operational sustainability based on a changes to two major revenue assumptions – ice allocation ratios and ice rental rates. As previously noted, this financial snapshot aims to represent an operating model that may be more reflective of COSA's recreation values and its current relationship with / prioritization of Sport Partners (i.e., providing them with prime time accessibility and lower than market ice rental rates). The snapshot leverages potential cost savings with reduced expenses to offset lower revenue, perhaps reflecting a situation where some costs are shared between ACA and COSA. Notable implications include:

1 - Prime Time Allocation (Sport Partner/Adult) for ice time adjusted to a ratio of 90/10 and the Sport Partner Ice Rental Rate adjusted to \$140/hr had –101% impact on profitability or a loss of \$317,912

**Implication:** ACA and COSA both need to be aware of the quantitative and qualitative (i.e., socio-political) implications of defining Sport Partner allocation and Sport Partner rates

2 – Staff wages (namely through the removal of three positions including bookings and events coordinator, marketing and sponsorship coordinator, and one front-desk associate) were reduced creating a cost savings of \$185,750

**Implication:** ACA may not want to reduce salaries (i.e., competitive salaries help retain top talent), but could consider reducing the number of FTEs within their organization if they were able to take advantage of some degree of shared services from COSA, potentially for a fee; possible shared services could include leveraging the City-wide booking system and recreation marketing/outreach program, reducing the need for a booking and events coordinator, marketing coordinator, and potentially a front-desk associate

3 – IT Services Expense was reduced by 50%

**Implication:** Much like in Item 2 above, ACA would need to find additional cost savings, potentially through shared services from the COSA including IT services

4 – Advertising and Marketing Expense was reduced by 20%

**Implication:** Much like in Item 2 above, ACA would need to find additional cost savings, potentially through shared services from the COSA including the need for advertising and marketing since this recreation facility could be apart of/leverage the existing COSA recreation portfolio ecosystem

# Higher Profit Snapshot

## Overview

The Higher Profit Snapshot is illustrative of optimistic projected profitability (and resulting sustainability of operations) wherein multiple and relevant variables all trend in the same direction, at the same time. This may also illustrate an environment with stronger than expected economic recovery in Alberta and continued growth in St. Albert and the capital region.

This snapshot is meant to provide COSA with a possible “best case” scenario of the Base Case, though it may be less likely to occur since it represented the upper bounds of probability. Unlike the sensitivity analysis, which adjusted specific assumptions in isolation, this analysis combines them and thus produces a compounding effect on profitability.

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### Line Items Adjusted

#### Revenues

1. Ice Rentals
  - 1.1 Sport Partner Allocation Percentage
  - 1.2 Utilization and Rates
2. Memberships
  - 2.1 Growth Increases
3. Sponsorships / Donations
4. Retail Leases

#### Expenses

1. Staffing
2. Utilities
3. Repairs and Maintenance

The adjustments made to each line item were done simultaneously to produce a financial snapshot **for illustrative purposes**.

The magnitude of the adjustments made to each line item were done to reflect a hypothetical situation and have not been rigorously tested for validity/feasibility.

# Higher Profit Snapshot (Cont'd)

Item		Base Case	Adjustment	Description
1	Sport Partner Allocation Ratio for Prime Time Ice	60/40 Ratio (Sport Partner/Adult Allocation)	50/50 Ratio (Sport Partner/Adult Allocation)	Adult allocation for prime time ice increased above the Base Case
2	All other Blended Ice Rates (\$/hr)	Season – Prime - \$245 Season – Non- prime - \$150 Off-season – Prime - \$210 Off-season – Non-prime - \$130	Season – Prime - \$260 Season – Non- prime - \$135 Off-season – Prime - \$220 Off-season – Non-prime - \$151	All blended ice rental rates adjusted to align with “optimistic” rates (using averages from comparator ice rental rates across Alberta)
3	Utilization (Ice)	Season – Prime – 95% Season – Non- prime – 40% Off-season – Prime – 65% Off-season – Non-prime – 30%	Season – Prime – 95% Season – Non- prime – 45% Off-season – Prime – 70% Off-season – Non-prime – 35%	Utilization rates increased by 5% (absolute) excluding Prime (to higher than average COSA ice utilization rates)
4	Memberships Volume and Fees	1,750 (Year 1) Revenue \$385/Member	1750 (Year 1) Revenue \$385/Member	Membership volume and revenue per member unadjusted [see Appendix B Servus Place]
5	Memberships (Growth)	Growth Rate 25% year over year (YOY)	Growth Rate 25% YOY	25% in the Base Case growth may be considered somewhat optimistic and has been left unadjusted
6	Sponsorships	\$339,000 (Year 1) \$339,000 (Year 2) \$339,000 (Year 3) \$339,000 (Year 4) \$339,000 (Year 5)	\$339,000 (Year 1) \$339,000 (Year 2) \$339,000 (Year 3) \$339,000 (Year 4) \$339,000 (Year 5)	Unadjusted to reflect optimistic case that assumes naming rights are still available for sponsorship  No growth rate applied
7	Retail Leases	\$307,194 (Year 1) \$313,338 (Year 2) \$319,605 (Year 3) \$325,997 (Year 4) \$332,517 (Year 5)	\$307,194 (Year 1) \$313,338 (Year 2) \$319,605 (Year 3) \$325,997 (Year 4) \$332,517 (Year 5)	Unadjusted to reflect optimistic case of 100% occupancy Y1 – Y5

# Higher Profit Snapshot (Cont'd)

Item		Base Case	Adjustment	Reference
8	Staffing (Total Salaries)	\$1,795,500 30.5 Full time employees	\$1,795,500 (Year 1) 30.5 Full time employees	Salaries are unadjusted since projections may be below market rates  Lean staffing model based on MNP Compensation Assessment and comparison to TransAlta TLC/VIVO (though not a direct comparison)
9	Utilities	\$445,000 (Year 1)	\$422,750 (Year 1)	Utilities decreased by 5%
10	Repairs and Maintenance	\$400,000 (Year 1)	\$380,000 (Year 1)	Repairs and maintenance decreased by 5%



# Higher Profit Snapshot (Cont'd)

## Notable Items:

1. All adjustments combined together produce an average operating surplus of approximately **\$782,000/year** with Y5 being the most optimistic at \$1,217,266
2. Compared to the Base Case, these adjustments added approximately \$155,000 in additional surplus in Years 1 through 5
3. Adjustments made to Year 1 flow forward through to Year 5
4. Many line items in the Base Case are already considered somewhat optimistic and were left unadjusted
5. In reality, it is unlikely that all variables will trend to the optimistic side
6. Title sponsorship revenue has been included; however, if naming rights are not available for sponsorship, this will greatly impact the profit margin (-\$140,000/year).
7. Donations and sponsorships are always a point of uncertainty, and in the post-pandemic period, this uncertainty may be even more exaggerated, although both have been left unadjusted in this snapshot

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>REVENUE</b>					
Ice Rental	\$1,254,765	\$1,279,860	\$1,305,457	\$1,331,566	\$1,358,197
Gym Rental	\$270,000	\$275,400	\$280,908	\$286,526	\$292,257
Meeting Room Rental	\$180,000	\$183,600	\$187,272	\$191,017	\$194,837
Advertising	\$123,660	\$126,133	\$128,656	\$131,229	\$133,854
Sponsorship (naming rights)	\$339,000	\$339,000	\$339,000	\$339,000	\$339,000
<b>Retail Leases</b>	\$307,194	\$313,338	\$319,605	\$325,997	\$332,517
Memberships	\$673,750	\$842,188	\$1,052,734	\$1,315,918	\$1,644,897
Admissions	\$134,750	\$168,438	\$210,547	\$263,184	\$328,979
Vending Machines	\$37,000	\$37,740	\$38,495	\$39,265	\$40,050
Donations	\$125,000	\$127,500	\$130,050	\$132,651	\$135,304
Gaming Revenue	\$32,000	\$32,000	\$32,000	\$32,000	\$32,000
	\$3,477,119	\$3,725,196	\$4,024,724	\$4,388,352	\$4,831,893
<b>EXPENSES</b>					
Staffing	\$1,795,500	\$1,885,275	\$1,979,539	\$2,078,516	\$2,182,442
Contracted Services	\$205,000	\$213,200	\$221,728	\$230,597	\$239,821
Utilities	\$422,750	\$443,888	\$466,082	\$489,386	\$513,855
R&M and Supplies	\$380,000	\$395,200	\$411,008	\$427,448	\$444,546
Advertising and Marketing	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775
Insurance	\$50,000	\$51,000	\$52,020	\$53,060	\$54,121
Professional Fees	\$40,000	\$40,800	\$41,616	\$42,448	\$43,297
Bank & Administrative	\$20,000	\$20,400	\$20,808	\$21,224	\$21,648
Miscellaneous	\$50,000	\$51,000	\$52,020	\$53,060	\$54,121
	\$3,013,250	\$3,153,263	\$3,299,946	\$3,453,620	\$3,614,626
<b>OPERATING SURPLUS</b>	<b>\$463,869</b>	<b>\$571,933</b>	<b>\$724,778</b>	<b>\$934,732</b>	<b>\$1,217,266</b>
Reserve Contributions	\$210,000	\$294,000	\$420,000	\$630,000	\$840,000
	-	-	-	-	-
<b>Net Surplus</b>	<b>\$253,869</b>	<b>\$277,933</b>	<b>\$304,778</b>	<b>\$304,732</b>	<b>\$377,266</b>
Reserve Fund	\$210,000	\$504,000	\$924,000	\$1,554,000	\$2,394,000

# Higher Profit Snapshot (Cont'd)

## Implications

The adjustments made to each line item or assumption (see tables on Pages 63 and 64) have varying degrees of impact on profitability. This analysis activity provides insight into operational sustainability based on optimistic changes to several major assumptions – at the same time.

Because ACA has some overly optimistic and overly conservative assumptions within their financial model, many of these have been adjusted to reflect a “best-case” scenario that still aligns with both supporting jurisdictional research and operating within the unique COSA market. Notable implications include:

1 - All adjustments combined together produce an operating surplus of \$464,000 in Y1 and additional surplus of approximately \$150,000 each year, representing an increase of %150 in profit from the Base Case (In Year 1)

**Implication:** In the unlikely event that ACA may generate \$464,000 in profit in Year 1 (and sustaining this profit going forward), ACA would easily meet the Reserve Contribution requirement outlined in the Business Case and would potentially be able to contribute more to provide greater assurance that—should conditions change or major repairs are required—a healthy “safety-net” would be in place.

2 – All adjustments made to Sport Partner/Adult allocation ratios and ice rental rates align with an organization that has flexibility to target a different market than the existing COSA recreation portfolio and that there is the demand within this market

**Implication:** ACA may consider additional research around market demand and local needs of the surrounding community given that Base Case financial projections are heavily dependent on facility usage, an “adult” market willing to pay premium prices, and the ability to compete within a somewhat saturated market with similar offerings (i.e., small private gyms, etc.)

3 - Donations and sponsorships are always a point of uncertainty, and in the post-pandemic period, this uncertainty may be even more exaggerated, although this has not been adjusted from the Base Case in the Higher Profit snapshot

# Lower Profit Snapshot

## Overview

The Lower Profit Snapshot is illustrative of a pessimistic situation in terms of projected profitability (and resulting sustainability of operations) should multiple and relevant variables all trend in the same direction, at the same time. This may also illustrate a weaker than expected economic recovery in Alberta and continued but slower growth in St. Albert.

This snapshot is meant to provide COSA with a possible “worst case” scenario of the Base Case, though less likely to occur since it represented the lower bounds of probability. It explores the inherent vulnerability of a facility with costly and relatively complex operations that may also have to deal with periods of revenue instability. It is not to suggest that this amended set of projections is more or less likely than ACA’s Base Case but is rather intended to illustrate the potential financial effect of multiple negative impacts. These considerations (and others) shape the Lower Profit Snapshot that follows.

## Line Items Adjusted

### Revenues

1. Ice Rentals
  - 1.1 Sport Partner Allocation Percentage
  - 1.2 Utilization and Rates
2. Memberships
  - 2.1 Growth Increases
3. Sponsorships / Donations
4. Retail Leases

### Expenses

1. Staffing
2. Utilities
3. Repairs and Maintenance

The adjustments made to each line item were done simultaneously to produce a financial snapshot **for illustrative purposes**.

The magnitude of the adjustments made to each line item were done to reflect a hypothetical situation and have not been rigorously tested for validity/feasibility.

# Lower Profit Snapshot (Cont'd)

Item		Base Case	Adjustment	Description
1	Sport Partner Allocation Ratio for Prime Time Ice	60/40 Ratio (Sport Partner / Adult Allocation)	70/30 Ratio (Sport Partner / Adult Allocation)	Sport Partner allocation for Prime ice increased above the Base Case
2	All other Blended Ice Rates (\$/hr)	Season – Prime - \$245 Season – Non- prime - \$150 Off-season – Prime - \$210 Off-season – Non-prime - \$130	Season – Prime - \$232 Season – Non- prime - \$135 Off-season – Prime - \$220 Off-season – Non-prime - \$151	All blended ice rental rates adjusted to align with “pessimistic” rates (using averages from comparator ice rental rates across Alberta)
3	Utilization (Ice)	Season – Prime – 95% Season – Non- prime – 40% Off-season – Prime – 65% Off-season – Non-prime – 30%	Season – Prime – 90% Season – Non- prime – 35% Off-season – Prime – 60% Off-season – Non-prime – 25%	Utilization rates decreased by 5% (absolute), which is slightly lower than overall average COSA ice utilization rates.
4	Memberships Volume and Fees	1,750 (Year 1) Revenue \$385/Member	1,575 (Year 1) Revenue \$347/Member	Membership volume and revenue decreased by 10%. See Appendix B Servus Place
5	Memberships (Growth)	Growth Rate 25% year over year (YOY)	Growth Rate 15% YOY	25% in the Base Case may be somewhat optimistic and has been adjusted down to 15% YOY
6	Sponsorships	\$339,000 (Year 1) \$339,000 (Year 2) \$339,000 (Year 3) \$339,000 (Year 4) \$339,000 (Year 5)	\$228,000 (Year 1) \$251,000 (Year 2) \$306,000 (Year 3) \$333,000 (Year 4) \$339,000 (Year 5)	Adjusted to reflect pessimistic case that assumes ACA unable to receive full sponsorship until Y5; Naming rights still available for sponsorship in this case. Based on 17 sponsorship opportunities available.
7	Retail Leases	\$307,194 (Year 1) \$313,338 (Year 2) \$319,605 (Year 3) \$325,997 (Year 4) \$332,517 (Year 5)	\$147,194 (Year 1) \$197,670 (Year 2) \$244,696 (Year 3) \$249,590 (Year 4) \$332,517 (Year 5)	Adjusted to reflect increasing occupancy YOY to reach 100% occupancy rate by Y5, using 6 retails spaces

# Lower Profit Snapshot (Cont'd)

Item		Base Case	Adjustment	Reference
8	Staffing (Total Salaries)	\$1,795,500 (Year 1) 30.5 Full time employees	\$2,089,495 (Year 1) 30.5 Full time employees	Adjusted salaries to reflect market rates based on internal MNP Compensation Assessment
9	Utilities	\$445,000 (Year 1)	\$467,250 (Year 1)	Utilities increased by 5% starting in Year 1  Could be much higher by comparison to TransAlta TLC/Vivo (though not direct comparators with aquatics centre)
10	Repairs and Maintenance	\$400,000 (Year 1)	\$420,000 (Year 1)	Repairs and maintenance increased by 5% starting in Year 1

# Lower Profit Snapshot (Cont'd)

## Notable Items:

1. All adjustments combined together produce an average operating surplus (loss) of **(\$363,000/year)** with Year 1 being the most pessimistic at (\$564,000)
2. Compared to the Base Case, these adjustments removed approximately \$1,000,000 in revenue in Years 1 through 5
3. Some line items in the Base Case are already considered somewhat pessimistic and were left unadjusted
4. In reality, it is unlikely that all variables will trend to the conservative side
5. Adjustments made to Year 1 flow forward through to Year 5
6. Title sponsorship revenue has been included; however, if naming rights are not available for sponsorship, this will greatly impact the profit margin (-\$140,000/year)
7. Donations and sponsorships are always a point of uncertainty, and in the post-pandemic period, this uncertainty may be even more exaggerated (though donations have been left unadjusted in this snapshot)

	Year 1	Year 2	Year 3	Year 4	Year 5
<b>REVENUE</b>					
Ice Rental	\$1,029,867	\$1,050,465	\$1,071,474	\$1,092,903	\$1,114,761
Gym Rental	\$270,000	\$275,400	\$280,908	\$286,526	\$292,257
Meeting Room Rental	\$180,000	\$183,600	\$187,272	\$191,017	\$194,837
Advertising	\$123,660	\$126,133	\$128,656	\$131,229	\$133,854
Sponsorship (naming rights)	\$228,000	\$251,000	\$306,000	\$333,000	\$339,000
Retail Leases	\$147,194	\$197,670	\$244,696	\$249,590	\$332,517
Memberships	\$545,738	\$697,331	\$801,931	\$922,221	\$1,060,554
Admissions	\$109,148	\$139,466	\$160,386	\$184,444	\$212,111
Vending Machines	\$37,000	\$37,740	\$38,495	\$39,265	\$40,050
Donations	\$125,000	\$127,500	\$130,050	\$132,651	\$135,304
Gaming Revenue	\$32,000	\$32,000	\$32,000	\$32,000	\$32,000
	\$2,827,606	\$3,118,305	\$3,381,868	\$3,594,845	\$3,887,244
<b>EXPENSES</b>					
Staffing	\$2,089,495	\$2,193,969	\$2,303,667	\$2,418,850	\$2,539,793
Contracted Services	\$205,000	\$213,200	\$221,728	\$230,597	\$239,821
Utilities	\$467,250	\$490,613	\$515,144	\$540,901	\$567,946
R&M and Supplies	\$420,000	\$436,800	\$454,272	\$472,443	\$491,341
Advertising and Marketing	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775
Insurance	\$50,000	\$51,000	\$52,020	\$53,060	\$54,121
Professional Fees	\$40,000	\$40,800	\$41,616	\$42,448	\$43,297
Bank & Administrative	\$20,000	\$20,400	\$20,808	\$21,224	\$21,648
Miscellaneous	\$50,000	\$51,000	\$52,020	\$53,060	\$54,121
	\$3,391,745	\$3,550,282	\$3,716,400	\$3,890,464	\$4,072,863
<b>OPERATING SURPLUS</b>	<b>-\$564,138</b>	<b>-\$431,977</b>	<b>-\$334,532</b>	<b>-\$295,618</b>	<b>-\$185,619</b>
Reserve Contributions	\$210,000	\$294,000	\$420,000	\$630,000	\$840,000
Unable to Meet Reserve Contributions					

# Lower Profit Snapshot (Cont'd)

## Implications

The adjustments made to each line item or assumption (see tables on Pages 68 and 69) have varying degrees of impact on profitability. This analysis activity provides insight into operational sustainability based on pessimistic changes to several major assumptions – at the same time.

Because ACA has some overly optimistic and overly conservative assumptions within their financial model, many of these have been adjusted to reflect a “worst-case” scenario that still aligns with both supporting jurisdictional research and operating within the unique COSA market. Notable implications include:

1 - All adjustments combined together produce an operating loss of (\$564,138) in Y1 and average loss of (\$363,000) each year, representing decrease of 280% in profit from the Base Case (In Year 1)

**Implication:** In the unlikely event that ACA posts a (\$564,138) loss in Year 1 (though profitability improves forward through to Year 5), ACA would not be able to meet Reserve Contribution requirements as outlined in the Business Case; should losses be sustained going forward, the asset may revert back to COSA given the Dissolution Clause referenced in the Business Case; it will be imperative that ACA and COSA define a mitigation strategy regarding this situation and perhaps clearly define this situation and associated next steps in an agreement to ensure both parties are aware of what will occur

2 – Adjustments made to Sport Partner / Adult ice allocation ratios for Prime ice and rental rates align with an organization that is giving greater priority to accessibility (especially for Sport Partners) though not to the same extent as in the Sport Partner Focused snapshot

**Implication:** ACA will need to be considerate of any changes to Sport Partner allocation and Sport Partner rates like the one described given its impact on operational sustainability, though this adjustment was not a major contributor to the operating loss

3 - It is worth noting that certain key points of risk including staffing costs, retail leasing revenues, and membership revenues are areas where a facility operator can be at least somewhat responsive to financial underperformance (e.g., they can reduce staff numbers or remuneration or manipulate rental and membership rates to encourage higher utilization); other elements like utilities costs, and repairs and maintenance are perhaps less adjustable in an effort to recover losses from lower revenues

# Other Appendices



# ACA Blended Rate Calculation for Ice Rentals

Group	2022 Rate	% Hours Allotment
Minor Sport User Group Rate	\$190 / hr	60%
Other User Group Rate (Adult, Hockey Schools, Academies, etc.)	\$330 / hr	40%
<b>Blended Rate</b>	<b>\$245 / hr</b>	

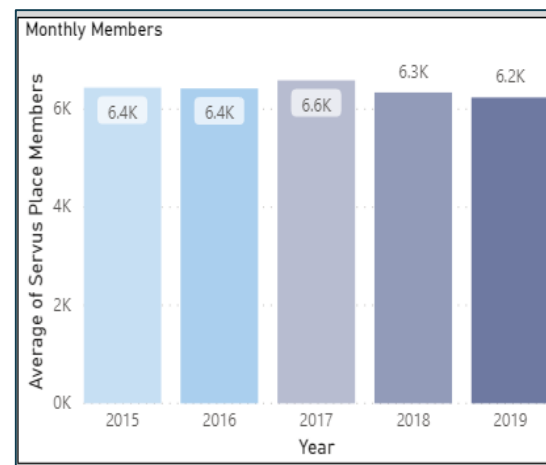
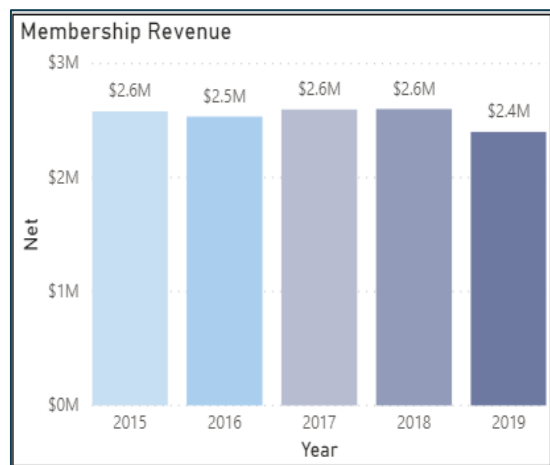
"Our Blended Rate Calculation" – Active Communities Alberta – Sept 4, 2020 (Page 26).

ICE SURFACES		
Fall/Winter Ice September 1 – March 31		
Troy Murray, Mark Messier, Go Auto, Jarome Iginla & Kinex (hourly rates)		
Sport Partner Prime Time (hourly)	\$137.00	\$139.00
Sport Partner Non-Prime (hourly)	\$96.00	\$97.00
Regular Prime Time (hourly)	\$242.00	\$243.00
Regular Non-Prime Time (hourly)	\$142.00	\$143.00
Spring/Summer Ice – April 1 to August 31		
Troy Murray, Mark Messier, Go Auto, Jarome Iginla & Kinex (hourly rates)		
Sport Partner (hourly)	\$161.00	\$163.00
Regular (hourly)	\$205.00	\$207.00

Servus Place [https://stalbert.ca/site/assets/files/2284/2020\\_approved\\_recreation\\_fees-1.pdf](https://stalbert.ca/site/assets/files/2284/2020_approved_recreation_fees-1.pdf)

	All per hr	Prime Time	Prime Time	Non-Prime	Non-Prime	Summer Prime	Summer Prime	Summer Non Prime	Summer Non Prime	Prime weekdays	Prime Weekends	Summer
		Adult	Youth	Adult	Youth	Adult	Youth	Adult	Youth			
Calgary	7 Chiefs	\$ 345.00	\$ 287.50	\$ 250.00	\$ 200.00	\$ 224.25	\$ 186.85	\$ 125.00	\$ 125.00	4pm-12pm		
Calgary	7 Chiefs Commu	\$ 175.00	\$ 150.00	n/a	n/a	n/a	n/a	\$ 100.00	\$ 100.00	4pm-12pm		
Calgary	Crowchild (Calg	\$ 230.00	\$ 200.00	\$ 100.00	\$ 100.00	n/a	n/a	n/a	\$ 145.00	4pm-10:45pm	6am-10:45pm	Last weeks of August
Calgary	Crowchild Comm	\$ 230.00	\$ 200.00	\$ 90.00	\$ 90.00	n/a	n/a	n/a	\$ 145.00	4pm-10:45pm	6am-10:45pm	Last weeks of August
Calgary	City of Calgary	\$ 275.08	\$ 204.91	\$ 126.34	\$ 73.25	n/a	n/a	\$ 143.37	\$ 115.14	4pm-Midnight	6am-Midnight	July/August
Calgary	Winsport (Calga	\$ 298.00	\$ 249.00	\$ 158.00	\$ 119.00	n/a	n/a	n/a	n/a	4pm-11pm	All day	n/a
Edmonton	City of Edmonton	\$302.00	\$302.00	\$ 180.00	\$ 180.00	\$ 235.00	\$ 235.00	\$ 178.00	\$ 178.00	6pm-11pm "Pr	8pm-11pm "F	April 1-Aug 31
Edmonton	City of Edmonton	\$ 241.00	\$ 241.00	n/a	n/a	n/a	n/a	n/a	n/a	4pm-6pm "Fai	6pm-8pm "Fe	April 1-Aug 31
Edmonton	Leduc Recreatio	\$ 246.25	\$ 128.50	\$ 150.50	n/a	n/a	n/a	\$ 182.25	\$ 165.00	4pm-11pm	8am-11pm	April 1 - Aug 31
Edmonton	Servus Credit Un	\$ 242.00	\$ 242.00	\$ 142.00	\$ 142.00	n/a	n/a	\$ 205.00	\$ 205.00	4:30pm-11pm	7am-11pm	April 1 - Aug 31
Other	The Bonnyville	\$ 170.00	\$ 140.00	\$ 125.00	\$ 100.00	n/a	n/a	\$ 170.00	\$ 140.00	4pm-close	8am-close	August

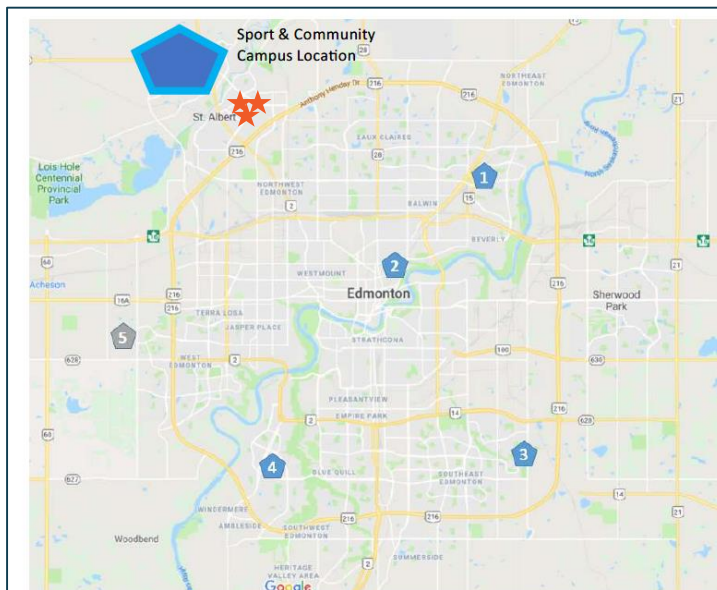
# Sport and Community Campus Membership Calculations



*Servus Place Membership Revenue and Memberships (Snapshots from Dashboard provided to MNP)*

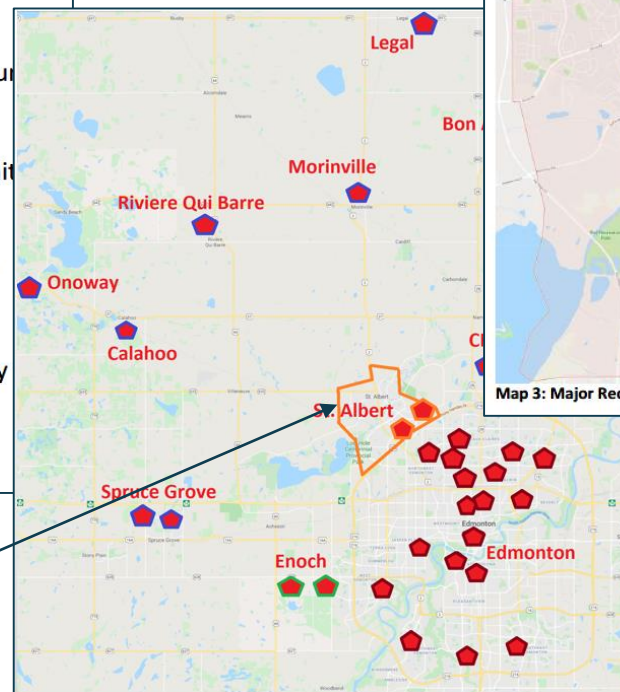
Year	Revenue	Memberships	Revenue / Member
2015	\$2.6 million	6,400	\$406.25
2016	\$2.5 million	6,400	\$390.63
2017	\$2.6 million	6,600	\$393.94
2018	\$2.6 million	6,300	\$412.70
2019	\$2.4 million	6,200	\$387.10
Average	\$2.54 million	6,380	\$398

# Proximity to Regional Recreation Facilities

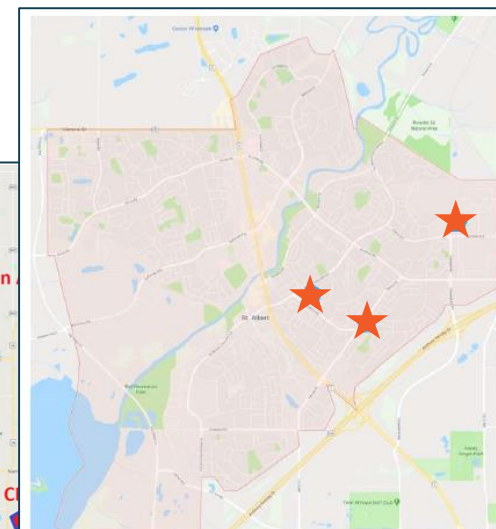


Map 1: Location of Edmonton Community Recreation Centres

1. Clareview Community Recreation Centre
2. Commonwealth Community Recreation Centre
3. The Meadows Community Recreation Centre
4. Terwillegar Community Recreation Centre
5. Lewis Farms Community Recreation Centre (proposed)



Active Communities Alberta – Sept 4, 2020  
(Page 13) St. Albert Minor Hockey Practice Locations



Map 3: Major Recreation Facilities in St. Albert

1. Servus Place
2. Jarome Iginla and Kinex Arenas
3. Fountain Park Pool

ACA Sport & Community Campus Business Case (Page 102)

ACA Sport & Community Campus Business Case (Page 97)

★ St. Albert Recreation Facilities (Added)

Sport &  
Community  
Campus  
Location