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Item No. 12.2.3
Audit and Finance Standing Committee
August 14, 2019

TO: Chair and Members of Audit and Finance Standing Committee

Original Signed

SUBMITTED BY:

Jane Fraser, Director of FAM and ICT

Original Signed

Jacques Dubé, Chief Administrative Officer

DATE: February 14, 2019

SUBJECT: **Revised Business Case for Q521 – Convention Centre Reserve**

ORIGIN

On April 10, 2018 Halifax Regional Council, based on a recommendation from the Audit and Finance Standing Committee, approved:

- (1) A payment of \$301,500 in respect of costs incurred for the Halifax Convention Centre for the period 2016-17;
- (2) Subject to confirmation of the final 2017-18 year end, payment of up to 50% of Halifax Convention Centre costs incurred prior to substantial completion of the facility from the 2017-18 projected surplus; and,
- (3) That staff return with additional updates and recommendations on the Halifax Convention Centre including an updated Business Case for the Halifax Convention Centre Reserve that includes Deed Transfer Taxes related to the Nova Centre.

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter, subsection 120 (6) – “The Municipality may maintain other reserve funds for such purposes as the Council may determine”.

Administrative Order Number 2014-015-ADM , the *Financial Reserves Administrative Order*, section 5 and subsections 13(1)(2):

5. The Audit and Finance Standing Committee shall review and recommend to the Council for its consideration all impacts to the Reserves.

13. (1) Amendments to an existing Reserve may result from a change in the strategic direction of the Municipality, or the relevance of the Reserve’s defined purpose.

(2) Upon review by staff of the change in strategic direction or the change in defined purpose, staff may recommend to the Council that the Reserve be revised or closed and Council may consider such a recommendation.

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee recommend that Halifax Regional Council repeal and replace the business case for Q521 – Convention Centre Reserve, as set out in Attachment 1 of this report.

BACKGROUND

The Halifax Convention Centre (HCC) reached substantial completion on February 28, 2018. The HCC is part of a much larger private complex, the Nova Centre. The Nova Centre includes an office tower, hotel, retail, underground parking and the Convention Centre. The Convention Centre is leased by the Province of Nova Scotia with the capital costs, debt and interest included in the lease payment. Events East is the operator of the HCC.

HRM is not a party to the lease agreement but is a 50/50 partner with the Province on the Convention Centre. Through a series of negotiations, HRM Regional Council signed a Memorandum of Understanding (MOU) agreeing to equally share in the costs of the new convention centre with the Province. That sharing of costs includes all operating and capital costs. The total cost of the convention centre also includes the cost of supporting conventions at the Convention Centre through Events East. HRM began paying its share of the costs upon substantial completion of the convention centre.

As part of its funding strategy, HRM established a Convention Centre Reserve (Q521). All commercial property taxes from the Nova Centre including the office tower, hotel, retail, underground parking and the Convention Centre itself are placed within the reserve. Those revenues (and the funds for the former World Trade and Convention Centre) are used to offset the annual costs under the MOU.

DISCUSSION

Currently the convention centre is fully operational. Assessed values for the remaining parts of the Nova Centre represent the structural condition and occupancy of the property as of December 1, 2018. The office tower is finished but is not fully occupied. The Hotel is complete to core and shell and is expected to become operational within the year. As such, the 2019 assessed values for the facility are:

Office	31,109,200
Retail	3,616,700
Hotel	33,000,000
Parking	<u>7,055,400</u>
Sub-total	74,781,300
Convention Centre	165,547,200
Total	240,328,500

When the hotel is finished and open for business its assessed value can be expected to rise. Likewise, as the Office Tower is leased out and as market values for office space improve, its value should also rise. In the meantime, the reserve faces a shortfall in funding the costs of the HCC.

This report recommends that, in addition to contributing commercial property tax to the reserve, any deed transfer tax associated with the property should be contributed to the reserve. While there are no such revenues currently anticipated, the change to the reserve allows this to happen in the event of any future deed transfer.

The revised business case also includes some technical changes to the wording. It clarifies that the Business Improvement District (BID) tax is not to be placed within the reserve. All other tax revenues including, the provincial area rates, supplementary education area rate and fire protection rates are to be placed within the reserve.

Under the MOU, the general rated tax revenues from the Convention Centre that the Province cost-shares on is set at a fixed amount per year. These revenues are a shareable annual cost of the Convention Centre and are included in the annual Events East operating budget as an expense. However, under the Halifax Charter, HRM is required to collect the general tax revenues on the full value of the Halifax Convention Centre. That portion of revenues that is not subject to cost-sharing is not included in the Events East operating budget. Rather, it is collected by HRM and remitted to the Province of Nova Scotia, with no net cost to HRM. These non-shareable tax revenues are not deposited in the HCC reserve nor does the remittance to the Province come from the HCC reserve.

Changes to the business case also stipulate a minimum amount for the reserve (\$250,000) and a maximum amount (\$15 million). The latter is based on two years of payments. This complies with an outstanding request by the Auditor General in the “Follow Up Review: Reports Released from March 2014 – January 2016”, presented in April 2018.

FINANCIAL IMPLICATIONS

There are no immediate financial implications due to the revised business case.

The revisions allow for Deed Transfer Tax to be included as a contribution to the reserve. Should any future sale of one of the five Nova Centre properties occur, the funds would be deposited into the Convention Center Reserve, instead of general revenues.

All commercial property tax revenues from the Nova Centre property are placed within the reserve. This includes all provincial area rates, the supplementary education area rate and fire protection rate but excludes any non-shareable general rated tax revenues, BID (Business Improvement Districts) tax revenues and any stormwater charges collected through By-law C-900.

The annual budget process sets the amounts to be contributed to the reserve including any additional amounts other than tax revenues.

RISK CONSIDERATION

There are no significant risks associated with the recommendations in this Report. The risks considered are rated low.

COMMUNITY ENGAGEMENT

No community engagement was necessary.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications.

ALTERNATIVES

Regional Council could decline to amend the reserve.

ATTACHMENTS

Attachment 1 - Proposed Reserve Business Case, Convention Centre Reserve, Q521

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

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Reserve Business Case

Convention Centre Reserve, Q521

Type of Reserve: Obligation. A saving fund for future obligation recognizes that:

- a) an obligation may be associated with recapitalization of a specific asset where the estimated lifecycle cost of an asset can be reasonably estimated;
- b) an obligation with a strategic plan where the asset or project may not yet be specified, such as the purchase of land;
- c) that a future expenditure may be managed through the long-term operating or capital budget, depending on the magnitude or situation of the obligation.

Purpose

To provide funding to reimburse the Province for HRM's share of the Halifax Convention Centre (HCC) costs including the capital costs for its construction (through an annual base rent payment), the operating costs and any operating deficit, as per a Memorandum of Understanding Agreement ("MOU") between the Province and HRM.

Source of Funds

Funding arises from:

- a) total revenues from all commercial property taxes levied on the Nova Centre property¹, including all municipal and provincial area rates and fire protection charges, and any Deed Transfer Tax associated with the property. Contributions to reserve excludes:
 - i) amounts for area improvement and promotion, Business Improvement Districts, (BID's),
 - ii) amounts collected for stormwater charges under By-law C-900, the *Charges for Stormwater from Municipal Streets By-law*, and,
 - iii) any portion of the commercial general rated property tax revenues levied on the Halifax Convention Centre that are not considered a shareable annual cost under Section 4 of the MOU;
- b) funds for the former World Trade and Convention Centre;
- c) amounts transferred to the fund as approved by Council; and,
- d) interest accumulated in accordance with the Corporate Guidelines respecting Reserves.

Application of Funds

As per the terms and conditions of the MOU, funds are allocated for:

- a) annual base rent payments to cover HRM's share of the capital costs amortized over the 25-year lease or any extensions to the term of the lease;
- b) HRM's share of annual operating costs of the Halifax Convention Centre; and,
- c) HRM's share of any operating deficit of the Halifax Convention Center.

Non-Shareable General Rated Tax Revenues

As outlined in Section 4 of the MOU with the Province of Nova Scotia, general rated property taxes that are shareable in respect of the Halifax Convention Centre is limited to a fixed amount adjusted each year by the Consumer Price Index ("Shareable General Rated Tax Revenues"). This fixed amount is a source of funds for the reserve. It is also part of the ongoing operating costs of Events East and reserve funds may be applied against those same costs.

In addition to the Shareable General Rated Tax Revenues, there is also an amount of the General Rated Tax Revenues that is not a shareable cost under the MOU. This amount is the difference between the full general rated tax revenues that are levied as required under the Halifax Charter, and the above shareable amount. This non-shareable amount is levied on the property owner by HRM and is fully remitted to the Province of Nova Scotia, with no net cost to the municipality. This non-shareable amount is not deposited in the reserve. The remittance of the non-shareable amount to the Province of Nova Scotia is not a cost of the reserve.

Time Line

Reserve is to be ongoing. Per the MOU, it is intended that this Reserve will be required for a minimum of 25 years. If the lease term is extended per the terms of the lease agreement the reserve will remain in place until the extension period terminates.

Per Administrative Order 2014-015-ADM, the Director of Finance, Asset Management and ICT/CFO shall:

- a) review the reserve annually to ensure that funds are contributed and withdrawn according to the approved Reserve Business Case;
- b) review each Reserve at set intervals to ensure continuing relevance and adequacy with the strategic direction of the Municipality and, in the case, the interval for review will be every 5 years;
- c) provide to Council an annual report on Reserve activity and balance; and,
- d) recommend to Council the closure of any Reserve whose purpose is outdated or to combine any Reserves with similar purposes.

Normal, Minimum, and Maximum Balances

In accordance with the Administrative Order 2014-015-ADM, a minimum and maximum balance should be set to meet the purpose of the Reserve. This reserve is not required to maintain a balance to fund expenses from a risk perspective, and therefore the minimum balance shall be set at \$250,000. The maximum balance should not exceed \$15 million which represents a sufficient amount to cover 2 years of payments. The normal balance would increase/decrease based on annual operating budgets. Please refer to the 5-year cash flow for projected balances. The 5-year cash flow will be updated as new information is received.

Approval Process

Withdrawals from the reserve are to be approved by Council, either through the annual budget process to ensure it continues to meet the operational requirements, or by motion of Council subsequent to approved budget. Finance, Asset Management and ICT/CFO is responsible for ensuring availability of funds and appropriateness of withdrawals in accordance with the Reserve Business Case prior to report submission to Audit & Finance Standing Committee and Council requesting their approval.

Attachments

A five-year detailed cash flow projection is attached. The cash flow is a separate document and will not require Council to re-approve the business case each time a cash flow is adjusted.

Repeal

The business case adopted by Council on September 20, 2016, and any amendments thereto, is repealed.

Original Council Approval Date	September 20, 2016
Effective Date of Last Revision	April, 2019
Business Unit Director Contact	Director, Finance, Asset Management and ICT/CFO

1. For clarity, as of January 1, 2019 the Nova Centre site includes the Halifax Convention Centre (03121364), the Office Tower (10782619), the Hotel (10782627), Retail (10782635) and Parking (10882600).

Five Year Cash Flow

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Balance in reserve April 1, 2018	7,633,063					
Commitments to March 31, 2018	-					
Net available balance, April 1	7,633,063	3,811,001	4,053,901	3,989,001	3,938,801	3,914,701
Budgeted/projected transfers in	7,127,468	7,885,000	7,573,000	7,635,000	7,710,000	7,788,000
Budgeted/projected transfers out	(11,107,394)	(7,708,800)	(7,708,800)	(7,755,000)	(7,803,000)	(7,851,000)
Estimated interest earned	157,864	66,700	70,900	69,800	68,900	68,500
Projected net available balance	3,811,001	4,053,901	3,989,001	3,938,801	3,914,701	3,920,201

Note: the above five year cash flow reflect updated information since the budget as well as the revised reserve business case.