

Municipal Council Presentations – February 22 and 23, 2021

Topic: 2020 Operational Deficit

Details

2020 was an extremely challenging year for the TLC, as it was for many organizations. The impacts of COVID-19 were significant on our staff, patrons as well as overall operations. From being mandatorily closed to the public for close to five months, to major restrictions for the vast majority of time the facility was open, revenue generation was greatly hindered.

Through the initial facility closure (mid-March to early July), TLC administration took major steps to reduce expenses. This included temporary layoffs of approximately 150 staff, representing 88% of the staffing compliment. The staffing levels that were retained, the majority of which were half-time, were done with the intention of reopening the facility as quickly as possible once permitted.

Additional measures to reduce operational expenses included the removal of both ice surfaces and draining of the leisure pool and hot tub which significantly reduced utility and maintenance costs. Further reductions in materials and supplies and other categories were made for the remainder of the year.

At the end of September, as part of the 2021 Budget Presentations to the three Municipal Councils, TLC Administration informed Councils that the projected deficit was approximately \$100,000, primarily due to lost revenue from memberships, facility rentals and some administrative revenues such as tenant rent and sponsorship revenues. Based on all information known at that time, it was felt that these projections were as accurate as possible.

Membership payments recommenced on October 1st, and it became evident that membership return rates were going to be significantly lower than initially projected. Based on feedback received when Customer Experience contacted members via email and/or phone, it was anticipated that approximately 80% of members were going to return. However, at the end of October that return rate was at approximately 55%, and it remained at that level for November. Members cancelled for a variety of reasons, primarily related to COVID, while many others identified that they simply were not using their membership any longer. Membership and drop-in revenues were further impacted in mid-December when the facility was closed yet again.

Additional areas of decreased revenues as to what was projected include facility rentals and administrative revenues. Facility rentals decreased due to lower than anticipated participant numbers in local sports organizations (resulting in decreased need of booked time) and the cancelation of the majority of special events due to COVID-related restrictions. Most significantly was the unexpected temporary pause of all group activities (sports, group fitness, etc.) in mid-November which of itself impacted revenues to the tune of \$130,000. TLC Administration reduced expenses as quickly and efficiently as possible; however, the opportunities were limited as the facility remained operational albeit in a reduced capacity.

Sponsorship revenues are becoming more of a challenge than initially anticipated as well. When first approached, it appeared that many of the sponsors appreciated the revised approach and handling of the reduction of expected payments for the months closed. However, many sponsors indicated they are struggling

more than expected and are having difficulties making the payments. Rather than loose them outright, we worked collectively to create solutions that were acceptable for all.

Year-End Summary

At the end of the 2020, revenues were at 60% of what was initially budgeted, compared to the 70% that had been initially projected upon facility reopening. The vast majority of the unanticipated decrease occurred in the final quarter of the year which left very little time to respond without significantly reducing service levels, which likely would have led to even further decreases in membership and other revenue streams.

From an expense perspective, staff were diligent and exercised cost-cutting measures wherever possible. However, there is a minimum staffing contingent required to ensure the safe operation of the facility and to provide the value of membership that is expected. Had any further reductions in the drop-in type programs been made, there may well have been further impacts to membership and drop-in revenues. Additionally, there are expenses that must be maintained to ensure quality services and all COVID protocols are adhered to.

At the end of 2020, expenses were at 67% of budget, which was in line with what had been initially projected upon facility reopening. This amount is quite indicative of being closed for a little more than 4 months. Taking into account there were still expenses incurred during the closed months, TLC Administration feels that it controlled expenses as much as possible while maintaining the desired approach of offering as many programs and services as possible to the Tri Municipal Region.

The final deficit at the end of 2020 was \$531,774. The TLC Board of Directors has approved the use of reserve funds to offset the deficit and has directed Administration to request approval from the three Municipal Councils for the same.

At the end of 2020, the TLC had the following reserve funds:

Operations Reserve: \$601,507

Capital Reserve: \$907,642 (\$250,000 committed to MCCAC Lighting Upgrade Project)

As per Article 7.5 of the Memorandum of Agreement, the Operations Reserve is “to be used to fund future deficits of the Corporation” while the Capital Reserve is intended to offset future capital item costs. The Operations Reserve is a very fluid amount as it includes depreciation and capital purchases in any given year. This fluctuates significantly from year to year and has ranged over the past five years from as low as \$92,578 in 2017, to as high as \$601,507 in 2019.

Funding Options

TLC Administration is presenting three potential options for Councils to consider, utilizing various methods to fund the deficit without further impacting the municipalities.

Option 1 (Recommended Option)

Fund the entire deficit from the Operations Reserve, which would leave the Operations Reserve with a balance of \$69,733.

The risk of this option is that this fund could end up in a deficit position due to a potential operating deficit which would not be known until the end of any given year.

The benefit of this option is that the Capital Reserve remains as-is, to be utilized to offset capital purchase costs in future years.

Option 2

Fund 50% of the deficit from the Operations Reserve and 50% from the Capital Reserve. This would result in a balance of \$335,620 in the Operations Reserve and \$641,775 (\$250,000 committed) in the Capital Reserve.

The benefit of this option is that there is significantly less risk of the Operations Reserve ending up in a deficit position in future years.

The drawback of this option is the reduction in the Capital Reserve to fund capital projects in future years

Option 3

Municipalities offset the deficit by providing additional contributions to the Corporation. This was the option that was taken the only year that the Operational Reserve was in a deficit position at year end.

The benefit of this option is that both reserves remain in tact for future years.

The drawback of this option is that the municipalities' contribution to the 2020 Operational Budget is increased.

Request:

Based on the support and direction of the TLC Board of Directors, TLC Administration is seeking approval from the three Municipal Councils to utilize the Operations Reserve to cover the 2020 Operating Deficit.

Reviewed and Approved for Submission

General Manager:



Lenny Richer