

## COUNCIL REPORT

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**Meeting Date:** June 9, 2021  
**Department:** Financial Services  
**Report No.:** FIN-2021-06  
**Submitted by:** William Dakin, Director of Finance-Treasurer  
**Approved by:** Fred Tranquilli, Chief Administrative Officer-Clerk

**SUBJECT:** Financial Implications for Nustadia's Proposed Recommendations

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**RECOMMENDATION: THAT:** Council receive the Financial Implications report as presented

### STRATEGIC PLAN ALIGNMENT:

This matter is in accord with the following strategic priorities:

1. Allocate sufficient resources for capital and operating infrastructure needs
2. Develop long-term plans for municipal facilities and real estate
3. Provide recreational facilities that meet and adapt to changing needs and trends
4. Community Wellbeing – Short Term Tactic - Concept plan and cost estimate for a new multi-use community center in Mount Brydges
5. Medium Term – Replacement Plan for Seniors' Center

### BACKGROUND:

On May 12, 2021 Council received a report from Nustadia Recreation Inc. entitled Strathroy-Caradoc Recreation Facility Infrastructure Renewal Plan.

Recreation facility renewal has been a live issue in the Municipality since 2015 when the Council adopted the Parks and Recreation Master Plan (PRMP) which recommended a Service Delivery Review and Engineering Assessments of Indoor Recreation Facilities. The review recommended that Strathroy-Caradoc prepare service delivery strategy reviews and engineering assessments of the

indoor recreation facilities, initially focusing on the West Middlesex Memorial Centre and Tri-Township Arenas with specific emphasis on forthcoming lifecycle capital expenses (eg. roof and floor) as well as physical plant efficiency in order to evaluate future investment and positioning decisions.

Based on the 2015 PRMP and with a view to renewal planning, in 2018 the Municipality engaged the firm of WalterFedy to conduct detailed Building Condition Assessments (BCAs) of the Tri Township Arena, West Middlesex Memorial Centre, Gemini Sportsplex, the Caradoc Community Centre and the Strathroy Seniors' Centre. The purpose of these assessments provided the Municipal Council with:

1. A detailed inventory of the facilities and their components;
2. Condition descriptions and ratings of facilities and their components;
3. Insight into the Municipality's current and future capital budgets;
4. The ability to forecast capital renewal costs over the next 25 years; and
5. Overall current replacement value estimates of each asset.

The WalterFedy report provided the Municipal Council and staff with a clear picture of the state of the facilities involved in the study as well as a tool to benchmark building conditions for our Asset Management Plan (AMP). The BCAs identified that several of the municipality's assets were either approaching, at or beyond their life cycle, and requiring significant financial investment or redevelopment.

The deteriorating condition of recreation facilities identified in the WalterFedy report prompted Council in 2019 to embark on a Recreation Facility Infrastructure Renewal Strategy (RFIRS). The RFIRS was to meet the objectives listed below:

1. Identify a recreation facility renewal strategy through a systematic business planning approach;
2. Analysis of all current and future recreational facility needs for the Municipality of Strathroy-Caradoc;
3. An implementation plan to deliver the recreation facility infrastructure renewal program;
4. Updated condition assessments for the Tri-Township Arena, Caradoc Community Centre, Gemini Sportsplex and West Middlesex Memorial Centre;
5. Through community and stakeholder engagement, identify current and future needs in terms of recreation facility infrastructure;
6. Project funding options; and,
7. Site selection evaluation of available sites (if applicable).

The Municipality engaged Nustadia Recreation Inc. to perform the work. The methodology applied in the RFIRS included;

1. Review of current Building Condition Assessment reports with site visits to confirm the assessments and update if required;
2. Stakeholder engagement, including the general public, user groups, and staff. An engagement process which involved dozens of individual meetings and a broad public survey;
3. Review of local and regional recreational services as well as local demographics and user group registrations from recent years;
4. Identify potential building program elements and provide preliminary schematic sketches from the site visits and input from the engagement process;

The RFIRS considered the Municipality's aging physical infrastructure which is comprised almost exclusively of indoor ice arenas. The RFIRS also highlighted Strathroy-Caradoc's changing demographics and user participation needs. As well, there is competition for the limited tax dollars available to invest. The RFIRS was to provide Municipal Council with the best method of providing the greatest variety of year round recreational experiences for the broadest number of citizens. The desire for a greater variety of year round programming in the community has been a consistent theme which has dominated the community consultations undertaken during the PRMP, Corporate Strategic Plan 2020-2029 and the RFIRS.

Nustadia Recreation Inc. provided a five-year plan made up of four main recommendations.

**RECOMMENDATION #1** - Decommission, or take out of service, the Tri-Township Arena no later than Spring 2022, preferably sooner.

**RECOMMENDATION #2** - Within the next five years (if not sooner) decommission, or take out of service, the West Middlesex Memorial Centre.

**RECOMMENDATION #3** - Develop a multi-use recreation facility for Mount Brydges consisting of the following building program:

- a) Indoor playing field (air Inflated dome - half of full regulation size field).
  - a. A full sized, indoor field house within a pre-engineered structure may also be considered with necessary modifications to the site design.
- b) If financially viable, the option to retrofit the existing Caradoc Community Centre for ancillary space for the indoor playing field and multi-generational programming space to offer a mix of passive and active recreation programming opportunities.
- c) If not financially viable to retrofit, decommission the Caradoc Community Centre and build a new community centre with ancillary space for the indoor playing field (6,000 to 8,000 SF).
- d) A covered 10,000 SF pavilion with refrigerated ice-skating pad for ice related activities during colder months and outdoor active multi-use court space for warmer months.
- e) Park maintenance equipment building (2,500 SF).

**RECOMMENDATION #4** - Within the next five years, expand the Gemini Sportsplex Multi-use Recreation Facility consisting of the following building program:

- a) Consolidate community ice at Gemini to improve efficiencies and tournament opportunities (to become a three pad arena facility).
- b) Twin gymnasium with an elevated indoor walking track (20,000 to 25,000 SF).
- c) Additional multi-generational programming space (6,000 SF).
- d) Required capital upgrades to existing twin pad facility.
- e) Convert one of the natural grass playing fields to an outdoor, lighted artificial turf playing field.

**COMMENTS:**

The Finance Team has reviewed the financial numbers involved in the Nustadia report to bring little more clarity to the actual cost of Nustadia's recommendations. The analysis herein was conducted based on the recommendations presented by Nustadia. An analysis involving other options can be provided, if requested. The financial analysis was broken down into three sections which are captured on the attached spreadsheet;

Section #1 – Analyzes Nustadia's numbers by each recommendation and provides further clarity as to potential costs/saving on an annual basis.

**RECOMMENDATION #1** – Decommissioning of Tri-Township Arena - Nustadia's costing/savings of \$708k as presented in the report are based on the capital expenditures identified in the Walterfedy report and the municipal proposed portion of the operating cost. However, in reality due to the age and condition of the Tri- Township Arena (TTA) capital costs are focused on health and safety related work or "portable" upgrades (items that can be used elsewhere when the building is demolished) which has been averaging \$30k per year and not the \$608k as reported; the municipality's contribution to operations at TTA have averaged approximately \$40k per. Thus the real savings experienced by Strathroy-Caradoc would be more in the neighborhood of \$70k per year (\$30k+\$40K) and not the \$708K as stated in the report.

**RECOMMENDATION #2** – Decommissioning of West Middlesex – The municipality currently has loan payments of \$275k annually or \$1,375,000 left to pay on the renovation from 2010-11. The payments are comprised of \$247k or (\$1,235,000) from Development Charges and \$28k or (\$140,000) from taxation). This loan will be extinguished in 2026 right at the end of the five year window the report suggests.

The Walterfedy report suggests annual capital work of \$350K, however, if the building were to be slated for decommissioning we would see the capital expenses to decrease to approximately \$150K annually so the savings for the first five years would be more likely \$200k. As for operational saving they would not kick in until the building was decommissioned in five years, so the savings for the first

five years would be more in the range of \$200k annually. After year five the municipality would recognize the \$350k in capital and the \$175k in operation or \$525k annually.

**RECOMMENDATION #3** – The build out of the Multi-use facility in Mount Brydges would see a capital expenditure of \$13.5 million which would be offset by the \$850k of capital work no longer required to Caradoc Community Centre as that would be part of the expanded facility. The net result is therefore a capital spend of \$12.65 million, however, the expansion and added facilities would also come with an increase in the operating budget of \$75K annually. So taking that capital spend over a fifteen-year time horizon would result in an annual spend of \$844K plus the \$75K operating spend the municipality would see increased annual cost of \$919K.

**RECOMMENDATION #4** – The expansion of the Gemini would see a capital spend of approximately \$26.63 million which again would be offset by the 1.3 million of capital work no longer required to the existing building as they would be part of the expansion. The net is therefore a capital spend of \$25.33 million, however, the expanded facility would also increase the operating budget by an additional \$125k annually. So taking that capital spend over a fifteen-year time horizon would result in an additional annual spend of \$1.7 million plus the \$125K operating spend the municipality would see increased annual cost of \$1.83 million.

**Section #2** - The spreadsheet looks at the increase/decrease in taxation if all of the above was funded through taxation. The scenarios provided use a fifteen-year time horizon for comparison purposes and \$175k is equal to a 1% swing in tax. Any and all increases or decreases are for these projects alone and do not take into consideration any other increases or decreases which will be required for other capital or operations.

For recommendations #3, and #4 the build out would result in an increase in taxation of 14.5% for capital and 1.10% for operation for a total increase of 15.6% for these projects alone. (fifteen-year horizon)

For recommendations #1, and #2 due to the timing involved they are split out for Years 1-5 and Years 6-15 and then combined for an overall fifteen-year time horizon:

- Years 1-5 would result in a decrease in taxation of -1.3% for capital and -0.2% for operation for total of -1.5% decrease. (five-year horizon)
- Years 6-10 would result in a decrease in taxation of -1.8% for capital and -1.7% for operation for total of -3.5% decrease. (ten-year horizon)
- Using the two calculations above to create a fifteen-year time horizon for comparison purpose the decommissioning's would result in a decrease in taxation of -1.6% for capital and a -1.2% for operations for a total of -2.8% decrease

The total net result would be a taxation increase of 12.8% (15.6-2.8)

**Section #3** – The spreadsheet depicts available funding to offset the effect on increasing taxation;

- Development Charges - \$4 million

- Arena Reserves - \$643k
- Caradoc Community Centre Reserve - \$87k
- Total available of \$4.8 million

A couple of things should be noted about funding available to offset the impact on taxation;

1. Development Charges would only be available for the growth portion of any build out so would be deeply discounted for any replacement projects. For example, DCs could not be used to fund the replacement of a facility but could be used to construct a new, growth related facility not currently part of the inventory.
2. Reserves are a one and gone endeavor which means until such time as those reserves are replenished they are no longer available in the near or foreseeable future for other projects.
3. Loans would be another form of funding to spread out the financing of the project over a number of years and is somewhat reflected already in the taxation option above.
4. Fundraising would also alleviate some of the required taxation but is hard to estimate.
5. Finally grant funding is not listed here as typically grants from other levels of government are tied to improving the economy through job creation, given the amount of funding rolled out during the pandemic by both the Provincial and Federal Governments and the increasing debt at both levels it really is unclear as to where this piece will land.

## **CONSULTATION:**

Fred Tranquilli – CAO-Clerk

## **FINANCIAL IMPLICATIONS:**

As outlined above

## **ATTACHMENTS:**

Financial Summary of Nustadia's Proposed Recommendations spreadsheet