Municipality of the District of Argyle	Item: Mariners Center expansion and request for ownership consideration Date: January 22, 2022

VISION

We see Argyle as home to a healthy and thriving rural population. Our municipality promotes and supports economic and social opportunities for the region and engages in the active expression of our unique Acadian heritage. We are a place of choice for rural living and are widely recognized for our warm hospitality and joie de vivre. Surrounded by fresh air and cool ocean breezes, we work and play in the great outdoors. People choose to live in Argyle because of our commitment to each other, to our community, and to our neighbors. Argyle is a place we are proud to call home.

Background:

In recent regional meetings of the Mariners Center expansion committee, both the Town of Yarmouth and the Municipality of Yarmouth have requested Argyle consider becoming an owner of the existing Mariners Center facility, along with the expansion of that facility, should the funding for the project be approved at a level that allows for a project to be created.

The request is not new, and timely when you consider how it may impact the application and support that would be provided by the community or other levels of government. While we don't know if our ownership would improve the strength of the project, it would certainly send a message that all three units are committed to the facility long term.

The message that was delivered in the meetings also included their own interest in the project, and that a commitment on our end was necessary to solidify the project. Keep in mind, we have an application in with the federal government and both Conservative and Federal leaders have committed to the project, an amount is yet to be determined.

Council is being asked to consider ownership, and we interpret that as one that sets our ownership and investment at 30.5% of the total, based on negotiations conducted by Councils in early 2021.

Historical narrative on the Mariners Center facility.

Argyle has been an investor in the Mariners Center project since its eventual inception in 2001. There were, at the time, a lot of conflicts associated with how this project should unfold, with many groups of interest heavily involved. Eventually, a new organization was created, Skate Yarmouth, which managed to break through some of the conflicts and produce a project that was funded by other levels of government. The project contemplated and created two ice surfaces and multi-use rooms, and eventually expanded for larger seating when the region landed the Yarmouth Junior A Mariners.

Argyle's contribution at the time was only capital, closing in at about $600,000 (estimate, was slightly higher). These payments were made annually, and directly to the Town of Yarmouth. Why we paid the Town directly is not known to us, presumably because we could not borrow against a building we didn't own, but we could make annual payments to a non-profit organization at the time.

For years, the Mariners Center operated in a surplus position, needing very little if any municipal contribution from its owners, unless it was for a capital item. As you may have concluded, capital items are small in the early stages of a new build. As is the case in many membership-driven operations, with time, membership numbers wane, population trends are aging, and the use of the building leaves its honeymoon period. So, in short, revenues were more challenging to obtain, and expenses were rising.

We were still noncontributors to the bottom line. As this continued, the request for Argyle to consider contributing increased. Eventually, we were able to negotiate a tax-sharing agreement, that closed a significant inequity on our part. What this means, in short, is that each year, each party would pay the other a portion of property tax for shared assets, such as airport, dominion textiles, etc… Once we signed the agreement rectifying this financial inequity, we soon after signed an agreement with the two parties on Mariners operational and capital funding (the current agreement is attached).

The original agreement had us paying 33% of the loss annually provided it was lower than $40,000, then council would have to approve anything more. At the time, they were paying $30,000 each in operational deficits, and 50% of capital requests. We would consider capital contributions only with the express written request of the Town/MODY.

The deficit for Mariners increased sharply, unfortunately, the year (or two) after we signed on. (See figure 1 on data on deficits for Mariners Center.).

In late 2019, while we were contributing to the MC operations, the YMCA approached all three units with a funding proposal. We had been meeting with their board who desperately required an increase in revenues (municipal contributions) to survive. There was no funding proportion set for the Y, as they were not a municipal organization. While this point is arguable, I would suggest that they were providing a municipal service, specifically the pool operations, and this has generally been the consensus of Argyle and the Town. It is important to note that the Town was always the highest contributor and that the Y was located at the heart of downtown.

Our contribution went from 15,000$ to 30,000$ quickly, with a one-time capital contribution of 30,000$. Town approached 80,000$ in funding in the end, and MODY was at 12,500$ initially and rejected funding altogether in response to the request. When Covid hit, the Town and Argyle were in the process of negotiating a new figure. Gyms were forced to close and that ended the YMCA Yarmouth financially. Our budget did not get fully spent as the facility closed.

The logic that was presented to Council at the time of negotiation was a stark reminder from your CAO that the YMCA is and remained at the time a staple organization that has saved us thousands of dollars over the course of its existence. Furthermore, their Y-12 lotto, though faded a bit in popularity, was still raising $110,000 to $120,000 for the operations; a fundraising effort that we could never match, finally, we were starkly aware that the Y operations and style, and HR practices and policies were less costly than a municipal approach. For these reasons, we entered negotiations, as the alternative (closure) was not ideal and left our residents without a service, which was the whole point of our contribution in the first place. Our historical use of the facility (in terms of membership) was about 20% of total members.

One of the items very clear to all was that no municipal unit wanted to own the facility. This was one of the requests of the Y. The Town, during the 2021 closure, negotiated, on their own, the purchase of the asset for an amount that would satisfy the outstanding creditors. Their sole involvement in negotiation was sensible, as the other two units were unilateral in their position to not own, and MODY was not interested in owning or funding.

Bring it all together now:

With the closure of the YMCA, we as three were forced to consider an old story. A multipurpose facility, one location, pool, and ice surfaces, with an efficient heating cooling system that would take the heat wasted in ice production to heat the pool. The location is obvious, the current Mariners Center location. MODY strongly supports the current location.

With the hiring of a new CEO at the MC, we have tasked them with lots of ambitious goals, including the creation of a temporary pool and fitness facility at the old Y until a broad project can occur. This goal comes with renewed commitments from all three units financially, with some concern that any major improvements to the old Y would go to the Town as owner.

Our CEO managed a grant from ACOA for the renovation of the Town asset downtown, and he had the board approve its application, which was partially to reduce our initial costs to open, and to invest in fitness equipment we would require in either case. This decision was forward-thinking and well documented by Dorham.

The Application:

The funding application announcement came as a bit of a surprise. It is under the Federal funding initiative named Green and Inclusive buildings. Other initiatives were underway, so this new funding announcement was seen as good news. The federal funding is higher than normal (in percentage) and does not require provincial support to give the project a green light. This application was eventually led by Town engineer Marc Brophy, with Deputy Warden Albright as chair. The application was heavily supported by. exp, both initially before this program and again for this application. The application seeks maximum federal funding for a 30,000,000$ project at the MC, with a maximum funding commitment at the collective municipal level of $10,000,000. This means if we stick to our guns here, the remaining project cost shall be paid by Provincial contribution and fund-raising efforts. We have passed level one and are still working towards a successful application. It should be noted that this is a major project addition, which will take years to plan and execute (in the 4–6-year range). The order of magnitude cost assessment of a project of this nature is attached for your consideration.

Our commitment is clear, 30.5% of 10,000,000, being a maximum of $3,050,000 towards capital. This does not include operational costs (see figure 2 for a deeper assessment of forecasted operational costs).

There are no other rinks or pools in the Municipality. The Barrington rink is the closest ice surface to us, and for most of the Argyle and Pubnico communities, is closer than the MC. The Barrington rink is a one rink surface and has an annual funded deficit of $200,000 ($175,000 during covid) funded entirely by the Mun of Barrington. Insofar as minor hockey is concerned, the location of choice is not a choice. If you live in Yarmouth County, you register your child or loved one in Yarmouth, not Barrington. If you are an adult, you play in either location, depending on your interest to play, your connections to either location, your family, or friendships. We have no control over the habits of our residents or Minor Hockey Association, and we choose to fund one location. We have not, to the best of my research, considered funding another rink since 2001.

The rink in Barrington has the same issues as we do, closures, vaccination restrictions, return of membership, limits of players to play…. One thing is clear when the rinks closed, our service provision dropped considerably, but substantially all rinks in NS saw savings because they are substantially all deficit funded by municipalities. You don't open, you reduce costs, and the need to fund a deficit is reduced. The cost to reopen and ramp-up is sharper in the beginning, as memberships and ice time rentals are slow to return, with the same need to fund staff and operations.

MGA considerations:

MGA is enabling legislation. Section 65 does not exclude recreational facilities for funding or ownership. The ownership and funding (especially debt) support ownership over contributions. The MGA and the provincial financing body may specifically reject borrowing to fund an unowned asset. There is precedent here under wind turbine initiatives in the province, and there are other sections of the MGA that severely limit borrowing abilities.

The MGA does not specifically object to municipal contributions to a non-profit organization that is providing municipal services. Should Argyle refuse ownership, it could, at its pleasure, enter into a long-term funding agreement that would have its contribution go to the Mariners Center organization, or another municipal unit without breaching any legislative instructions.

In short, if Argyle owns, it can borrow legally, inside its ability to repay. If it doesn't own, it is likely it would not be able to borrow and would have to find alternative ways to fund the project. Please note, your funding commitment is a motion passed by Council. Unless repealed, we are operating under the instruction that you are a funding partner. The question of ownership is the question of this report, not your commitment.

Ownership vs contributor – pros and cons and considerations

Historical context – in the need to inform new and seasoned councilors, here is a list of current co-ownership scenarios, all of which have a corporation owning them, but our percentage of that is listed below:

Yarmouth Area Industrial commission – medical clinics – 1/3 owner
Yarmouth Area Industrial Commission – Port of Yarmouth assets including wharves and School board building - 1/3 owner.
Yarmouth Airport Corporation – 29% owner
Yarmouth Solid waste (landfill) - approx. 30% owner.
Nakile Home Corporation – 100% ownership, 100% operational responsibility to the province.

Liabilities associated with regional owned assets.

When considering adding a new ownership position, it is imperative you consider your existing condition. I can advise with relative truth that no one has a baby not counting those already alive 😊.

YAIC – Medical clinics - currently low risk, both assets considerably renovated or new. Major requests would include capital improvements of a minor nature, on a larger scale, potential closure, and amalgamation of units, though to be clear, this is projected and not real at this time. Operational costs are outside of normal, but due mostly to the lack of synergy obtained with more physician practices.

YAIC – Port of Yarmouth – risk is considerable. Close to $10,000,000 for replacement. Our position on the matter has been made but not as a clear solution. We were never to be part of this investment in the first place, MODA needs to decide its future stake in this asset once and for all. There is no replacement scenario that doesn't include some form of federal or provincial intervention financially, but the asset is the end of life.

If history is a sign of the future, a successful application would attract 66% funding from elsewhere, which would leave 33.33% funded locally, or 3,333,333$. The asset can generate income each year which varies with wharfage and rental rates but should approach $120,000 annually. If the income is to pay for the reinvestment, it would take 22 years to repay. It is largely acknowledged that our involvement in future financing of this asset is virtually nil.

Yarmouth Airport Corporation – risk is considerable for asset replacement. All assets are at end of life or beyond. The owners took over an older airport initially built in the 1940's but upgraded since. Studies suggest that asset replacement would be as low as $6,000,000 and as high as unknown but depending on the approach (ha!). these costs do not contemplate improvements needed for cargo services that would exceed 30,000,000. The improvements needed and wanted are so speculative at this point, the range is simply impossible to assess, and more importantly, unaffordable. For now, the owners budget patching until a better plan can be crafted.

Yarmouth Solid Waste (landfill) – low risk. The assets on location are still early in their useful life. Construction and debris replacement is self-financed. The transfer station has a long useful life, so repairs would be relatively minor. Any major additions would attract Gas tax with no effort. This is a profit-oriented operation.

Nakile Home for Special Care – very low risk. This is a provincial initiative, despite municipal ownership. We do not control or fund, though technically we own on paper. Our effort is limited to tax concessions and IT support and there is no indication otherwise.

Assets located in Argyle include the AM Clarke Medical Center and Nakile Home. The rest remains in other municipalities.

Pros of ownership or of contribution without ownership.

Pros of ownership:

Power to borrow: This is the largest financial advantage. To own is to be able to borrow the amount you desire to fund the project. Outside of ownership, your contribution would be limited to other units' desire to borrow, including the Mariners Center itself.

Pride of ownership: - to compare to lease vs buy, buy, especially for a residential home, is a source of pride for the investor. By being a purchaser, it provides at least the perception of pride to own an asset, especially if a significant investment was required to get there. If there is a considerable investment, which ii this situation for sure, there is an expectation perhaps, that the investment would reflect some sort of return on the investment. The return on an investment of this sort is quite difficult to measure, as the probability of sale is virtually nil. But a non-ownership takes you out of that option altogether.

Solidifies partnership – There is no doubt that three-party ownership would solidify the project and the asset, but there is no way to quantify that to be true from the funder's perspective nor the perspective of the Argyle resident. It is possible that a long-term funding arrangement from Argyle may support the project as strongly as ownership. To be clear, ownership is a request from the partners, not one from the major funder.

Fiscal indifference – There is an argument that our historical support of the Mariners Center would not change whether we owned it or not. From a financial perspective, the property would remain insured regardless of ownership. A positive perspective is that we would become financially responsible for any insurance-related issues that arose at the facility. The three units would stand together in this protection, and it is sensible for us to be held to account, as our residents use it considerably. The fiscal contribution would remain the same in both scenarios, with the potential exception of capital needs of the old Mariners Center facility, which may be avoided in a mutual agreement that excluded ownership. Legal issues surrounding the Center would be handled by the CEO and or the board regardless of Argyle ownership.

Control: While it is possible that a large contribution would result in board representation, ownership would guarantee it. Traditionally, Argyle has been afforded representation at the board even without ownership, but we have no control in prioritizing capital projects in this scenario. We are merely responding to requests. An ownership position would place Argyle in planning decisions and would afford the ability to influence financial priorities before they happen, rather than respond to them.

Funding certainty: The negotiated percentage of 30.5% is better than our current contribution percentage. An ownership option would solidify our funding and limit it at 30.5% for the foreseeable future. A contribution agreement only may not result in a reduction in operational spending percentage. That would depend on a contribution agreement, and the interest of the other partners to do so.

Protect the application: A commitment to own your portion of the asset would assure two other partners in the project. The commitment to do otherwise increases the potential risk of a non-partnership.

Land ownership: It is presumed that our ownership participation would mean we were now 30.5% owners of the land base on that location, which has a definite value for resale, but at the very least has a value to control and apply our approach for future planning.

<u>Pros of Contribution:</u>

Indifference of application – The application submitted does not contemplate our ownership, it merely contemplates our contribution. The funders may not consider our ownership as a factor in their contribution. What we hear from our partners is they want a long-term commitment from us, which is completely an understandable expectation from a partner. They frame it in terms of ownership. As of today, there is no evidence provided to administrators to support a stronger application for funding if we own. There is only evidence to suggest that TOY and MODY may not wish to continue without an ownership option. The reality is that what they need is a long-term financial commitment from us, with one option being a long-term contribution agreement.

Risk avoidance: while many of the funding risks may remain, as a non-owner, you could potentially avoid legal risks associated with ownership. Examples may include liability issues, fire, or other such events that owners must address. The aversion of financial risks of reinvestment is, as of today, subject to Argyle's response to requests. I repeat, historically, all requests made by TOY/MODY have been granted which reflects your political will as council.

Lack of control and responsibility: A contribution may result in less board representation and would result in a more reactive response to requests. If it is Council's will to control less, lead less, and support only, a contribution would certainly assure you of that. It may result in less CAO interaction with decisions as an advisor as well.

Failure of application – An agreement to contribute rather than own would sustain the status quo in the case where an application for funding is unsuccessful or insufficient. The question that Council should ask itself is whether the question to own is connected to the expansion or not. If Council considers ownership regardless of the application, then this point is irrelevant.

Impact on other ownership we gain regionally.

To add another ownership to our repertoire would add additional risk to fund another asset that will come to an end of life. However, it is not outside of our experience to fund retrofits to this facility as they come due. The Mariner's Center has largely been considered as an asset desirous of investment on the part of this and previous councils. While Argyle is likely to face future investment requests from this asset in either case, ownership would compel our investment. Ownership would also ensure we control the timing of these investments. Finally, collective ownership may increase the probability of future financial support from other government units. This type of collaboration, while it should be more common, is still rare in NS.

Figure one: Historical deficits of the Mariners Center, and the YMCA

Current financial commitment

	Argyle Budget	Revised Budget	Billed Actual
Mariners Center (ice)	$175,000	161,112	126,045
Mariners on Main (fitness)	$105,000	97,997	76,668
Mariners Fitness (Startup)	$145,000	126,045	99,668
Total	$425,000	385,154	302,381
Less: anticipated COVID revenue application (estimate):		90,000	
Less: Gas tax application (estimate)		55,000	
Net expected cost on the municipal taxpayer		**$240,154**	

Historical **deficit** data (Mariners only):	Argyle	Total
2017-2018	$ 86,678	$ 260,034
2018-2019	$ 86,698	$ 260,094
2019-2020	$ 84,071	$ 252,213
2020-2021 COVID YEAR 1	$ 142,137	$ 426,411
2021-2022 COVID YEAR 2	$ 161,112	$ 483,336

Historical **capital** contributions (Mariners only)	Argyle
2017-2018	55,491
2018-2019	33,000
2019-2020	30,128
2020-2021	-
2021-2022	45,000

Comparison to current fiscal state to an expanded facility.

A more thorough assessment is found in figure two. Anecdotally, there have been speculative data to suggest that a facility of this size could run a deficit of between $850,000 and $1,050,000. Keep in mind, we are a 30.5% partner (funding or ownership), which rounds our financial portion to between $260,000 to $321,000. Before delving into the details, this figure is not considerably different than our current cost. Should we forecast a year two amount, you could smartly eliminate the startup costs, along with the revenues which are one time. In short, if operations remain similar, we could see an investment of $259,000 in two facilities.

As a basis or comparison, we have a few. The closest is Barrington with a deficit of $200,000 annually (non-covid year). This is funded by one unit and is for one rink surface. So financially, there is strong evidence to suggest that together you are better when you consider what you get in service for the investment. The other advantage is that capital improvements are funded by three, not one unit. The chart below shows the funding scenarios under various annual deficit options.

Mariner Center - Operational Cost Example

Operational cost shared by all 3 partners 30.5%	800,000	900000	1000000	1250000
MODA Responsibility 30.5%	244,000	274,500	305,000	381,250
Current Budget (Mariner Center)	175000	175000	175000	175000
Current Budget (Mariner on Main)	105000	105000	105000	105000
Balance to be covered by MODA	-36,000	-5,500	25,000	101,250

Figure two: Forecasted operational costs – comparison to other units.

The Town of Yarmouth prepared a detailed comparison to larger-sized multiuse complexes in Nova Scotia, namely Pictou, Lunenburg, and Truro. The comparison was detailed, and we revised it slightly here to eliminate any existing municipal contributions, along with any amortization.

	Pictou	Lunenburg	Truro
Revenues	1,235,839	1,058,012	3,752,875
Expenditures	2,251,578	1,805,498	4,450,066
Net loss (deficit to fund)	(1,015,739)	(747,486)	(697,191)

This assessment would lend some support for some of the estimated deficits of a multi-use facility in our area. The Pictou and Lunenburg sites are closest in revenues to a combined Mariners Center and fitness center.

Big decision for big money – where are we exposed to increased costs in other services?

This question requires some speculation, but we can share what is observed provincially, along with the CAO's involvement in AMANS, NSFM, and Municipal Affairs operations.

Financial risks to consider :

Population decline – even in post-COVID, forecasts and Statistics Canada work indicates our population could reduce again in anticipation of the next Census. With less population, you have fewer people paying for services. As evidenced in smaller towns, this is putting major fiscal pressure on them to provide the same or better service to the dwindling population, all at a time when their capital assets are approaching the end of life. When considering a new investment, we should be mindful of this risk. While there is no evidence to support this, a new multiuse facility may result in an increased interest in living and playing in this community.

Assessment rates - up until this year, assessment rates of increase have been in the .5-2% range, while many expenditures were growing at 2.5 to 5%. This is not a sustainable situation. Without tax rate increases, the revenues will not be sufficient to cover expenditures. We have fortunately been very conservative in our budgeting and managed a surplus every year since at least 2006. This investment may put additional pressure on the tax rate increases, and ironically, the project intended to be inclusive of residents regardless of fiscal background may hurt those close to the poverty line, and barely able to afford their home. Currently, the economy is in a boom mode, with soaring fish prices, and the market value of homes. There is no way to know the peak of this trend, but we know it is valleys, and we need to prepare for that. Consideration for such a large investment should be quickly followed with a stronger low-income policy for taxpayers who are on fixed incomes.

Expenditure – Policing – We received a one-year warning on this expenditure item. The RCMP negotiated their union contract with officers across the Country. We are still unaware of what the cost would be to municipalities. A high percentage increase could be in the cards, which is a challenge for us. Policing costs Argyle $962,000 this year and is the second-highest category of expenditure we have next to Education.

Expenditure – Education and corrections – While increases in assessment values are welcomed this year, next year these services will cost more, based on how they are calculated.

We would all (municipalities) see an increase in these costs, as a reward of the assessment increase. A reduction in the tax rate at a time of assessment increase may seem logical. But a change in tax rate does not change the increasing costs of these services, as they are based on assessment, not rate.

Expenditure – Fire Protection – The cost of fire protection is expected to increase sharply with the increase in training and equipment necessary to serve our residents. While the increase is not likely to be as high as other services, it should be noted that the combination of requirements could be substantial.

CAO's Recommendation:

Both options present both an amazing regional opportunity, and a real fear of overspending to reach an overarching goal of a multiuse facility for our County. I am specifically ignoring a third option, which is to back out, as this is not the intention of this Council, and is morally unappealing to our community and to our partners, who have either known about or worked towards the positive goal.

Below I will assess the three largest factors in this decision from my view: Taxation impact, Application impact, and Partnership impact

Taxation:
Our financial assessment has uncovered that the deficit may not be considerably different than what we experience now in the two facilities. There would be other smart investment opportunities to further reduce utility costs. Currently, there is little or no consideration for a tax hike for operations. If there was, it would not be worthy of this long assessment.

Where we would consider a tax hike is on the capital investment. Again, this tax increase exists in both options and was noted above. While we may be locked into investing in an ownership option, we also have the power and control to manage it as an owner. When considering the long-term implications of such an investment, I would value the control over the potential obligation that ownership may create.

Furthermore, when using the lens of our taxpayer, if we are to invest this much money, should we not have something to show for it? The taxpayer, and the councilor for that matter, may prefer to take the less risky route of contribution, perhaps due to decreased engagement with the region (which is harder than alone). In the end, we owe our taxpayer effective representation, and the application of the Argyle way to the asset, regardless of its location.

Taxation – Ownership 1, Contribution 0

Application:

There is no hard evidence to suggest that a contribution wouldn't be an equally effective tool in an application. The only evidence we must consider is from our partner, who is fiscally interested in having us as an owner – and who could blame them. We represent 20% of the aquatics use and 40% of ice use when considering minor hockey registrations. We are a user – It is a major go-to for many of our residents. Regardless of hard evidence, the question councilors should ask themselves is: would the announcement that we were an owner increase or decrease Federal and Provincial interest in supporting the project? From the CAO's perspective, ownership cannot decrease this interest. To be real, we can quibble about regional issues and concerns, but no Federal/Provincial funding, no project. This is number one. There is no evidence of us wanting to jeopardize that. The business approach favors ownership over a contribution when we ask ourselves about our probability of success.

Application – Ownership 2 – Contribution 0

Partnership:

We occupy many partnerships with the County. From Waste to Airports to tax sharing and a ton in between. We share many meeting spaces and try to hammer out the best result for our community. Future investments should be considered as well. As a councilor, ask yourselves what the impact would be if you stood as a full and true partner on this issue? How would it impact your ability to negotiate existing agreements, or create new and positive agreements? Considering the facts of the case in taxation and application, I tend to lean on the positive results of an ownership situation. This would remove any doubt from our partners that we are all-in. With owning, you should be aware that this is for all the Mariners Center, and there is the risk that the application fails. In this case, it would be wise to mention that it is the Mariners Center at its current location not Mariners on Main. When considering a partnership, ownership appears to be a superior option.

Partnership – Ownership 3, Contribution 0

When considering these three options, my recommendation is clear. It is entirely possible that other considerations should be mentioned or brought to Council's attention. But it should also be noted that there would have to be a very compelling case for contribution only to offset this recommendation.