

Municipal Council Presentations - February 28 and March 8, 2022

Topic: 2021 Operating Deficit

Approved Board Motion (January 20, 2022 Board Meeting)

"That the TLC Board of Directors approves the use of \$113,147 from Deferred Revenue, \$98,471 from Operating Reserve and up to \$170,000 from the Restricted Reserve to fund the 2021 operating deficit."

Background

While 2021 saw the beginning of a return to more typical service levels, it remained an extremely challenging year from many perspectives related specifically to COVID-19. Facility closures (January 1 – February 8 and May 9 – June 14) as well as ever-changing restrictions resulted in changes to our program and service offerings and significantly impacted our membership and program registration levels.

When the 2021 budget was presented and approved it was based on assumptions regarding the long-term impacts of COVID-19. Revenues were project at approximately 85% of a typical budget year with the anticipation of a return to more typical revenue levels over the course of the year. Additionally, expenses were reduced to approximately 92% of a typical year with the balance being funded by additional contribution from the municipalities.

These operational assumptions turned out to be inaccurate and as such, Administration took steps to reduce expenses wherever possible (while attempting to not significantly reduce service levels) to compensate for the reduction in projected revenue. Measures included:

- With the support and approval of the Union, Cost of Living Adjustment which was set to be 2.5% was reduced to 0% for all staff (union as well as out of scope staff)
- Reduction of operating hours (2 hours per day on average); Victoria Day closure which is typically an operational day
- Reducing material and program supplies
- Ice surfaces removed immediately upon notification of the May closure
- Training and development funding restricted to essential to operational requirements only

TLC Administration presented a mid-year update to three Councils in July to provide projections based on the first half of the year. At that point in time, revenues were at 50% of year-to-date budget and expenses were at 53%, resulting in a deficit of \$85,000. Based on revised projections (with the Province's Best Summer Ever approach and removal of all restrictions), Administration's revised projections were set at 73% of budgeted revenues and 75% of budgeted expenses for a projected deficit of \$145,500.

Throughout the summer, projections remained the same as the facility was getting busier and there was the start of a return to more normal operational levels (compared to the previous year). At the end of August, deficit projections remained steady at the mid-year level.

On September 15, 2021 the Government of Alberta announced plans for further restrictions related to COVID-19 which essentially left the TLC with two options:

1. Implement the Restrictions Exemption Program (REP) or

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2. Make significant changes to operations including the elimination of all adult programming, capacity limits and physical distancing to an even great degree than previously required

The TLC Board of Directors approved the implementation of the REP which was put into place on September 27, 2021. One of the requirements of the REP was that all patrons 18 and over (plus 12 – 17 year olds not year for youth sport or program) were required to provide proof of vaccination or negative test results to gain access to the facility.

Response from the public overall was positive, however a significant amount of criticism was received by the Board and Staff alike. While those opposed represented a very small minority, it had significant impacts on Administration's time in responding to emails, calls and social media posts explaining the rationale behind the decision. Additionally, it did have a negative impact immediately on revenues as approximately 400 memberships were cancelled in the first month after REP was announced. Additionally some facility rentals were lost due to a reduction in registrations primarily in minor soccer, with some connection to REP implementation being identified as a cause.

Expenses were also impacted by the decision to proceed with the REP implementation. Due to staffing capacity and the significant risk of losing staff if they were mandated to perform this new duty, the TLC contracted a third party security firm to screen in patrons. This came at a cost of \$25,000 per month, which was unbudgeted for but was necessary to comply with the REP.

The final third of the year, similar to 2020, saw a significant increase in the operating deficit due to the reasons previously mentioned. The final deficit for 2021 is \$352,190.

The largest contributing factors to this deficit include:

Revenue (Facility was closed for 10 weeks in total)

Memberships – lost 400 members due to REP, slowly starting to recover

Facility Rentals – Reduction in field bookings in fall and loss of two tournaments

Unanticipated Expenses

REP Security - \$75,000

Funding Options

Administration has identified two potential options for the Board to consider to fund the deficit without further impacting the municipalities. Last year the deficit was funded completely from the Operating Reserve.

Option 1 (Recommended Option)

Fund the deficit from Deferred Revenue from previous capital and infrastructure projects (\$113,147) Operating Reserve (\$98,471) and Restricted/Capital Reserve (\$140,573), which would leave the Restricted Reserve with a balance of \$334,426 for future use.

Option 2

Municipalities offset the deficit by providing additional contributions to the Corporation. This was the option that was taken the only other year prior to COVID 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 2022 Operational Budget is increased.

Despite the significant deficits in both 2020 and 2021, there is reason for optimism as we begin 2022. Program registrations were very strong for the winter program cycle (approximately 90% of pre-COVID numbers) and

membership activations continue to increase each month (still significantly lower than pre-COVID but heading in the right direction).

As we have come to learn over the past two years, it is truly difficult to predict what the remainder of 2022 will have in store. Administration will continue to work diligently to return to a balanced budget and will adjust as quickly and efficiently as possible to any unanticipated changes in the future.

Request:

Based on the support and direction from the TLC Board of Directors, TLC Administration is seeking approval from the three Municipal Councils to utilize the funding strategy in Option 1 to cover the 2021 Operating Deficit.

Reviewed and Approved for Submission to Board

General Manager:


