



Report to: General Committee

Date Report Authored: January 25, 2016

SUBJECT: Installation and Operation of a Dome at Mount Joy Artificial Turf Field

PREPARED BY: Mary Creighton - Recreation Services
Jay Pak – Financial Services

RECOMMENDATION:

- 1) That the Installation and Operation of a Dome at Mount Joy Artificial Turf Field be received; and
- 2) That Council approve the execution of a lease agreement with Ed Skrobal – NewCo. over a 20 year period from October 2016 to April 2035 to acquire, install, operate and maintain a dome at Mount Joy Artificial Turf field annually for 7 months October 1st to April 30th; and
- 3) That the funding for the installation of the services, to a maximum amount of \$195,000 be up fronted by the City from the Life Cycle Replacement and Capital Reserve fund to be repaid by NewCo. through the annual lease payment; and
- 4) That NewCo. to pay the City an annual land lease payment of \$35,000 indexed by 2% annually for the term of the lease agreement with NewCo; and
- 5) That Council authorize the Mayor and Clerk to execute an agreement with NewCo. in a form satisfactory to the City Solicitor and the Chief Administrative Officer for the acquisition, installation, operation, and maintenance of the dome at Mount Joy Artificial Turf Field; and,
- 6) That this report be brought forward to Council on Tuesday, March 1st, 2016 for approval; and
- 7) That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of the report is 1) to provide Council with information on the options regarding the acquisition, installation, operation and maintenance of a dome at Mt. Joy artificial turf field and 2) to obtain Council approval on the recommendation to execute an agreement with Ed Skrobal – NewCo. to acquire, install, operate, and maintain the dome at Mt. Joy artificial turf field

BACKGROUND:

At the Budget Committee meeting of December 7, 2015, the following Budget Committee resolutions were approved:

“That Council proceed towards the construction of a soccer dome in 2016 at the Mount Joy artificial field; and

That staff continue to negotiate with FSTM for the construction and operation of the dome; and

The staff continue its investigation of the City constructing and operating the dome; and

That staff report back on the matter by the end of January 2016, at which point a decision will be made with respect to the construction of the dome.”

DISCUSSION:

Staff have been meeting with Ed Skrobal – FSTM to negotiate an agreement for a dome at Mt. Joy artificial turf field which NewCo. would install and operate. Mr. Skrobal for the purpose of this business deal has notified us that he will form a new company, as he will be the sole owner/operator. For the purposes of this report we will refer to this company as NewCo.

Operating Options

Staff have completed a comprehensive analysis of both options: 1. City owned and operated or 2. Privately owned and operated.

Below is a summary of each of the options with a brief discussion on the advantages of each.

1. City Owned and Operated:

At the budget meeting on December 7, 2015 staff presented the financial details of the cost to install and operate the dome, outlining a number of options for the recovery of the capital outlay required to support the construction of a new dome as shown in the table below.

	New Dome
Purchase Cost	\$445,000
Modifications	
Vehicle Air Lock	\$38,230
Site Services	<u>\$195,000</u>
Sub total	\$678,630
Project contingency	<u>\$67,863</u>
Total Project Cost	\$746,493

A financial analysis was conducted using data obtained from the past year's operations at St. Roberts soccer dome including the rate and cost structure indexed at 2% per year to determine the payback of the dome. Utilities costs were indexed at a rate reflective of

current market conditions. Under the first option (1a) using current rates and volumes at St. Roberts soccer dome, the analysis indicated that an average annual operating surplus of \$24,988 could be used to pay back the project cost of \$746,493 over a period of 29.9 years. This option was not considered, as the pay back would be longer than the life cycle of the dome at 20 years.

Therefore, a second option (1b) to increase user fees by 25% from the current rates was analyzed and under this rate structure, it was forecasted to generate an average annual operating surplus of \$73,526 which could be used to pay back the project cost of \$746,493 over a period of 10.2 years. The comparison of the two options is shown in Appendix 1.

2. Privately Owned and Operated – Ed Skrobal, NewCo.

Staff from Recreation and Finance met with Ed Skrobal to negotiate a deal which is agreeable to both parties. Based on the financial analysis that has been completed, staff are confident that an agreement has been reached that meets both parties needs, and provides access to an indoor soccer space to the Markham Soccer Club (MSC), a primary user, at a reasonable rate. Throughout the negotiations Ed Skrobal has been meeting with representatives from Markham Soccer Club to ensure that the business model that has been developed, including permit fees is workable for MSC.

Summary of Negotiations

Below outlines a summary of the proposed agreement between the City and NewCo.. Full details will be included in the agreement in a form satisfactory to the City Solicitor and the Chief Administrative Officer:

- Edward Skrobal will open a newly created incorporated entity (NewCo) and will be responsible for the capital as listed below, along with the day-to-day management of the single field indoor domed facility at Mount Joy. Full details will be included in the agreement.
- Facility target opening date is October 2016. Contract length will be 20 years (October 2016 to April 2035).
- Capital Investment – NewCo. will be responsible for the purchase of a new dome, event decking, grooming equipment, and any facility equipment as required (goals, nets, and seating) for the location. NewCo. will also be responsible for field painting and snow blowing along the perimeter of the structure.
- The City of Markham will be responsible for the installation of site services, to a maximum amount of \$195,000 to be repaid by NewCo. through the payment schedule described below
- Annual Lease Payment - NewCo. will pay the City of Markham \$35,000 annually with a 2% annual increase for the term of the agreement, in consideration for the

repayment of site servicing, use of one-third of the turf field for seven months of the year and a land lease. Payments will be made annually in seven monthly installments beginning on the opening day of the facility.

- Operating Season - Target for start of the season would be approximately October 1 and the end of any season would be approximately April 30. There would be additionally one week required before the start of the season and after the end of the season for dome takedown and dome put up.
- Operating Costs – NewCo. would be responsible for general day-to-day management of the facility. This would include items such as utilities, staffing, general marketing, maintenance, repairs, and dome put up and take down. NewCo. will request use of current garbage facilities at the Mount Joy location at no cost to NewCo.. NewCo. will not be installing a clubhouse or any washroom facilities. Rather, the current washroom facilities at the Mount Joy location will be used and NewCo will work with the Markham Soccer Club regarding office requirements.
- Project Start Up Costs - NewCo would be responsible for all costs relating to the project, including City of Markham permit fees, architectural costs, designs, drawings, and general landscape planning.
- General Items - Markham Soccer Club will be the primary tenant. There are scheduled hours that have been requested by MSC, and NewCo. will work to ensure these hours will be provided to MSC.
- Early termination – in the case of early termination instigated by NewCo., the City will have the option to purchase the dome under the following terms:
 - Year 1 – 5 the City would pay 50% of cost
 - Year 6 – 15 the City would pay 25% of cost

Staff recommend the City to develop and execute an agreement with Ed Skrobal – NewCo. for the acquisition, installation, operation, and maintenance of a dome at Mount Joy Artificial Field from October 1 – April 30th on an annual basis for a term of 20 years. By allowing NewCo. to acquire, install, operate, and maintain the soccer dome, the City would effectively transfer the risk associated with generating the necessary operating margin needed to recover the cost of capital and the day-to-day operations and maintenance of the dome. Furthermore, the lease payments of \$35,000 with a 2% increase annually from NewCo. allows the City to maintain a comparable revenue stream to the one projected under the City owned and operated option.

Background on Ed Skrobal

The following provides information on Ed Skrobal

- Fifteen years experience as General Manager of a stand-alone division of Maritime-Ontario Freightworks (a transport company) that specialized in RFP contract

logistics work. Responsible for a staff of over 500. *Winner of Supplier of the Year and Award of Excellence* 14 of 15 years in this same logistics business.

- Current owner of JCE Logistics Inc., a local trucking company that has been doing contract work with Canada Post Corporation for over ten (10) years.
- Current 50% partner of the Eglinton Flats Winter Tennis Club (owned and operated by First Service Tennis Management (FSTM)), an indoor tennis facility on a lease agreement with the City of Toronto. This operation is now in its' eleventh year of operation, with five (5) more years remaining on the agreement. Total of six (6) tennis courts and over 1,000 members, this facility is virtually sold out on an annual basis.
- Current 50% partner of the Markham Sports Dome (MSD), a full size (320' X 220') domed indoor multi-sport facility on a twenty-one (21) year, less one day, lease agreement with the York Catholic District School Board. The MSD facility opened October, 2105, at the Father Michael McGivney Catholic Academy facility to rave reviews and is successfully serving the local indoor multi-sport needs.

FINANCIAL CONSIDERATIONS:

Staff recommend the City to develop and execute an agreement with Ed Skrobal – NewCo., to acquire, install, operate, and maintain the dome at Mt. Joy artificial turf field. The City will upfront the site servicing costs of \$195,000 to be repaid by NewCo as part of the annual land lease payments. The site servicing costs will be funded from the Life Cycle Replacement and Capital Reserve fund. NewCo. will provide annual land lease payments of \$35,000, to be indexed at 2% annually, to be paid in 7 installments each year

The proposal between the City and NewCo. will provide:

1. Use of 1/3 of the turf field for 7/12 of the year (October to April) by NewCo.
2. Repayment of the Site Servicing costs by NewCo.
3. Transfer of risk associated with operating the soccer dome in order to achieve the desired revenue as well as the administration and maintenance necessary to operate the dome each year

Staff have estimated that the total net cash flow over the 20 year term will be approximately \$740,000. This figure is comparable to the net cash flow projection of the City owned and operated option (1b) with a 25% increase in rates.

HUMAN RESOURCES CONSIDERATIONS

No Human Resources implications are to be considered in this report.

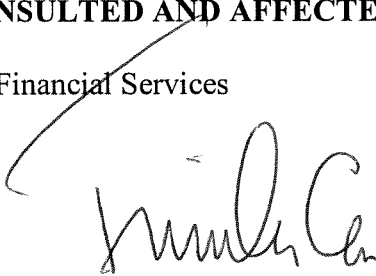
ALIGNMENT WITH STRATEGIC PRIORITIES:

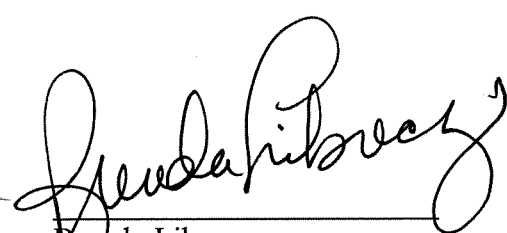
Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Recreation Services and Financial Services

**RECOMMENDED
BY:**


Trinela Cane
Commissioner, Corporate
Services


Brenda Librecz
Commissioner, Community
and Fire Services

APPENDIX 1 – Mount Joy Soccer Dome
City Owned and Operated Financial Performance Projection 2016-2035
Current Fees vs. 25% Fee Increase

OPTION 1a: CURRENT PERMIT FEE	
Revenue	Avg/Year(2016-2035)
Prime Time	194,214
Non-Prime Time	7,897
Total Revenue	202,111
Expenses	
Personnel	35,938
Non-Personnel	141,185
Total Expenses	177,123
Net Surplus/(Deficit)	24,988
Capital Expenditures	746,493
ESTIMATED	
PAYBACK PERIOD	29.9 Years

OPTION 1b: INCREASED PERMIT FEE	
Revenue	Avg/Year (2016-2035)
Prime Time	242,753
Non-Prime Time	7,897
Total Revenue	250,649
Expenses	
Personnel	35,938
Non-Personnel	141,185
Total Expenses	177,123
Net Surplus/(Deficit)*	73,526
Capital Expenditures	746,493
ESTIMATED	
PAYBACK PERIOD	10.2 Years