

Update on Pool Project February 6, 2024

The Board of the West Carling Association (WCA) remains very concerned about the project's financial viability, its impact on property taxes, the availability of funds for other more critical projects, and the cost/benefit for Carling residents. Overestimated revenues from membership, underestimated operating costs, and fundraising challenges foreshadow insufficient funding for the project.

There are indicators that going back to the municipalities for additional funds and successful fundraising are critical to avoiding failure of the project. However, asking the municipalities to provide more financial support would trigger renegotiation of the partnership agreement, and it is certain that some of the partners would not agree to a greater financial commitment. Fundraising is uncertain and, to date, has only netted \$8,000. The administrators of the government grant for the project have stated they will **not** fund above the original \$23.3M. Significant portions of the contracts for the building have already been signed and will likely have to be honoured whether the building goes ahead or not.

Despite requests to the Township of Carling for public consultation with Carling residents and sharing of financial information regarding the pool, this has not occurred. The WCA has sent letters and emails going back to 2021, requesting public consultation and expressing our concerns. There has been no acknowledgment of receipt of our letters and no formal response from the Township.

Why are we concerned about the viability of the project?

Changing Costs and Uncertain Funding

Originally, the plan was for a four-lane pool with a cost of \$32M. The current plan is to build a six-lane pool for *\$36.8M. The Pool Board must raise \$5M to finance the gap between the capital cost (\$36.8M) and the available funds, a \$23.3M government grant and \$8.5M in pledges made by the partner municipalities. Also, the Board must raise another \$5M for an endowment fund to cover the annual operating deficit, initially identified as \$300,000 and then revised to \$450,000 to include the two extra pool lanes. Current cost estimates and unrealistic estimates of the revenues reveal the likely total municipal funding impact to be nearly \$4M annually versus \$300,000 - more than ten times the amount presented to our Council and Carling residents by the Pool Committee in 2021.

*Note that the costing information excludes fundraising as it is not “cash in the bank” and presents a significant challenge to the solvency of the project. In addition, the Project Manager categorized the current capital budget as “Class C,” meaning that the actual costs may range anywhere from 30 per cent less to 50 per cent more (so possibly \$55.2M).

Uncertain Support from the Project Partners

The Municipality of Whitestone did not join the project partnership in 2021. It capped its financial commitment at half the requested amount contingent on a third-party (BDO, a public accounting firm) review of membership levels and financial projections. Whitestone’s Council advised the Board that the study did not meet their requirements. Whitestone’s contingent donation is \$250,000 for capital and \$18,300 annually for operating costs.

Similarly, the Township of McKellar sent a resolution to the Pool Board requesting an exit from the partnership based on a dramatic change in the scope of the project, uncertain fundraising, unfair weighted voting at the Pool Board, concerns about an income shortfall needed for more critical projects and a “blank cheque” approach to funding. In 2021, they pledged an 8.5 per cent share of the disclosed costs. They have withdrawn from decision making and are no longer sending a representative to Pool Board meetings. McKellar had pledged an 8.5 per cent share of the costs disclosed in 2021. They have now indicated they will not contribute to a share of any capital costs over \$32M and the share of anything over \$350,000 in operating deficits or contribute to the administration costs of the Board. The full impact of their intended withdrawal is not yet known.

Change of Site

The original site was chosen with the understanding that the YMCA would donate the land. Following soil sample drilling in 2023, it was discovered that the site was not suitable. There has since been a purchase of land on Joseph Street that will be owned by the Town of Parry Sound, funded by an unsecured loan from the Board, apparently without any lease-back arrangement or other rights to build on the land.

Design of Building and Budget

The building's floor plans and schematic drawings are posted on the letsmakeasplash.ca website. The drawings show a single-story 43,000-square-foot building with a **six-lane pool, despite the YMCA's advice that the region's population is not large

enough to support the operation of a six-lane pool. The original proposal in 2021 was for a 49,000-square-foot building with a four-lane pool.

***A justification used by the Pool Board for adding two lanes to the pool was to enable revenue-generating swim meets despite advice from the YMCA consultants that swim meets do not generate much revenue. Public feedback on the design is that the viewing areas for the gym and pool area and the changing rooms are too small to support lessons and competition. The Project Architect stated that the budget for the project does not allow for the funds needed to provide spectator seating for the lap pool and gym as “this is not a major tournament and competition venue”.*

At the January meeting of the Pool Board, the Project Manager clearly stated that he is working within the assigned budget and that any additional building changes would have a cost attached. Despite that caveat, Carling Council and others have asked him to provide a costing for an expanded gallery area.

Concerns Expressed by BDO

BDO presented its report to the Pool Board in October 2023 and identified five areas of medium risk in the financial projections.

Financial Model

Annual project revenue will come mainly from membership fees. BDO identified meeting membership targets, building a six-lane versus a four-lane pool given the low population and using fundraising and grants to offset the projected deficit as medium-risk concerns (i.e., assumptions that have no support or are significant stretch targets)

Membership, Total Revenue and Operating Deficit

This project assumes that 10 per cent of the local population will join, equating to 1,900 members. ***On comparing population size and market penetration of other regions, 850 to 1000 members is a more likely number. The West Parry Sound catchment area population is closer to 17,000 (as reported by the Pool Committee in 2020), not 19,000. The Committee recognized that half of Seguin’s population would continue to access the Gravenhurst, Bracebridge and Huntsville facilities. BDO describes 1900 members as a stretch target. The original operating deficit projection of \$300,000 per year was based on a

membership level of 2200. The Board, therefore, should have decreased its revenue projection by \$150,000 and increased the operating deficit projection accordingly.

***Not included in the BDO report is the membership data for two other regions. Wasaga Beach has a 7 per cent market penetration in a catchment area of 54,000 and Gravenhurst has a 5 per cent penetration in a catchment area of 22,000. The Parry Sound number of 1900 assumes 10 to 15 per cent market penetration without any stated justification. Membership numbers in the range of 1000 versus 1900 would reduce the projected annual revenue (approximately \$1.2M) by \$450,000 and increase the operating deficit by that amount.

Also not mentioned by BDO is the cost of membership. Basic membership in the YMCA is over \$2100 annually for a family, which may be out of reach for families in a region with lower than average (Ontario) incomes, especially as many jobs in the area are seasonal.

Four-lane versus Six-lane Pool

BDO reported building a six-lane pool as a medium risk. The YMCA advised that six-lane pools are typically constructed in areas with a population greater than 32,000. A 2010 feasibility study advised a different Pool Committee that the West Parry Sound area was too small, too rural, and with too little disposable income to support even a modest pool facility. Little has changed except for the opening of the Huntsville pool that serves half of Seguin's population, meaning that the catchment area population has declined since 2010.

Funding Challenges

A fundraising team was established in April 2023 to raise additional funds to cover \$5M in capital and \$5M in endowment funds for operating costs related to the two additional lanes. BDO concluded that despite hiring a professional fundraiser, the fundraising targets are sizeable for the region. Given the average household in the region is 2.1 people, the fundraising targets equate to \$1105 per household. BDO describes the fundraising goals as stretch targets. To date, only \$8000 net of payments to the fundraiser and others has been raised. In addition, the Canada Revenue Agency has turned down the project's request for charitable status. It is not fully known what the exact impact of this will be for now, but it complicates being able to issue tax receipts for donations which will likely impact the interest level of donors.

Without this fundraising in place or returning to the municipalities for increased funding there is a material risk of insolvency during construction especially as there is potential for significant cost overruns. Also, the cap on the operating deficit at \$350,000 per year presents a significant risk of insolvency given the Board's stated deficit projections of \$600,000 per year and the potential for a much larger deficit. According to the Board partnership agreement any change to that limit requires unanimous approval of all municipalities otherwise the agreement falls apart, meaning none of the partners are bound to contribute.

Reserve/Recapitalization

BDO estimates an annual capital expense of \$640,000 (*originally estimated at \$400,000*). Considering the projected operating deficit of \$450,000 and the current maximum deficit contribution of \$350,000 agreed by the Municipalities, the region need to address a shortfall of at least \$740,000. Although depreciation is a non-cash expense, all partners agreed to contribute to a reserve account.

What does this mean for Carling?

The known and likely costs of the project are laid out in the attached table. Three things to take note of are:

1. The “creeping costs” (increase in operating deficit, administration fees and cost for addition of two extra swim lanes) that have been added since the inception of the project in 2021.
2. The vast difference between the project costs pitched to Council and the residents of Carling in 2021 versus the current cost estimates.
3. The cost/benefit ratio to Carling residents in providing a very expensive amenity for a very small number of Carling residents.

In 2021, our Council and residents were told that the overall cost to the municipality would be approximately \$900,000 for capital and \$30,000 annually for an operating deficit. At the time of signing of the agreement, another \$350,000 total (\$36,750 for Carling) was added for “new” capital projects such as a second story or an outdoor rink. Although language for capital reserves was in the partnership agreement, there were no numbers mentioned. BDO recommended that at a minimum, \$640,000 be set aside for capital reserves. As the attached table shows, Carling’s 10.5 per cent share of costs annually is **\$298,200** without debt financing and **\$411,944** with debt financing – a very long way from **\$30,000** annually that was presented by the Pool Committee.

Cost/Benefit Ratio

In 2021, it was estimated that 35 to 50 Carling residents would become members of the Pool based on the 2016 census of 1,100 or so year-round residents. According to previous surveys less than 1 per cent of the seasonal population would use this facility. The 2021 census shows 1491 year-round residents in Carling. It is a generous estimate that approximately 5 per cent of Carling residents (75 to 80 residents at most) will become members of the pool, considering the driving distance and winter weather, which are factors identified in a previous study. Carling residents will be paying **\$5149 annually** via their tax payments to support each of those 80 members above and beyond their \$500 membership fee.

Next Steps

The Board of the West Carling Association urges you to send an email or letter or make a phone call to our Mayor and Councillors to ask:

- 1. How far is the Township of Carling prepared to go to meet the costs of supporting the pool project?**
- 2. Is there consideration being given to placing limits on the Township of Carling’s financial commitment to the project given the increasing costs estimates we have seen to date?**
- 3. If the Pool Committee comes back to the municipalities with a request to increase their funding commitment, what process can Carling residents expect to occur? Would there be public consultation?**
- 4. What measures are being taken to protect Carling ratepayers in the event of project insolvency? Why are we not secured against the site?**

Appendix A
Overview of Estimated Annual Operating Costs for the West Parry Sound Pool Project
February 6, 2024

Payments Required by Contract	Total Cost	Carling's 10.5% Share	Notes
Operating Deficit	\$350,000	\$36,750	\$300,000 and \$30,000 - Pool Committee 2021
Additions to Site	\$350,000	\$36,750	Partnership agreement
Capital Replacement Reserve	\$640,000	\$67,200	Steering Committee estimated \$400K in 2021. BDO estimated \$640,000 in 2023
Total Required by Contract	\$1,340,000	\$140,700	Versus \$300K pitched by Pool Board and used in grant application
Additional Costs Agreed by Board			
Revenue Overstatement	\$150,000	\$15,570	Steering Committee membership projection down from 2200 to 1900. Increase to deficit
Addition of two lanes to pool	\$150,000	\$15,570	Pool Board agreed to increase pool size Dec 2022. Higher operating cost and increase to deficit.
Board Admin Fees	\$250,000	\$26,250	Agreed by Pool Board in 2023 for auditors, insurance, etc. Provided by Parry Sound.
Total Additional Costs	\$550,000	\$57,750	
Estimated Total Annual Cost without Financing	\$1,890,000	\$198,450	Versus \$300,000 total and \$31,500 (Carling's share) pitched in 2021 by the Pool Committee

Most likely Higher Operating Deficit			
Revenue Overstatement	\$450,000	\$47,250	BDO stated "lack of support" for 1900 members. More likely 850 to 1000 at Y rate of \$500/year. 1000 members used as estimate.
Operating Cost Understatement	\$500,000	\$52,500	Based on comparable facilities at \$1.8-2.3M/year versus \$1.4M in Pool Proposal for 4 lanes. Best estimate is \$1.9M
Most likely Additional Operating Deficit	\$950,000	\$99,750	
Total Most likely Annual Support Costs excluding Financing	\$2,840,000	\$298,200	Versus \$300,000 and \$31,500 pitched in 2021 by the Pool Committee
Annual Debt Cost			
Minimum Debt Financing Cost	\$1,083,275	\$113,744	Calculated on gap between \$36.8M and ICIP grant of \$23.3M Financing \$13.5M over 20 years at 5%.
Total Annual Operating Cost with Financing	\$3,923,275	\$411,944	This total is exclusive of fundraising as it is not "cash in the bank" and \$36.8M capital budget is exclusive of any cost over-runs and based on Class C estimates.