



# **CYPRESS COUNTY DUNMORE TRAINING FACILITY BUSINESS CASE STUDY**

**Prepared by SAGE Analytics Inc.  
Edmonton, Alberta**

**March 2019**



**Cypress County  
Business Case Study  
Dunmore Training Facility**

March 15, 2019

Jeffrey Dowling, Director of Municipal Services  
Cypress County  
816, 2nd Avenue  
Dunmore, Alberta  
T1B 0K3

**Re: Business Case Study – Dunmore Training Facility**

Dear Mr. Dowling,

The SAGE Analytics Inc. team has conducted objective research, interviews and financial analysis for the proposed Dunmore Training Facility. Details of our findings are provided in this business case study for consideration by Cypress County Council. We trust that this analysis will be helpful to County Council in the decision-making process for this major recreation project.

We appreciate the high level of cooperation, information sharing and strong communication that our team experienced from all stakeholders during the project.

Sincerely,



Shari-Anne Doolaege, MPA, Q.Arb., CLGM  
President, Sage Analytics Inc.

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## **1. Executive Summary**

Cypress County is a rural municipality in southeastern Alberta and surrounds its urban municipal neighbours, the City of Medicine Hat and the Town of Redcliff. The County boundary reaches the Alberta-Saskatchewan border to the east and the Canada-USA border to the south. Cypress County shares a namesake with the nearby [Cypress Hills](#).

Cypress County has a strong agricultural sector and [nine official hamlets](#). Dunmore is the County's largest hamlet, located immediately east of the City of Medicine Hat. The County has a total population of 7,662 (2016 census), including Dunmore's 1,100 population.

The Prairie Rose School Division concurrently serves a large part of the area and has an administration office in the Hamlet of Dunmore, adjacent to the Cypress County administration office. There is a high degree of goodwill between the County and School Division officials as well as a mutual determination to advance local public service amenities.

The School Division has requested financial assistance from Cypress County in order to construct a local arena and training facility. School Division officials expect that this project would bolster the new Hockey Academy program offered by the school and increase student numbers while providing a broad recreational and community benefit to the region, particularly to the Hamlet of Dunmore.

Cypress County engaged SAGE Analytics Inc. (SAGE) to analyze the overall impact that the Dunmore arena/training facility project could have on the County, as well as the anticipated impact to the existing arena facility in the neighbouring Hamlet of Irvine. The SAGE team completed this study using diverse municipal expertise in governance, administration, finance, recreation and operations.

In brief, the analysis shows that Cypress County is in a strong financial position to contribute to the Dunmore Training Facility project, both immediately with capital project funding and over the longer term with operational grants. Financial projections are provided showing the anticipated impact on the County and the Irvine arena.

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Significant project considerations are also identified in this study, such as environmental service limitations in Dunmore, the need for regional recreation planning, and the need for public consultation in order to gauge the level of public support for the project.

## **2. Background and Project Overview**

Prairie Rose School Division (PRSD) officials approached Cypress County in the fall of 2018 and invited the County to partner in building a new arena and training center in the Hamlet of Dunmore. Through the project proposal, PRSD intended *“to begin the discussion”* on a potential recreational partnership for the construction and operation of a \$10-\$12M hockey rink and off-ice training facility on the Eagle Butte High School property in Dunmore, Alberta.

PRSD officials and interested stakeholders presented their proposal to Cypress County Council on September 18, 2018 as a delegation at the regular council meeting. This delegation was requested by Cypress County Council who passed a related resolution at their September 4, 2018 regular council meeting.

The region also benefits from a significant recreation asset in the Hamlet of Irvine. The [Irvine Sports Complex](#) is a multi-use facility owned by Cypress County and operated by the local Irvine & District Agricultural Society. Cypress County's budget and five-year capital project includes \$3.5 million to upgrade the Irvine Sports Complex. County officials indicated that this upgrade would be contingent on finding related grant funding. The project is based on engineering recommendations for structural and component upgrades to improve operations and extend the useful life of the facility. The Irvine Sports Complex is highlighted later in this report, along with the potential impact that the Dunmore project would have in Irvine.

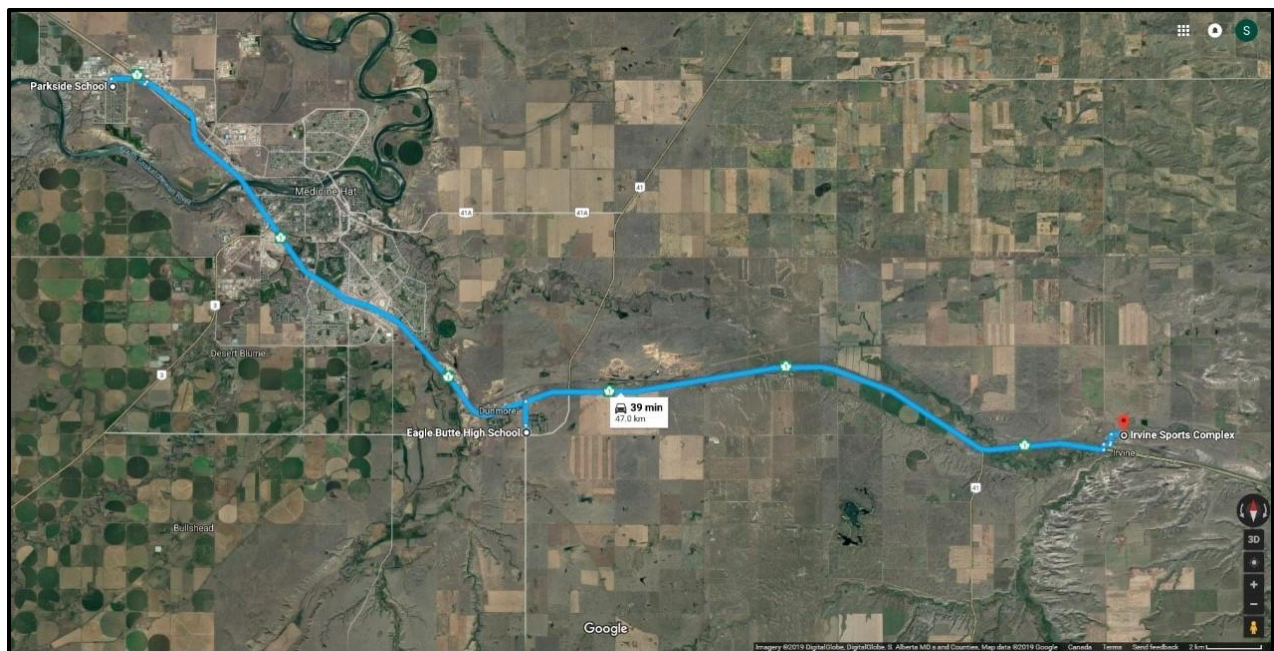
A key driver for the Dunmore Training Facility is to increase student enrolment numbers by strengthening the hockey academy program currently offered by the PRSD. School officials also hope to expand the academy beyond hockey. Local interest in the sport of hockey is reported to be very strong and described as a local “hockey-craze” according to one official. The PRSD offers a combined academic/hockey program known as the [South Alberta Hockey Academy](#). According to the PRSD proposal, *“The goal is to develop well rounded young adults through participation in a hockey academy.”*

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PRSD officials hope for a swift project commencement. According to the proposal: *“PRSD will be endeavoring to bring hockey teams to Eagle Butte High School for the 2019-2020 school year.”* Financial projections in this analysis are based on a 2020 project start.

This unique hockey academy program began in the 2018-19 school year with 45 students enrolled. PRSD has partnered with [Willie Desjardins and Global Sports](#) to operate academies at Parkside School in Redcliff, Irvine School in Irvine and Eagle Butte High School in Dunmore. Mr. Desjardins is a professional ice hockey coach and former player.

Hockey Academy high school students are currently bussed from the Eagle Butte High School in Dunmore to arena facilities in the Hamlet of Irvine (25 km) and the Town of Redcliff (23 km) since there is no ice surface facility in Dunmore. The map below shows that both Redcliff and Irvine are nearly equal distance from the Eagle Butte High School with an approximately 20-minute drive to either community. PRSD officials emphasized that bus travel time impacts student instructional time, and that the construction of an ice surface and training facility in Dunmore adjacent to the Eagle Butte School would reduce bussing time and expense.



**Figure 1: Local map showing the proximity of Parkside School in Redcliff, Eagle Butte High School in Dunmore, and the Irvine Sports Complex in Irvine. The total distance from Redcliff to Irvine is approximately 47 km (39 minutes).**



### **3. Financial Analysis**

#### **3.1 Capital Revenue Options**

The overall financial position for Cypress County is strong. Typical capital revenue options include grants, reserves (generated from tax surpluses), debentures, special taxes, and off-site levies. The 2017 financial statement shows that Cypress County had financial assets of approximately \$100 million. This included over \$5.7 million in cash and over \$82 million in investments for the County's restricted and unrestricted surplus accounts.

Municipalities have debt limits (1.5 times municipal revenue) and debt servicing limits (0.25 times municipal revenue) as set out in [provincial regulations](#). All borrowing and loan guarantees affect the debt limit for a municipality. Cypress County is well below its legislated debt limit and has just over \$32 million in borrowing capacity (debt limit unused) and just over \$6 million in debt servicing capacity (unused) as of December 31, 2017.

Cypress County Council approved a five-year capital plan (2020-2024) in December 2018. This plan includes various capital projects totaling nearly \$52.6 million in Administration, Fire, Facilities, Vehicles & Equipment, Roads and Utilities. County officials confirmed that revenue to fund capital projects identified in the five-year capital plan would come from grant funding and reserves (restricted and unrestricted surplus accounts).

The County's financial statement and financial plan show that the County will be able to complete a significant number of capital and operating projects to benefit the region and remain in a positive cash position. The Dunmore Training Facility is a newly proposed project and was not identified on the 2020-2024 capital plan.

Looking strictly at the County's overall financial picture and the capital contribution requested, Cypress County has the financial capacity to participate in this recreation project as a significant financial partner to leverage the bulk of the capital construction costs for the Dunmore Training Facility.

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### 3.2 Construction Costs

The PRSD proposal estimated the facility capital costs to be \$10 - \$12 million, based on a 4,000 square meter (m<sup>2</sup>) (43,056 square foot (sf)) building size and construction costs of \$250/sf. Some stakeholders felt that the cost estimates were low, particularly for equipment, and gave an example that a Zamboni would cost around \$130,000. Additional costs for parking were also noted in addition to the in-kind parking contribution. The proposed site for the facility is on the existing ball diamond location adjacent to the Eagle Butte High School. There were no plans discussed to develop a new ball diamond. PRSD officials indicated that the proposed site could accommodate a larger facility than the proposed 4,000 m<sup>2</sup> size (one acre) if there was local interest to include additional amenities on the site. Capital costs based on \$250/sf are reflected below:

**Table 1: Capital costs based on \$250/sf**

<b>Proposed Capital Costs for the Dunmore Training Facility</b>	
<b>Prepared by Prairie Rose School Division</b>	
Building Size: 43,056 sf (4,000 m <sup>2</sup> )	
Construction @ 85% of build costs	\$ 7,069,040
Site Services and Site Development	75,000
Sub total	7,144,040
Contingency @ 3 %	214,321
Sub total	7,358,361
Project Expenses (0.50%)	36,792
Design and Consulting Fees (10%)	735,836
Furnishings and Equipment (3%)	220,750
<b>Total Build Costs</b>	<b>8,351,739</b>
PRSD In Kind Contributions	
Land Value ( Training Center & Parking)	750,000
Project Administration (1.50%)	110,375
Parking (EBHS Parking - Paving)	750,000
Services Connections (e.g. Septic)	800,000
<b>Total In Kind Contributions</b>	<b>2,410,375</b>
<b>Total Project Costs</b>	<b>10,762,114</b>
<b>Average Cost Per Square Foot</b>	<b>\$ 250</b>



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County officials indicated that construction costs for this type of facility could be closer to \$350/sf based on engineering advice and experience from a similar project constructed recently (3<sup>rd</sup> Party Data). The PRSD construction estimates utilize a 3% contingency, which is used below for consistent calculations, although this is far below the industry standard of a 10-15% contingency for this type of project. Capital costs based on \$350/sf are reflected below:

**Table 2: Capital costs based on \$350/sf**

<b>Proposed Capital Costs for the Dunmore Training Facility</b>		
<b>Cost Comparison PRSD versus 3rd Party Data</b>		
Building Size: 43,056 sf (4,000 m2)		
	<b>PRSD</b>	<b>3rd Party Data</b>
Construction @ 85% of Build costs	\$ 7,069,040	\$ 10,705,583
Site Services and Site Development <sup>1</sup>	75,000	75,000
Sub total	7,144,040	10,780,583
Contingency @ 3 %	214,321	323,417
Sub total	7,358,361	11,104,000
Project Expenses (0.50%)	36,792	55,520
Design and Consulting Fees (10%)	735,836	1,110,400
Furnishings and Equipment (3%)	220,750	333,120
<b>Total Build Costs</b>	<b>8,351,739</b>	<b>12,603,040</b>
PRSD In Kind Contributions		
Land Value ( Training Center & Parking) <sup>1</sup>	750,000	750,000
Project Administration (1.50%)	110,375	166,560
Parking (EBHS Parking - Paving) <sup>1</sup>	750,000	750,000
Services Connections (e.g. Septic) <sup>1</sup>	800,000	800,000
<b>Total In Kind Contributions</b>	<b>2,410,375</b>	<b>2,466,560</b>
<b>Total Project Costs</b>	<b>10,762,114</b>	<b>15,069,600</b>
<b>Average Cost Per Square Foot</b>	<b>\$ 250</b>	<b>\$ 350</b>
<i>Note:</i>		
<i>1. PRSD estimates were used for revised calculations</i>		

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The PRSD proposal requests a capital investment from the County as well as a loan guarantee to finance the construction of the facility based on \$250/sf. PRSD also anticipates an additional \$1 million from fundraising that could be put towards the facility construction, as shown below:

**Table 3: Summary of capital funding based on \$250/sf and fundraising**

<b>\$250/sf</b>	<b>One-time County Investment</b>	<b>\$5,381,057</b>
	Loan Provided to Prairie Rose School Division	\$1,970,682
	Fundraising	\$1,000,000
	<b>Total</b>	<b>\$8,351,739</b>

A more conservative scenario is shown below based on \$350/sf construction costs and \$0 fundraising:

**Table 4: Summary of capital funding based on \$350/sf and \$0 fundraising**

<b>\$350/sf</b>	<b>One-time County Investment</b>	<b>\$10,632,358</b>
	Loan Provided to Prairie Rose School Division	\$1,970,682
	Fundraising	\$0
	<b>Total</b>	<b>\$12,603,040</b>

Financial options available to Cypress County to fund capital investment in the project include cash, reserves, debentures, loan guarantees, and grants, or a combination of these. Donations and revenue for naming rights are other potential project revenue options but cannot be guaranteed. Similarly, no fundraising has been confirmed since interested stakeholders are in a 'holding pattern' according to PRSD officials, pending County Council's decision on project partnership approval.

The \$1,970,682 loan to PRSD is expected to have a net effect on the County, if the PRSD pays a comparable interest rate to the interest that the County is earning on current investments. Officials confirmed that a 10-year investment rate is approximately 3.5%. The County holds a diverse investment portfolio with short-term, long-term and bonds

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and interest rates ranging from 1.85% to 5.75%, according to the 2017 [annual financial statement](#) (p. 12).

Rather than earning interest on an approximately \$2 million investment, the County could earn comparable interest from a PRSD loan. The County has sufficient debt room to offer this loan if funds were acquired through borrowing. A loan bylaw or guarantee bylaw must be advertised by the County in accordance with the MGA s. 265 and 266, respectively. County officials indicated that the County debt room would not be affected if the loan was made to the PRSD from the County's existing resources.

The project would have a municipal benefit as a local recreation amenity. PRSD officials confirmed that the school has charitable status and can issue tax receipts for donations; however, the Hockey Academy is not considered a non-profit organization.

Legal advice is needed to confirm whether Cypress County would be permitted to provide a loan to the PRSD or the Hockey Academy per legislative requirements in the MGA s. 264(2), which reads as follows:

***(2) A municipality may***

*(a) lend money to a non-profit organization, or*

*(b) guarantee the repayment of a loan between a lender and a non-profit organization*

*if the council considers that the money loaned or money obtained under the loan that is guaranteed will be used for a purpose that will benefit the municipality.*

The PRSD would need ministerial approval to undertake any capital borrowing, in accordance with the [School Act](#) s. 183(2). PRSD officials indicated that a larger loan amount could be requested, that the Minister would consider the school division's ability to pay, and that the borrowing would not necessarily have to come from Cypress County. The [2017-18 Financial Audit Report](#) for the PRSD shows total financial assets of \$8,418,552 and total revenues of \$50,884,471.

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### 3.3 Operating Costs

The PRSD proposal for the Dunmore Training Facility was provided as a conceptual design for discussion purposes and contained two examples of annual operating costs. Operating costs projecting an **\$83,000 operating loss**, are summarized below. The other example provided by PRSD projected a **\$25,970 operating surplus** due to higher utilization and additional advertising revenue.

**Table 5: Annual Operating Cost Example from PRSD**

<b>Proposed Operating costs for the Community Training Center</b>		
<b>Prepared by Prairie Rose School Division</b>		
Building Size: 4,000 m <sup>2</sup>		
<b>Revenues</b>		
Hockey Ice Rentals 1,040 hours @\$112.50 <sup>1</sup>	\$	117,000
Multipurpose Room Rentals <sup>2</sup>		10,000
Lacrosse, Soccer & Ball Hockey <sup>3</sup>		60,000
Fitness Center <sup>4</sup>		30,000
Total Revenues		217,000
<b>Expenses</b>		
Salaries and Benefits (2 Rink Workers & Custodial Staff)		140,000
Utilities (\$2.20 per sq. ft)		95,000
Repairs, Maintenance, Insurance, Supplies and other Expenses ( \$1.50 per sq. ft)		65,000
Total Expenses		300,000
<b>Operating Surplus/Loss</b>	<b>-</b>	<b>83,000</b>
<b>Notes:</b>		
<i>1. Hockey Rental Rates</i>		
40 hours per week for 26 weeks = 1,040 hours per year		
\$150 per hour at Prime time		
\$75 per hour at Non - Prime Time		
Average rate ( \$150+\$75 = \$112.50)		
<i>2. Multipurpose Room Rentals</i>		
400 hours per year at \$25 per hour ( 400* \$25= \$10,000)		
<i>3. Lacrosse, Soccer &amp; Ball Hockey Rentals</i>		
500 hours per year at \$120 per hour ( 500* \$120= \$60,000)		
<i>4. Fitness Center</i>		
50 people per year at \$600		

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The operating cost estimates from PRSD for the Dunmore facility are based on \$2.20/sf for utilities and \$1.50/sf for other expenses. The estimates do not show any capital replacement funds. Based on the SAGE team experience, a review of other municipal facility costs and local knowledge, the PRSD operating cost estimates seem optimistic.

Operating costs would likely be higher, and revenues would likely be lower than the proposal estimates. Certain components of the facility would cost more to operate than other components. For example, an ice surface would have a much higher utility cost per square foot than a meeting room. On the revenue side, the facility would be competing with other facilities in the region for patronage and should expect to have some unused ice time.

Local experience and broader industry knowledge show that arena-based facilities are not directly profitable but do offer non-financial social and recreational benefits to the area. These recreation facilities rely on taxpayer subsidies through municipal operations or through an operating grant to the local operator. As an example, Cypress County has contributed \$75,000 annually towards the local Irvine Sports Complex operations. The Irvine & District Ag Society is the facility operator and had an operating loss of \$14,258 in 2017. This operating loss was after and including the annual \$75,000 contribution from the County. The financial statements and operating loss included the society's entire operations and was not limited to the sports complex and arena activities.

PRSD officials emphasized that the long-term operating costs were a very important consideration in the proposal. Financial assistance is requested for Cypress County to share 50% of the annual operating losses for the facility. The proposal projected an \$83,000 annual operating loss for the facility and therefore the County's 50% portion would be \$41,500 annually. Under the PRSD proposal, if annual operating losses are greater the County's share would increase respectively. The PRSD has limited revenue options to cover operating losses. The recent [financial statement for PRSD](#) shows recent operating deficits of \$160,028 and \$681,624 for 2018 and 2017 respectively.

PRSD anticipated that they would operate the Dunmore facility and felt that their experience managing school facilities would be an asset. The Irvine & District Agricultural Society was also identified as a potential partner for managing the operations of the Dunmore facility. Cypress County officials indicated that the County would not be interested in managing the Dunmore facility operations.

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SAGE has calculated operating scenarios based on more conservative estimates. The total operating revenue and expense estimates provided from PRSD are used below with corresponding 10% and 15% adjustments. This demonstrates the potential operating loss for the facility if revenue was less and expenses were higher than initially proposed.

**Table 6: Operating Cost Scenarios - Dunmore Training Facility**

Scenarios		
Revenues		
<b>\$ 217,000</b>		
<b>decrease:</b>	<b>-10%</b>	<b>-15%</b>
	\$ 195,300	\$ 184,450
Expenses		
<b>\$ 300,000</b>		
<b>increase:</b>	<b>10%</b>	<b>15%</b>
	\$ 330,000	\$ 345,000
Operating Loss	<b>-\$ 134,700</b>	<b>-\$ 175,550</b>
50%	<b>-\$ 67,350</b>	<b>-\$ 87,775</b>

### 3.4 County Investment Scenarios

Financial scenarios have been developed to show the County's potential investment in the Dunmore Training Facility project and the corresponding financial impact on Cypress County over 5, 10 and 20 years.

From an opportunity cost perspective, if the County were to divest funds from its investment portfolio to provide capital funding to "invest" in the project, the County would lose annual interest that could have been earned if the funds remained as an interest generating investment.

If the County decides to contribute capital funds to the Dunmore facility project, financial options include using existing cash assets or acquiring a loan/debenture. The County has significant borrowing capacity; however, it is a stronger financial option to use existing cash assets to fund the project. This rationale is based on the fact that investment



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income on a cash asset typically has a lower interest rate than a debenture. A 20-year borrowing rate at the [Alberta Capital Finance Authority](#) (ACFA) is currently 3.08 %.

The following County Investment Scenarios include interest earned and principle repayments on the \$1,970,682 loan requested by PRSD. County officials indicated that Council has historically provided loans to qualifying organizations by matching the Alberta Capital Finance Authority (ACFA) interest rates.

## Investment Scenario #1

A 20-year projection of the proposed County investment in the Dunmore Training Facility is shown below with the following highlights:

- **\$9,887,675** total investment costs based on the initial PRSD proposal construction estimates of \$250/sf.
- **\$4,319,195** opportunity cost for interest that could have been earned on the cash asset if the \$5,381,057 remained in the County's investment portfolio.
- **\$788,500** cumulative operating losses of the Dunmore facility over 20 years. This is for the County's 50% portion totaling **\$41,500 annually**, based on the PRSD operating cost estimates.
- **\$0** for any increased operating grant expense anticipated for the Irvine facility.

**Table 7: Investment Scenario #1**

Cypress County Investment								
\$250/sf; Operating loss \$41,500; 20-year loan repayment								
		Yr 1	Yr 2	Yr 3	Yr 5	Yr 10	Yr 20	TOTAL
PRSD	One-time Capital Investment	\$5,381,057						5,381,057
	Loan Provided to Prairie Rose School Division	\$1,970,682						1,970,682
	Consulting fees	\$35,000						35,000
	Operating Grant (50% of operating loss)		41,500	41,500	41,500	41,500	41,500	788,500
	Interest Income for loan to PRSD @ 3.074%		-60,579	- 60,579	- 53,848	- 37,020	- 3,365	- 636,077
	PRSD Loan repayment starting year 3			- 109,482	- 109,482	- 109,482	- 109,482	- 1,970,682
	<b>Total PRSD</b>	\$7,386,739	- 19,079	- 128,561	- 121,830	- 105,003	- 71,348	5,568,480
IRVINE	Increase in Operating Grant to Irvine							-
<b>TOTAL COST</b>		<b>\$7,386,739</b>	<b>- 19,079</b>	<b>- 128,561</b>	<b>- 121,830</b>	<b>- 105,003</b>	<b>- 71,348</b>	<b>5,568,480</b>
<b>Opportunity costs</b>								
	Interest from one time investment to PRSD @ 3.15%		169,503	174,843	186,031	217,236	296,227	4,319,195
<b>TOTAL COST including opportunity costs</b>		<b>\$7,386,739</b>	<b>150,425</b>	<b>46,282</b>	<b>64,201</b>	<b>112,233</b>	<b>224,879</b>	<b>9,887,675</b>

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**Investment Scenario #2**

A 20-year projection of the proposed County investment in the Dunmore Training Facility is shown below with the following highlights:

- **\$10,766,900** total investment costs based on the initial PRSD proposal construction estimates of \$250/sf and increased operating costs.
- **\$4,319,195** opportunity cost for interest that could have been earned on the cash asset if the \$5,381,057 remained in the County's investment portfolio.
- **\$1,667,725** cumulative operating losses of the Dunmore facility over 20 years. This is for the County's 50% portion totaling **\$87,775 annually**, based on a **15%** decrease in revenue and 15% increase in operating costs.
- **\$0** for any increased operating grant expense anticipated for the Irvine facility.

**Table 8: Investment Scenario #2**

Cypress County Investment								
\$250/sf; Operating loss \$87,775; 20-year loan repayment								
		Yr 1	Yr 2	Yr 3	Yr 5	Yr 10	Yr 20	TOTAL
PRSD	One-time Capital Investment	\$5,381,057						5,381,057
	Loan Provided to Prairie Rose School Division	\$1,970,682						1,970,682
	Consulting fees	\$35,000						35,000
	Operating Grant (50% of operating loss)		87,775	87,775	87,775	87,775	87,775	1,667,725
	Interest Income for loan to PRSD @ 3.074%		-60,579	- 60,579	- 53,848	- 37,020	- 3,365	- 636,077
	PRSD Loan repayment starting year 3			- 109,482	- 109,482	- 109,482	- 109,482	- 1,970,682
	<b>Total PRSD</b>	<b>\$7,386,739</b>	<b>27,196</b>	<b>- 82,286</b>	<b>- 75,555</b>	<b>- 58,728</b>	<b>- 25,073</b>	<b>6,447,705</b>
IRVINE	Increase in Operating Grant to Irvine							-
<b>TOTAL COST</b>		<b>\$7,386,739</b>	<b>27,196</b>	<b>- 82,286</b>	<b>- 75,555</b>	<b>- 58,728</b>	<b>- 25,073</b>	<b>6,447,705</b>
<b>Opportunity costs</b>								
	Interest from one time investment to PRSD @ 3.15%		169,503	174,843	186,031	217,236	296,227	4,319,195
<b>TOTAL COST including opportunity costs</b>		<b>\$7,386,739</b>	<b>196,700</b>	<b>92,557</b>	<b>110,476</b>	<b>158,508</b>	<b>271,154</b>	<b>10,766,900</b>

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**Investment Scenario #3**

A 20-year projection of the proposed County investment in the Dunmore Training Facility is shown below with the following highlights:

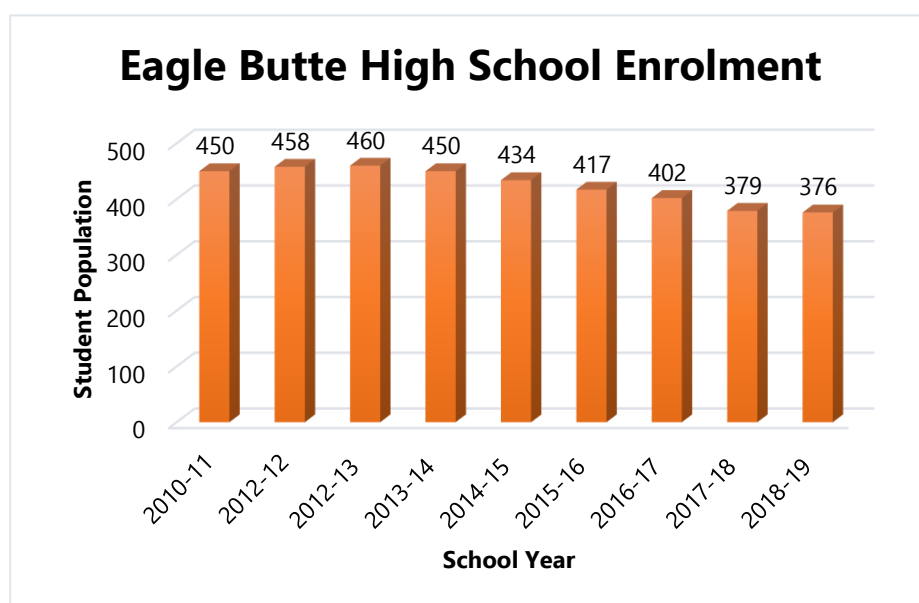
- **\$21,055,264** total investment costs based on third party construction cost estimates of **\$350/sf**.
- **\$8,534,239** opportunity cost for interest that could have been earned on the cash asset if the **\$10,632,358** remained in the County's investment portfolio.
- **\$1,667,725** cumulative operating losses of the Dunmore facility over 20 years. This is for the County's 50% portion totaling **\$87,775 annually**, based on a **15%** decrease in revenue and 15% increase in operating costs.
- **\$822,020** cumulative operating loss and increased operating grant for the Irvine facility.

**Table 9: Investment Scenario #3**

Cypress County Investment								
\$350/sf; Operating loss \$87,775; 20-year loan repayment; Increased Irvine operating grant								
		Yr 1	Yr 2	Yr 3	Yr 5	Yr 10	Yr 20	TOTAL
PRSD	One-time Capital Investment	\$10,632,358						10,632,358
	Loan Provided to Prairie Rose School Division	\$1,970,682						1,970,682
	Consulting fees	\$35,000						35,000
	Operating Grant (50% of operating loss)		87,775	87,775	87,775	87,775	87,775	1,667,725
	Interest Income for loan to PRSD @ 3.074%		-60,579	- 60,579	- 53,848	- 37,020	- 3,365	- 636,077
	PRSD Loan repayment starting year 3			- 109,482	- 109,482	- 109,482	- 109,482	- 1,970,682
	Total PRSD	\$12,638,040	27,196	- 82,286	- 75,555	- 58,728	- 25,073	11,699,006
IRVINE	Increase in Operating Grant to Irvine			45,668	45,668	45,668	45,668	822,020
	TOTAL COST	\$12,638,040	27,196	- 36,618	- 29,887	- 13,060	20,595	12,521,025
	Opportunity costs							
	Interest from one time investment to PRSD @ 3.15%		334,919	345,469	367,577	429,234	585,311	8,534,239
	TOTAL COST including opportunity costs	\$12,638,040	362,116	308,851	337,689	416,174	605,905	21,055,264

## 4. Demographic Analysis

Statistics provided from PRSD show that the student population for the Eagle Butte High School declined from 450 students in 2010 to 376 students currently, as shown below. This loss of 74 students is a 16% decrease in the student population over the past nine years. School officials attribute this decrease to the overall decline in the surrounding rural population and local competition attracting students to other area high schools.



Statistics Canada census data for the Town of Redcliff, City of Medicine Hat, and Cypress County is summarized below. This data shows that for 20 years, 1996 to 2016, the population of the region increased at a rate of **1.27% per year**. More recently, each of the municipalities experienced a lower rate of growth from 2011 – 2016 with a regional population growth of less than 1% (**0.95% per year**) as shown below:

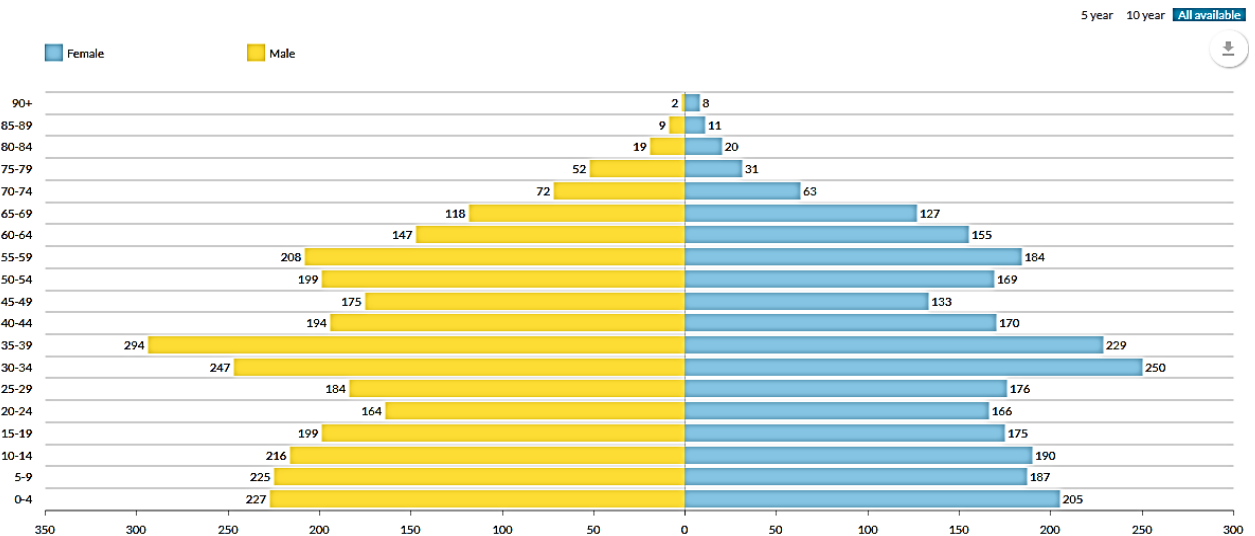
**Table 10: Regional Census Data**

Census Year	1996	2001	2006	2011	2016	Growth: %/yr - 2016	2011 Growth: %/yr 1996-2016
Medicine Hat	46783	51249	56997	60005	63260	1.03%	1.30%
Cypress County *	5683	6114	6709	7214	7662	1.17%	1.29%
Redcliff	4104	4372	5116	5588	5600	0.04%	1.34%
Region	58566	63736	70828	74818	78538	0.95%	1.27%
* - includes hamlet populations							
census data source: <a href="http://www.citypopulation.de/php/canada-alberta-admin">www.citypopulation.de/php/canada-alberta-admin</a>							

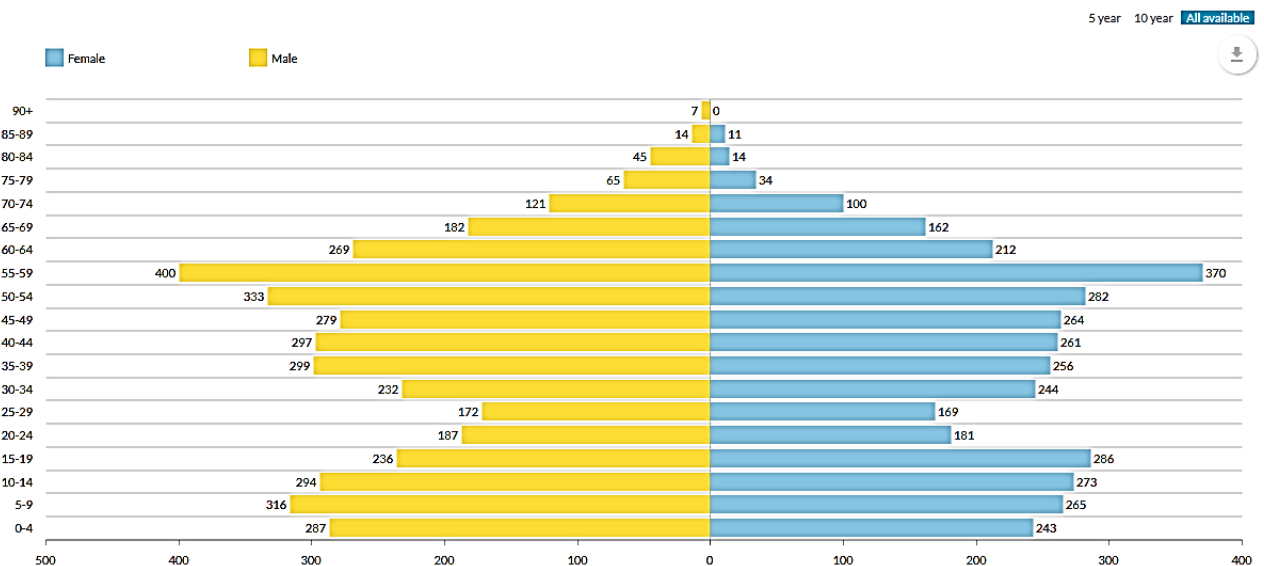
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The age demographic data<sup>1</sup> for the three municipalities was collected and is reflected in the following age pyramid graphs.

## Redcliff



## Cypress County<sup>2</sup>

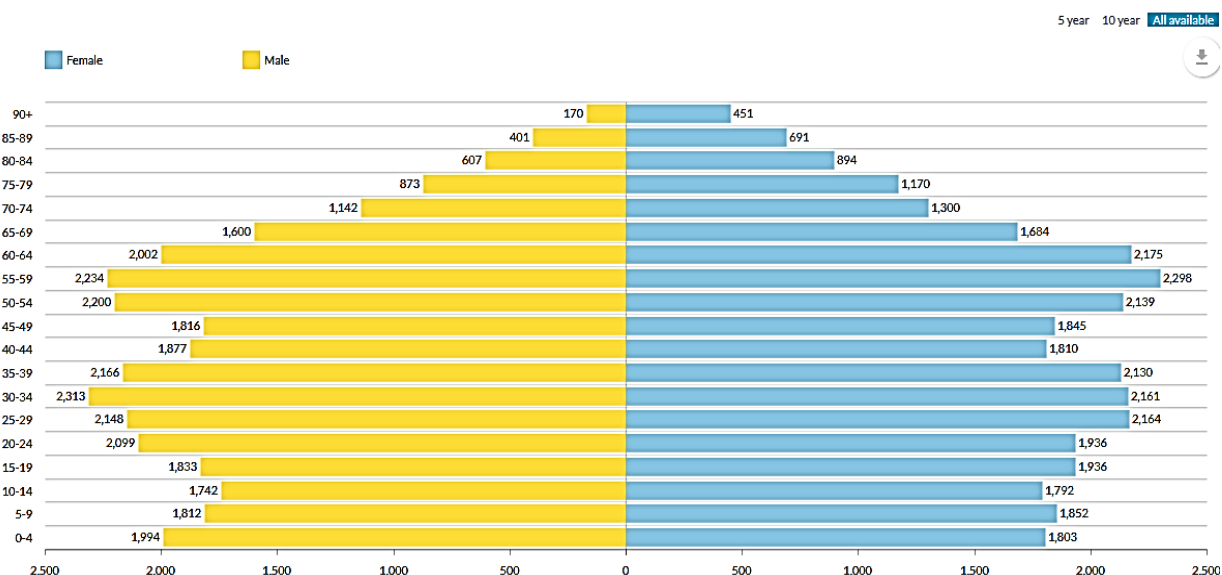


<sup>1</sup> <https://regionaldashboard.alberta.ca>

<sup>2</sup> <https://regionaldashboard.alberta.ca/region/cypress-county/population/#/custom/age-pyramid/?for=2016>

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## Medicine Hat<sup>3</sup>



Two trends are identified in this data that are particularly relevant to the proposed project. First, the 5 – 19 age group numbers in all three municipalities are not as strong as several of the older age group populations. The decrease in the population within this age cohort is significant as these age groups represent, historically, the predominant arena users.

Second, the decrease in the younger populations coupled with the decreased levels of physical activity in older populations<sup>4</sup> suggests that there will be fewer users of arena facilities in the coming years.

These trends are significant in that, while the PRSD hockey academy program may increase student enrolment, there is no demographic evidence to suggest that there are enough users to fill the additional ice time created by the construction of another arena facility given the current arena inventory that exists within the region.

***Demographic evidence suggests that there are not enough users to fill the additional ice time that would be created by the construction of another arena facility in the region.***

<sup>3</sup> <https://regionaldashboard.alberta.ca/region/medicine-hat/population/#/custom/age-pyramid/?for=2016>

<sup>4</sup> <https://www.canada.ca/en/public-health/services/publications/healthy-living/lets-get-moving.html#p1>



## 5. Facility Analysis

To evaluate the potential impact of constructing the Dunmore arena, SAGE researched the number of ice surfaces available within the region. The area facilities and associated indoor ice surfaces are listed below:

**Table 11: Regional Arena Facilities**

<b>Facility</b>	<b>Facility location</b>	<b># of ice surfaces</b>
<a href="#">Cenovus Arena</a>	Medicine Hat	1
<a href="#">Kinxplex Arenas (Kin I &amp; Kin II)</a>	Medicine Hat	2
<a href="#">Hockey Hounds Rec Centre</a>	Medicine Hat	1
<a href="#">Moose Rec Centre</a>	Medicine Hat	1
<a href="#">Irvine Sports Complex &amp; Rec Centre</a>	Cypress County	1
<a href="#">Redcliff Rec-Tangle Arena</a>	Redcliff	1
<a href="#">Canalta Centre</a>	Medicine Hat	1
<b>Total Municipal Ice Surfaces</b>		<b>8</b>

Additionally, the Irvine & District Ag Society discussed the possibility of converting the curling rink surface within the Irvine Sports Complex into a small hockey ice surface to accommodate the demand for prime-time ice rental. The addition of this smaller ice surface is also reflected in the facility ratio analysis shown below, along with the addition of the Dunmore arena:

**Table 12: Facility Ratio Analysis**

<b>2016 Regional Population:</b>	<b>78,538</b>	<b>Population/Ice Surface</b>
<b>Ice Surfaces</b>		
Current indoor ice surfaces	8	9,817
With the conversion of Irvine curling rink	9	8,726
With the addition of a Dunmore arena	10	7,854

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The SAGE team is aware of other regions, such as Camrose and Rocky Mountain House that also have a low ratio of residents per ice sheet.

The City of Red Deer, AB undertook a study of its indoor and outdoor arena facilities and associated service levels in 2016. A component of that study benchmarked the City's "provision ratio" (population/ice sheets) against similar municipalities.

The City of Red Deer data shows a range of 6,500 residents per ice sheet (Spruce Grove) to a high of 19,002 residents per ice sheet (Fort McMurray). The City of Lethbridge ratio is 15,801 and the City of Red Deer is 16,801 residents per ice sheet.

The potential addition of the Dunmore Training Facility and repurposing of the Irvine Curling Rink would increase the number of indoor ice sheets per resident well above the typical number supported in other communities. The addition of new ice surfaces into the region is an important consideration for Cypress County since arena facilities require a critical mass of the population to operate without significant subsidization.

The proportionately high number of ice sheets that would be in place in the Cypress County region is not supported by the declining regional demographic data for the prime age groups.

***The addition of the Dunmore Training Facility and repurposing of the Irvine Curling Rink would increase the number of indoor ice sheets per resident well above the typical number supported in other communities.***

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The following table shows the City of Red Deer comparison ratios of indoor ice sheets per resident:<sup>5</sup>

**Table 13: Referenced from the 2016 City of Red Deer Ice Facilities Plan Research Report**

Municipality	Population	# of Municipally Provided Indoor Sheets	Provision Ratio (Residents per Ice Sheet)
Spruce Grove	26,000	4	6,500
Okotoks	24,425	3	8,142
Leduc	29,304	4	7,326
Brandon	46,061	4	11,515
Spruce Grove/Stony Plain	48,163	5	9,633
Airdrie	58,690	5	11,738
Medicine Hat	63,018	6	10,503
St. Albert	63,255	4	15,814
Grande Prairie	68,556	4	17,139
Prince George	71,273	6	11,879
Fort McMurray	76,009	4	19,002
Kamloops	85,678	6	14,280
Lethbridge	94,804	6	15,801
Strathcona County (Sherwood Park Ice Sheets Only)	95,597	7	13,657
<b>Red Deer</b>	<b>100,807</b>	<b>6</b>	<b>16,801</b>
Kelowna	117,312	7	16,759

<sup>5</sup> The City of Red Deer Ice Facilities Plan Research Report, August 15, 2016 (pg. 42). Accessed February 6, 2019 from:  
<http://www.reddeer.ca/media/reddeerca/city-government/plans-and-projects/2016-08-16-RDI-Research-Report-FINAL-SM.pdf>

## 6. Impact on the Irvine Sports Complex

The [Irvine Sports Complex](#) is a multi-use facility owned by Cypress County and operated by the local Irvine & District Agricultural Society. Besides an ice arena, the facility hosts a curling rink, lounge, kitchen and adjacent rodeo grounds. The complex is a popular local gathering spot and the SAGE team heard several stories of community events and functions.

Officials stated that the Irvine arena was operating at 75% capacity of ice usage as of January 2019. Ice time was reported to be available during the day, however, demand was high for prime ice time after school, evenings, and on weekends.

The Irvine facility maintains ice rental rates that are lower than other facilities in the region. Ice rental rates were listed as follows, according to the facility website:

**Table 14: Irvine Arena Ice Rental Rates**

<b>Hockey Ice with 1 Changeroom</b>	<b>\$145/hr Winter Rate</b> <b>\$160/hr Spring Rate</b>
-------------------------------------	--

Additional Changerooms	\$35 per room
------------------------	---------------

<http://irvinesportscomplex.com/book-ice-time-now/>

An example of a higher price for ice rentals is at the Canalta Centre in Medicine Hat:

**Table 15: Canalta Centre Ice Rental Rates**

**Prime Time - \$240.00 + GST per hour**  
**(up to a maximum of 60 people)**

**Monday through Friday from 4 p.m. - 12:00 a.m.**

**Saturday and Sunday from 8 a.m. - 11 p.m.**

<http://canaltacentre.com/pages/view/27>

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The construction of the Dunmore Training Facility would increase the ice surface supply for the region and is anticipated to increase ice rental competition among facilities. Due to the close proximity, the Dunmore facility is expected to attract certain users that are currently patronizing the Irvine arena.

Some efforts were made by the Irvine Ag. Society to track where the Irvine facility users were coming from by identifying hometowns during team tournaments and using a facility guestbook. Formal user group statistics were not available for the Irvine arena. This study projects a 50% decrease in ice rental revenue for the Irvine arena if the Dunmore Training Facility is constructed. This is based on the logic that the current Irvine facility user base would be shared by two arena facilities (Irvine and Dunmore) rather than one.

The Irvine & District Ag Society financial statement for the year ending June 30, 2017 was reviewed as part of the SAGE financial analysis. The society's statement of operations is summarized below along with a financial projection for 2020:

**Table 16: Summary of the 2017 Irvine Ag. Society Statement of Operations**

<b>Irvine &amp; District Agricultural Society Statement of Operations</b>			
	<b>2016</b>	<b>2017</b>	<b>2020*</b>
<b>Revenue</b>			
Cypress County Operating Grant	\$ 75,000	\$ 75,000	\$ 75,000
Grants and Donations	61,645	87,709	87,709
Ice Rental	90,875	104,787	52,394
Casino	19,222	7,310	7,310
Kitchen and lounge	75,481	87,999	76,999
Irvine Complex	62,124	59,769	52,298
Total Revenue	384,347	422,574	351,710
<b>Expenditures</b>			
Irvine Complex	187,386	237,378	207,706
Kitchen and Lounge	80,977	78,260	68,478
Utilities	71,016	84,954	84,954
Other Expenses	54,299	39,319	39,319
Total Expenditures	393,678	439,911	400,456
<b>Other Income</b>	9,146	3,079	3,079
<b>Operating Surplus/Loss</b>	<b>- 185</b>	<b>- 14,258</b>	<b>- 45,668</b>
*Assuming PRSD Training Facility comes into operation in 2020 resulting in 50% reduction in ice rental			

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The Irvine financial statements show that ice rental revenue contributes to 25% of the total revenue for the society. A projected 50% decline in ice rental revenue for the Irvine arena is shown below with an estimated 2020 opening of a new Dunmore arena:

**Table 17: Irvine Ice Rental Revenue**

<b><u>Ice Rental Revenue</u></b>	<b><u>2017</u></b>	<b><u>2020</u></b>
<b>Ice Rental Revenue</b>	104,787	52,394
<b>Total Revenue</b>	422,574	
<b>% of Total Revenue</b>	25%	

Reduced ice rental activity would impact other Irvine facility functions. Assuming that 25% of the Irvine Complex Kitchen and Lounge revenue and expenditures are related to the Ice Rental usage, these financial components are also reduced by 50% in this analysis. This equates to a 12.5% change in revenues and expenditures related to ice rental functions. An example of the projected decrease in expenditures is shown below:

**Table 18: Irvine Kitchen & Lounge Expense Calculation**

<b><u>Total Kitchen &amp; Lounge Expenses (2017)</u></b>	<b>\$78,260</b>
<b>% of total related to Ice Rental</b>	25%
<b>\$ related to Ice Rental</b>	\$19,565
<b>50% reduction due to reduced Ice Rental</b>	(\$9,783)
<b>2020 Projected Kitchen &amp; Lounge Expenses</b>	\$68,478
<b>% of Kitchen &amp; Lounge Expenses</b>	12.5%

Using the above estimates for 2020, the reduced ice rental revenue and related activities would equate to a **\$45,668 annual operating loss** for the Irvine Sports Complex, as summarized below:

**Table 19: Irvine Sports Complex - Projected Operating Loss**

	<b>2016</b>	<b>2017</b>	<b>2020*</b>
<b>Operating Surplus (Loss)</b>	(185)	(14,258)	<b>(45,668)</b>
<b>Projected difference between 2017 and 2020*</b>			(\$31,410)



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A 10-year forecast of the projected financial impact on the Irvine Sports Complex is shown below. A cumulative operating loss of \$456,678 is projected, even without any inflation modifier applied to the revenues and expenses:

**Table 20: Irvine Facility 10-year Financial Forecast**

<b>Irvine &amp; District Agricultural Society</b>					
<b>Ten Year Forecast</b>					
<b>Revenue</b>	<b>2016</b>	<b>2017</b>	<b>2020</b>	<b>2029</b>	<b>Total</b>
Cypress County Operating Grant	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 750,000
Grants and Donations	61,645	87,709	87,709	87,709	877,090
Ice Rental	90,875	104,787	52,394	52,394	523,935
Casino	19,222	7,310	7,310	7,310	73,100
Kitchen and lounge	75,481	87,999	76,999	76,999	769,991
Irvine Complex	62,124	59,769	52,298	52,298	522,979
<b>Total Revenue</b>	<b>384,347</b>	<b>422,574</b>	<b>351,710</b>	<b>351,710</b>	<b>3,517,095</b>
<b>Expenditures</b>					
Irvine Complex	187,386	237,378	207,706	207,706	2,077,058
Kitchen and Lounge	80,977	78,260	68,478	68,478	684,775
Utilities	71,016	84,954	84,954	84,954	849,540
Other Expenses	54,299	39,319	39,319	39,319	393,190
<b>Total Expenditures</b>	<b>393,678</b>	<b>439,911</b>	<b>400,456</b>	<b>400,456</b>	<b>4,004,563</b>
<b>Other Income</b>	<b>9,146</b>	<b>3,079</b>	<b>3,079</b>	<b>3,079</b>	<b>30,790</b>
<b>Operating Surplus/Loss</b>	<b>-\$ 185</b>	<b>-\$ 14,258</b>	<b>-\$ 45,668</b>	<b>-\$ 45,668</b>	<b>-\$ 456,678</b>

An engineering facility audit was completed for the Irvine Sports Complex in 2018. This audit identified that the Irvine facility is generally a sound and viable structure and recommended a number of structural and component upgrades intended to improve operations and extend the useful life of the 1985 facility.

Cypress County has included \$3.5 million in the 2021 capital budget projection for recreation facilities and County officials confirmed that these funds are budgeted for the Irvine facility upgrade. The Cypress County capital plan shows an asset management commitment to maximizing the County's investment in the Irvine facility. This capital investment in the Irvine Sports Complex would extend the useful life of the asset.

***A \$45,668 annual operating loss for the Irvine Sports Complex is projected due to reduced ice rental revenue and related activities.***

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Ag Society officials indicated that although there was ice time available during the day, there was a strong demand for prime ice time at the Irvine Sports Complex, particularly due to the lower ice rental rates. Arena ice rentals generated higher revenue than the curling rink usage which had limited use. In contrast to the high demand for prime arena ice times, the Irvine curling rink usage was reported to be low, used two evenings per week.

Maintaining the curling rink ice was reported to have proportionately higher operating costs than maintaining the arena ice surface. There could be a strong financial argument in favour of changing the business strategy by repurposing the curling rink to maximize facility profit for prime ice time rental.

Some additional revenue could be generated if the Irvine curling rink were repurposed as a second, smaller ice surface targeted to younger user groups that do not require a full-sized ice surface. Repurposing the Irvine curling rink for an alternate recreation use, such as a gymnasium may be another cost-effective option to increase diverse recreation uses in the area.



*Figure 2: Irvine Curling Rink*

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*Figure 3: Irvine Arena Viewing Area*



*Figure 4: Irvine Sports Complex*



## **7. Project Considerations**

### **7.1 Provincial Approval**

The Dunmore Training Facility is proposed to be built in the Hamlet of Dunmore on the Eagle Butte High School site (1150 Eagle Butte Rd) where the existing baseball diamond is located. Prairie Rose School Division officials were clear that the project is much more than simply an arena, and that it would also be a community gathering space with a fitness centre, concession, lobby, kitchen and recreation spaces.

PRSD officials indicated that provincial approval would not be needed to build the Dunmore facility on the school land; however, ministerial approval would be needed if the school division intended to borrow money to fund the project. PRSD officials stated that the school board approval, by resolution, would be needed for the project and that to date, the school board members appeared to support the project concept.



*Figure 5: Eagle Butte High School site map in Dunmore, Alberta*

## **7.2 Environmental Services**

Environmental site servicing and approvals are important considerations for the Dunmore facility proposal. Within the limited scope of this business case study, SAGE provides the following basic comments and observations:

**Potable water** is provided to the Hamlet of Dunmore and all County hamlets. According to the County [website](#), the water originates from the South Saskatchewan River and is delivered to the County from the City of Medicine Hat. County officials confirmed that there is an adequate supply of potable water to accommodate the domestic and ice making requirements of the proposed complex. Domestic and service water would be provided to the site by Cypress County as a municipal utility.

**Fire Suppression.** The potable water system in Dunmore is not capable of providing adequate water for fire suppression. A water reservoir is located in the southeast corner of the school site and is available for fire suppression and grounds maintenance. PRSD officials advised that water is pumped from an adjacent creek, with proper licencing, to maintain water levels in the reservoir throughout the year and that fire pumper trucks would be able to draw water from the reservoir in the event of a major fire.

Further engineering analysis would be required to confirm that the existing reservoir has capacity and is appropriate as a component of the training centre fire protection scheme. The site and facility design details should be prepared with input from the local fire department to ensure compatibility with local equipment. Costs for a detailed fire suppression strategy for the site were not contemplated in the original PRSD proposal. A fire suppression strategy is expected to be a requirement of the safety codes and development permitting for the new facility.

**Sewer services** in the Hamlet of Dunmore are provided by requiring a private septic field or mound and a holding tank for each property, as there is no municipal sanitary collection system. The school site includes an existing septic field located on the east side of the property between the school and the football field/track which will be abandoned in the near future. Remediation was not planned for the site. PRSD officials indicated that *"the old septic field will not be utilized but it is not on the area in which the Training Center would be built."*

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The PRSD proposal includes an \$800,000 in-kind capital contribution to the project for service connections. Officials clarified that this would cover costs for sewer service connections only, and that the value was based on the cost of developing a new offsite septic field. Other utility connections would be part of the project build costs.

The [Alberta Private Sewage Systems Standard of Practice](#), and the [Alberta Safety Codes Act](#) regulate limitations for peak volumes and hydraulic loading to ensure that environmental integrity is maintained on the site with a maximum volume of effluent per square meter of land per day. A permit is required from an accredited [Safety Codes Inspection Agency](#) prior to construction of a [Private Sewage System in Alberta](#). Cypress County is not an [accredited agency](#).

The Eagle Butte High School [modernization](#), which is proceeding this year, includes the construction of a new septic field to be installed at the north end of the running track, along with holding tanks in the NE or NW corner. At the date of this report, the exact location of the septic field and holding tanks on the school site was not confirmed.

School Board officials confirmed that the new field is being designed to accommodate both the high school modernization and the proposed arena/training facility. They indicated that flow into the field would be monitored and controlled to ensure that the field capacity is not exceeded. Large holding tanks would provide temporary storage and be pumped out as needed to ensure that sanitary flow rates are not exceeded.

PRSD officials indicated that they are planning for increased sewer capacity, stating:

*"The [septic] system being installed will have an increased capacity tank to accommodate the Training Center Proposal. We have researched to ensure that the septic system can manage both the school and the Training Center as proposed."*

The septic service for the Hamlet of Dunmore has remained on Cypress County Council's radar for several years. The [2013 Dunmore Area Structure Plan](#) (ASP), section 7.2 states:

*"As the Plan area grows and develops, the community will be required to transition to a sanitary sewage, collection, treatment (treatment can be avoided by the County if the sewer is disposed of in the City of Medicine Hat's sewage collection system) and disposal system."*



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A description of the septic service and proposed idea to connect to the City of Medicine Hat service, as well as an option for construction of an independent lagoon were also identified in the [2013 Dunmore Area Structure Plan](#) (ASP). Records show that County Council discussed a recommendation to conduct a study to evaluate options and costing for the Dunmore septic service on October 15, 2018, however, no action was taken as shown in the following council resolution:

**7.3.10 Business Case - Dunmore Septic/Sanitary Sewer Study**  
**Resolution No. 2018/596**  
**Moved** Deputy Reeve Oster  
That Council move no action.

**CARRIED**

Environmental considerations have been recently elevated as a municipal purpose:

*MGA s. 3(a.1) to foster the well-being of the environment,*

It is possible that the Dunmore Training Facility could spur development in the Dunmore area. Growth comes with significant servicing costs, however, this project could potentially add leverage to a community development business case in favour of constructing a common sanitary sewer system in the Hamlet of Dunmore.

Demonstrating partnerships that benefit multiple stakeholders are advantageous components to strengthen related project grant applications.

**Stormwater management** is another project consideration. A [2016 Master Stormwater Management Plan](#) has been prepared for the Hamlet of Dunmore. Cypress County records and [media](#) reports show that officials continue to address stormwater management in the hamlet. The current Council is engaged on the Dunmore stormwater management issue and discussed it at both the September 4, 2018 and October 15, 2018 regular council meetings. The following resolution was passed on September 4, 2018:

**Resolution No. 5.4 Stormwater Report for Dunmore Public Utility Lot**  
**2018/481 Moved** Councillor Kurpjuweit

That Council direct Administration to have WSP Canada attend a future meeting to provide clarification on the analysis for the existing storm pond and bring back details of the original storm pond design in Dunmore.

**CARRIED**

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The proposed project would impact the stormwater management concerns for the Hamlet of Dunmore. The proposed project would see a 4,000 m<sup>2</sup> building and adjacent parking contribute to existing stormwater. Currently this open land is contributing to local groundwater absorption. The change in land use would significantly increase both the rate and volume of runoff from the Eagle Butte High School site during storm events.

The site works design would likely be required to restrict runoff from the site as recommended in the 2016 Master Stormwater Management Plan. Downstream controls in the municipal ditch may also be required. Further engineering advice is needed on this matter to determine the best practices to implement and the associated cost. The requirements for storm water management design of the site would be required during the development permitting process to ensure consistent design and construction of stormwater infrastructure.

### **7.3 Ownership**

The proposal reflects the PRSD assumption that the school board would own the Dunmore Training Facility constructed on school land. The project proposal suggests that the project could proceed promptly with a partnership agreement between PRSD and Cypress County. An initial design committee was suggested by PRSD to guide the design and tendering process and to walk alongside the builder as the project proceeds.

The PRSD proposal references a Governance Committee with representation from Cypress County Council, the Prairie Rose School Division Board of Trustees and certain community members. The proposal also suggests that the Governance Committee would make recommendations to the Prairie Rose School Division Board of Trustees and that the general purposes of the proposed Governance Committee are:

- to provide advice to the Prairie Rose School Division in terms of issues with daily operations;
- investigate future opportunities to increase community utilization of the Training Center; and
- monitor financial operations.

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Cypress County officials indicated their assumption that the County would somehow retain ownership in the project since the County would be a significant financial stakeholder.

Co-ownership of the facility is a possibility and legal advice would be needed to recommend a suitable governance model and new corporate entity. Subdividing and re-designating the facility land to Municipal School Reserve (MSR) could be considered. County officials confirmed that the baseball diamond site is approximately 6 acres, with an estimated market value of \$600,000.

The proposal also references the potential for other community partners and funders, as follows:

*"PRSD would like to first establish a partnership with Cypress County to move this project forward. However, while the building is in the design stage, PRSD will endeavor to establish further partnerships with other community agencies and potential funders."*

PRSD officials expressed determination to proceed with the project development by trying to find capital dollars elsewhere if the County decided against entering into a related partnership. They explained that the County is their number one choice for a partnership and felt that the recreation project was a natural fit for the school district and the County since they serve mutual constituents.

The history of local community spirit includes a story of how the school land was initially donated to the School Division by a local family, with the intention that a high school could be built on the site. The community and region continue to benefit from this insightful and generous gift.

## **7.4 Regional Recreation Planning**

Regional recreation planning is needed to ensure wise and logical stewardship of major recreation resources, such as the arena and training facility proposed for Dunmore.

This business case study includes an analysis of the potential impact that an arena facility in Dunmore would have on the Irvine arena facility; however, a Dunmore arena facility would also be expected to impact arena usage and available ice time at arenas in the Town of Redcliff and the City of Medicine Hat. Unless the arena facilities in the region are operating with ice time rentals maximized, the competition for facility users could cause facility operating deficits to increase with the addition of the Dunmore arena to the region. This is a basic principle of supply and demand where a potential oversupply of arenas could drive down the price of ice time rentals to meet the local level of demand.

Cypress County is a regional partner currently engaged in completing an [Intermunicipal Collaboration Framework](#) (ICF) with the neighbouring City of Medicine Hat and the Town of Redcliff. "Recreation Services" are one of several municipal services that must be addressed during the development of an ICF agreement. There is a need to determine if a service would be intermunicipally delivered and how it would be funded. The Dunmore facility would be an important consideration to bring to a regional recreation planning discussion. The ICF recreation discussion and negotiations between Cypress County, the City of Medicine Hat and the Town of Redcliff are anticipated to take place in 2019.

SAGE recommends that the Dunmore Training Facility be considered in the context of the recreation services discussions during the 2019 ICF process. The potential re-designation of a portion of the school land and change in use and intensity of the land would also affect the Intermunicipal Development Plan (IDP) between Cypress County, the City of Medicine Hat and the Town of Redcliff. Funding growth identified in the IDP would need to be considered in the ICF.

Stakeholders mentioned that some arena facilities in the City of Medicine Hat were aging and also discussed the idea of having a facility in the region with three or four ice sheets in order to have capacity to host larger hockey tournaments. Other recreation options are being considered in Cypress County, such as constructing an indoor [Equestrian Centre](#) in Dunmore which was in the process of a feasibility study in [early 2019](#).

## **7.5 Public Consultation**

Stakeholder comments included several stories of local public support and opposition to the proposed Dunmore Training Facility development. These anecdotes have not been tested with meaningful and official public engagement to both inform the public and receive feedback from the public about the project and the potential impact for the area. One local sports club provided a letter of support for the project in January 2019.

Public engagement is valuable and can be offered in a variety of ways, such as providing information through educational publications, hosting informational open houses or conducting a local survey. Basic public consultation includes a two-way component where information sharing is provided to and received from the public. And most importantly, that the Council consider the public feedback before finalizing a decision on the project.

Cypress County would benefit from both stakeholder input and general public input. Stakeholder input would include comments from potential user groups and funders of the facility. Public input would include comments from individual facility users, families and particularly the Cypress County residents and businesses that would be responsible for the long-term financial commitment as a partner in owning this major recreation facility. A recommendation for public consultation is provided in this report.

Public and stakeholder consultation could also be used to gauge the potential for spin-off benefits to the Dunmore community if the training facility was constructed. For example, questions could be asked for potential facility users to indicate if they would likely patronize local restaurants and services in Dunmore if they came to Dunmore to use the training and arena facility. An additional question could target the business community to ask if the facility development would increase their level of confidence to invest in the community.

## **7.6 Capital and Strategic Planning**

The Dunmore Training Facility is not referenced in the capital or strategic planning documents for Cypress County that were reviewed during this analysis. If Council proceeds with the Dunmore facility, Council's strategic priorities and related operational and capital planning documents would need to be revised in order to meet the MGA requirements regarding 3-year operating and 5-year capital budgets.

Cypress County does identify broad recreation and community development goals in the County's [2018 Strategic Plan](#). The PRSD proposal states that the Dunmore Training Facility would align with several of the County's strategic goals, as follows:

3.0: Provide high quality, safe and affordable amenities;

**Strategy 3.3:** Support Hamlets in providing a safe, affordable and friendly environment;

**Strategy 3.4:** Provide a supportive environment for tourism, recreation and leisure;

4.0: Builds strong partnerships and community engagement;

**Strategy 4.3:** Expand collaboration with communities in other areas;

5.0: Focus on economic growth, sustainability and diversification.

**Strategy 5.3:** Promote the County as a destination for business growth and expansion.

The 2013 **Dunmore Master Area Structure Plan (ASP)** identifies the Hamlet of Dunmore as a growth area. The Dunmore Training Facility project would reasonably align with the County's vision of growth identified for Dunmore.

The Dunmore ASP **Vision** reads as follows:

*The County's long-term vision for the Plan area is one of growth and development to an 'urban' level of services for its residents while maintaining desirable aspects of the existing hamlet lifestyle. With foreseeable development opportunities in the future the community will evolve over the long term to be an increasingly competitive regional alternative for residential, commercial and industrial development.*

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The ASP references utility servicing options with future water and sewer connections to the City of Medicine Hat. Recreation is not specifically referenced in the Dunmore ASP vision; however, the reference to an “urban” level of services is assumed to include recreation facilities. Council may wish to consider defining or clarifying “urban” level of services within the context of the Dunmore ASP. The Hamlet is identified as a growth area within the County; however, without typical urban utility services, Dunmore will struggle to attract and compete for regional growth and development.

### **8. Return on Investment**

Providing services and facilities that Council considers necessary or desirable is one of the basic municipal purposes stated in the MGA s. 3(b). Rather than providing a direct financial benefit to the County, the Dunmore Training Facility project would provide social and recreational benefits to the region. The project is an ambitious, bold request. If the project is approved, it would align with some of the County’s strategic goals to advance recreation and community development.

The County’s return on investment for the upfront capital funding required for the Dunmore Training Facility would not be realized as a financial gain. Even if the project is a thriving success as a regional recreation facility, financial projections show that the County would not see a financial return on the capital investment required for the project. Rather, the project is anticipated to require ongoing annual tax subsidies to cover 50% of annual operating losses.

Cypress County has a history of providing financial contributions to support recreation services in the region. County officials provided information showing that annual recreation grants have been provided to the Town of Redcliff since 1994. This grant was initially \$5,880/year and has increased to \$12,240 in recent years. Records also show that the County has contributed to funding recreation facilities in the City of Medicine Hat, totaling \$1,375,000 since the year 2000. This includes a \$700,000 capital contribution in 2015 for the Canalta Center, as well as an annual \$200,000 facility use payment in both 2017 and 2018.

Non-financial benefits are anticipated where the region, particularly residents and students in the Hamlet of Dunmore, would benefit from access to a community

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recreation facility with a fitness centre, meeting spaces and an arena. Over time, the social benefit of increased recreation and community well-being can have a financial benefit for a population due to potentially lower health care costs in the future. There is nothing to indicate that the social health benefits would be anywhere close to the \$5 or \$10 million value of the capital investment.

If the facility stimulated growth in the community, this growth would generate increased taxes for the County, along with corresponding costs of growth. Annual property taxes are not a 'profit' for a municipality, but rather, are used to fund annual service costs.

Project success could be measured by strong facility usage stats, increased student population at the Eagle Butte High School, increased enrolment in the hockey academy, and stable annual tax subsidies to cover recreation operating losses in Dunmore and Irvine. Several variables can impact these metrics. For example, an increase in student enrolment at the Eagle Butte High School could be attributed to the school's reputation for high student performance or to the modernization project and expanded industrial arts program underway, rather than due to the Hockey Academy program.

## **9. Risks**

Project risks include the following most obvious factors:

1. Adding another arena facility could cause an oversupply of ice surfaces and lead to competition in the region where all facilities could suffer financially. This is opposite to the analogy that 'a high tide floats all boats.'
2. Project cost overruns and unforeseen development issues could cause a shortfall in capital construction funding. Financial shortfalls during construction are not contemplated in the proposal. It can be expected that the project partners would ask the County to revive the project in the event of a financial shortfall.
3. The PRSD may not be able to absorb their 50% portion of the projected annual operating losses.
4. Interest in the Hockey Academy program may not be sustained over future years.
5. The project could have a negative environmental impact to the area. The school site has limited space to manage environmental considerations.



## **10. Recommendations**

### **10.1 Public Consultation**

That Cypress County Council include a public consultation component to inform and receive feedback from the public prior to reaching a final decision on the Dunmore Training Facility project.

### **10.2 Regional Recreation Planning**

That Cypress County participate in a broad regional planning discussion with municipal partners to ensure that new recreation facilities are strategically placed and funded.

### **10.3 Legal Advice for Loan**

That Cypress County confirm whether the requested loan for the project would be permitted in accordance with legislative requirements in the MGA s. 264(2).

### **10.4 Legal Advice for Corporate Structure**

That Cypress County seek legal advice on ownership options for the facility, and to determine a suitable corporate structure to govern and operate the facility.

### **10.5 Environmental Review**

That Cypress County seek engineering advice to specifically measure the environmental impact of the project and to provide recommended options to mitigate any negative environmental impact to the area.

## **11. Summary**

The proposal to construct a Dunmore Training Facility was spurred by tremendous optimism to accomplish a significant community project. Goodwill among officials shone through and the proposal described mutual wins for the Prairie Rose School Division and Cypress County with strategic goals accomplished through the project.

Financial hurdles from the project can be managed since Cypress County is in a strong financial position with a significant financial surplus. Approximately \$10 million would be needed from the County to leverage the initial capital investment for the Dunmore facility as well as an annual contribution estimated between \$41,500 and \$87,775 to subsidize operations.

From a purely financial perspective, Cypress County appears to have the resources and authority to participate in the project. Without the County's involvement as a financial partner, the project would be highly unlikely to proceed in the foreseeable future.

From a demographic perspective, the County and regional data does not signal the need to invest in a new arena facility in Dunmore. In a sense, the project came before Council 'out of the blue' since it was not considered in prior planning. It is possible that the Dunmore facility could fit well into a regional recreation plan, but this Intermunicipal Collaboration discussion among municipal partners has not occurred yet.

The Irvine Sports Complex is close in proximity to Dunmore and is expected to bear the brunt of lost ice rental revenue since arena users would have greater selection. If users are travelling from Medicine Hat, Dunmore is closer than Irvine. Irvine operations have remained attractive due to low ice rental rates. Increased tax subsidies are expected for the Irvine facility if the Dunmore facility project proceeds, unless a refreshed business strategy could generate additional revenue to maximize the asset use.

Environmental limitations are present in the Hamlet of Dunmore for sewer, water and stormwater management. Despite being identified as a growth-focused area in the County, Dunmore is not growth-ready from an urban servicing perspective. The challenge to accommodate the arena development with the existing level of services shows how environmental service challenges can hinder the competitive edge for a community.

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The next steps for Cypress County officials should include some time to reflect on the findings of this business case study and consider the pros and cons identified for the proposed project. The recommendations can help guide Council towards solid decision-making by considering regional recreation planning, public consultation, legal advice and engineering advice.

Cypress County Council has the authority and primacy to provide vision and direction for the municipality and its resources. Council should not feel pressured to rush into a decision on this major project. While the Prairie Rose School Division waits for Council's decision the hockey academy can continue to function despite a bus ride to an arena facility, and the educational needs for Eagle Butte High School students are being met at an apparently high level. At a minimum, the findings in this study require a cause for pause. The region can maintain business as usual until Council is comfortable making a decision on this project.

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*SAGE Analytics Inc. relied on information provided by the stakeholders in order to prepare this business case study. The findings of this report are intended for the exclusive use of Cypress County officials. SAGE Analytics Inc. takes no responsibility for any third party use of the information contained in this business case study.*

*\*Photos provided in this report were taken by SAGE Analytics Inc. personnel, unless otherwise stated.*

*\*Cover photo: Irvine Arena*

## 12. Appendix – Supplemental Analysis

Cypress County officials requested additional analysis to supplement the foregoing March 15, 2019 Dunmore Facility Business Case Study, specifically to:

**“address whether the County can afford to provide its 50% contribution of \$5,381,057 towards the project, as well as the on-going operational costs once the training facility is built and running.”**

SAGE conducted additional project analysis on the initial proposal costs presented by the Prairie Rose School Division (PRSD) and provided this to the County on May 16, 2019.

In response to the County's request, SAGE has calculated a one-year example of the **Operating** and **Capital** budget impact to the County, using the values provided in the initial proposal submitted to the County by PRSD in September 2018. These values are listed in detail in the [Operating Costs on page 11](#) and the [Investment Scenario #1 on page 14](#) of this report. A key aspect in the PRSD proposal is a 50-50 cost sharing in the project for both operating and capital components.

### Operating Budget Impact

The PRSD proposal contemplates an \$83,000 annual operating loss and states that *“Deficits in Annual Operating Expenses be shared equally between Cypress County and PRSD.”* This equates to a **\$41,500 annual cost** to Cypress County. Using Cypress County's 2019 [budget figures](#), the operating impact to the County is shown below:

<b>\$40,074,152</b>	<b>2019 Operating Budget Expenses</b>
<b>\$ 41,500</b>	<b>Dunmore Facility Operating Deficit</b>
<b>\$40,115,652</b>	<b>Total</b>
<b>0.10356%</b>	<b>Budget Change</b>

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The operating budget impact is minimal for these costs alone, projecting a **0.1% increase** to the total annual operating budget. In proportion to the County's total operating budget of over \$40,074,152, the \$41,500 annual increase appears to be a small cost. Cypress County has the resources to easily sustain this additional annual expense, funded through taxation if this was the only annual cost to the County related to the Dunmore Facility project.

### Capital Budget Impact

The PRSD proposal contemplates an equal, 50-50 cost sharing of the **\$10,762,114** estimated capital construction costs for the project. This equates to a **\$5,381,057** contribution from Cypress County. The 2019 capital [budget](#) for Cypress County totaling \$12,264,581 is shown below:

#### PROPOSALS - Summary

	EXPENDITURE Cost	Operating	FUNDING Grants	Reserve
Administration	\$427,225	-		\$427,225
Fire Services	\$90,000	-		\$90,000
Facilities	\$730,000	-	730,000	\$0
Land	\$0			\$0
Equipment & Vehicles	\$1,445,000	-		\$1,445,000
Roads and Bridges	\$8,506,356	-	\$8,506,356	\$0
Utilities	\$1,066,000	-	\$500,000	\$566,000
Recreation		-	-	\$0
<b>TOTAL</b>	<b>\$12,264,581</b>		<b>\$9,736,356</b>	<b>\$2,528,225</b>

Adding the County's 50% portion of the proposed Dunmore Facility costs would impact the 2019 capital budget by a **43.87%** increase to \$17,645,638, as summarized below:

<b>\$ 12,264,581</b>	<b>2019 Capital Budget Expenses</b>
<b>\$ 5,381,057</b>	<b>Dunmore Facility Capital Contribution</b>
<b>\$ 17,645,638</b>	<b>Total</b>
<b>43.87%</b>	<b>Budget Change</b>

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Cypress County would be able to fund this capital contribution from current investments. The 2018 annual [financial statement](#) shows that the County has \$85,942,593 in net financial assets, including investments and liabilities.

Cypress County would see a **-6.26% decrease** in net financial assets, summarized below, if a \$5,381,057 contribution were provided to the PRSD for the Dunmore Facility project.

<b>\$85,942,593</b>	<b>2018 Net Financial Assets</b>
<b>-\$ 5,381,057</b>	<b>Dunmore Facility Capital Contribution</b>
<b>\$80,561,536</b>	<b>Total</b>
<b>-6.26%</b>	<b>Percentage Change</b>

The above table shows that Cypress County has the financial capacity to provide a \$5,381,057 capital contribution to the PRSD for the Dunmore Facility project.

The County's contribution of \$5,381,057 for the capital component of the project would also impact the County's annual operating revenue with a decrease in annual interest earned on funds that are currently invested and projected to earn over \$169,500 in annual interest revenue.

\*The analysis in this appendix is provided specifically to demonstrate the budget impact to the County based on the original proposal estimates provided to the County from PRSD. The figures in this supplemental analysis do not contemplate any servicing consideration costs, other cost scenarios, the potential impact on the Irvine Arena, or any potential cost overruns that were identified in the detailed analysis provided in the body of this report.