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Halifax Port Authority and the Seaport Farmers' Market

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The scent of the ocean breeze reached Karen Oldfield, president and chief executive officer of Halifax Port Authority (HPA), as she stepped out of her car on a sunny April morning in 2012. Walking toward the restored brown-brick building on the waterfront that housed her office, her gaze was drawn towards the modern steel and glass structure to the right of the HPA. It was home to the financially troubled Halifax Seaport Farmers' Market (HSFM), whose disposition was the subject of urgent discussion among HPA's senior management in recent days. Oldfield and her top managers were scheduled to discuss the matter further that morning and make a decision within several days.

HSFM was operated by the City Market of Halifax Cooperative (CMHC), which leased the property from HPA. CMHC was a cooperative of market vendors that included some, but not all, of HSFM's vendors. The $14.3 million state-of-the-art market had opened in 2010 to positive media reviews. However, revenues failed to support its operating expenses, construction costs, and debt. By April 2012, $732,000 in current obligations—including rent, property taxes, construction bills, and debt repayment—was past due.

On the recommendation of HPA, CMHC had retained the New York–based consulting firm Project for Public Spaces, Inc. (PPS) in January 2012 to provide it with a turnaround plan. HPA paid for the consultation on the condition that it would receive a copy of the PPS report. The report, which Oldfield and her management team had been reviewing in recent days, covered a wide range of issues around, and recommendations for, the market's governance, management, and operations.

It was clear from the report that without intervention HSFM would fail soon. As Oldfield entered the HPA building the question in her mind was what HPA could and should do about it. Should HPA allow the market to fail and put the property up for lease? Should HPA continue to provide financial and management support to CMHC? Should it endeavor to find, perhaps even help establish, another organization to operate the market? Or should it commit to operating the market itself, even though HPA did not normally operate port facilities?

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Halifax and Port of Halifax

Halifax was located in the Province of Nova Scotia, Canada, which fronted on the Atlantic Ocean. With a population of 450,000 in 2012, it was the eighth largest city in Canada and the largest east of the Province of Quebec. Home to seven degree-granting universities and eight major hospitals, Halifax was the second largest scientific center in the country behind Ottawa, the nation's capital. Built on hills and plateaus surrounding the Halifax Harbour, the city's urban core provided easy access to destinations ranging from historic rock formations and isolated walking trails to sandy beaches and numerous freshwater lakes. The city's active oceanfront downtown area, varied topography, rich history, and proximity to other eastern Canadian provinces made it a popular tourist destination.

The Port of Halifax had one of the largest and deepest natural harbors in the world. Minimal currents and tides and the absence of ice made the harbor accessible year round. The port enabled the shortest ocean voyage into North America for ships operating in the North Atlantic.[1] Small by international standards, the port's natural endowments were complemented by state-of-the-art facilities that serviced the cargo and cruise trades. It accommodated the world's largest vessels, had over one million sq. ft. of loading and unloading, distribution, and warehouse space, serviced every type of cargo, provided direct-to-rail cargo services for connections to 43 percent of the North American population, and had a full complement of the services required by the cruise trade. The port serviced 1,500 vessels in 2012 including the world's leading shipping lines that connected trade to 150 countries, and was the hub for imports destined to Midwest and Central Canada.[2]

Table 1 shows 5-year statistics for containerized cargo (expressed in twenty-foot container equivalent units or TEUs) and cruise ship passengers serviced by the port. Although yearly numbers were influenced by the facilities, services, and pricing at the port, they were also subject to macro-environmental events such as the global financial crisis of 2008, and by developments at competing ports.

Table 1: 5-year Summary of Cargo Volumes and Cruise Passengers at the Port of Halifax[3]

Year	Cruise Passengers (# of Ships)	Containerized Cargo (TEUs)
2007	176,742 (92)	490,072
2008	228,133 (125)	387,342
2009	227,797 (118)	344,811
2010	261,216 (127)	435,461
2011	243,577 (122)	410,649

The proximate competitors of the Port of Halifax were other ports along the eastern seaboard that were equally near Chicago, a major U.S. commercial transportation hub. These included the ports at New York/New Jersey (5,503,000 TEUs in 2011), Norfolk, Virginia (1,918,000 TEUs), and Montreal (1,363,000 TEUs).[4] Like the Port of Halifax, these ports had appealing features, services, and facilities that benefited from regular streams of investment.

The economic impact of the Port of Halifax was significant. Direct and spin-off benefits of port-related activities in 2012 were estimated at more than $1.5 billion in gross output and $650 million in gross domestic product. The port created approximately 11,000 direct and indirect full-time equivalent jobs. Port investment from 2007 to 2011 exceeded $250 million by the private sector and an additional $147 million by HPA.[5]

Halifax Port Authority

HPA led the development of the Port of Halifax. HPA succeeded the Halifax Port Corporation in 1999 as one of the first of eighteen Canada Port Authorities (CPAs) established under the Canada Marine Act of 1998. CPA-designated ports were considered vital to domestic and international trade. On creation they were provided federal port territories and the mandate to promote trade with the assets.[6]

CPAs were classified as "Government Business Enterprises."[7] They reported to the minister of transport and were governed by boards of directors appointed by government. They were required to pursue the CPA mandate, communicate business plans to the minister of transport every five years, and remit a portion of gross revenues to the federal government. They were restricted from converting inherited federal land into residential property and using the land for collateral in borrowing. Beyond those restrictions, CPAs operated independently of the government and for all intents and purposes were for-profit organizations, albeit with a social mandate.[8]

HPA's specific mandate was to "develop, market, and manage its assets in order to foster and promote trade and transportation."[9] The organization exercised management authority over Halifax Harbour and 258 acres of adjacent federal property that hosted both HPA and privately owned port terminals and other facilities. HPA normally rented its facilities to facility operators. An exception was the Cruise Pavilion that HPA itself operated, leasing as many as twenty-five kiosks to retailers during cruise season starting in 2006. Previous to that, the Cruise Pavilion was run by a private operator.

In 2011, HPA had operating revenues of $29.6 million and net earnings of $6.5 million. Revenues came from harbor dues, vessel anchoring charges, charges for loading and unloading cargo, cruise passenger fees, and real estate leases. Cargo, cruise, and real estate income contributed 35 percent, 12 percent, and 53 percent, respectively, to revenues. Approximately 4 percent of gross revenues was remitted to the federal government. Earnings were reinvested in the port. With steady growth over a decade, HPA had 2011 assets of $179 million. **Exhibit 1** shows selected financial data for HPA.

HPA in 2012 was markedly different from the organization Oldfield had joined more than a decade earlier. She reflected:

> When I joined HPA, there were 62 employees and the organization generated approximately $15 million in gross revenue. Today, there are 70 employees [and] we have just completed a record year for revenue, capital expenditures, cruise vessels calling on the port, breakbulk cargo and year-over-year growth in containerized cargo in a year in which most ports on the East Coast of North America suffered negative growth. We were the first CPA to achieve a [Standard & Poor's] credit rating, the first port to achieve IS0 14000 certification and we have won several third-party awards for innovation, technology, and service.

Strategy

Karen Oldfield became HPA's president and CEO in January 2002. She had been chief of staff for the premier of Nova Scotia since 1999. In that role she focused on the government's economic agenda in trade, energy, and information technology. Prior to that, she had been a partner at a law firm. In 2001, Oldfield was named one of Canada's "Top 40 under 40" by *Report on Business* magazine. During her tenure at HPA, she was recognized as one of Atlantic Canada's "Top 50 CEOs" by *Atlantic Business* magazine, sat on the boards of several not-for-profit institutions, and received several community awards for volunteer work.

Oldfield's mandate in joining HPA had been clear:

> I joined the HPA . . . following 9/11 with a mandate of change, diversify the business model, focus on financial self-sufficiency, [and] create an entrepreneurial organization. . . . At the time of my joining, the HPA was [virtually] without partners in the port community, the City of Halifax, or the Province. Thus, a secondary but important aspect of my mandate was to align the stakeholders and return HPA to a collaborator [that] could spur economic activity across the region.

One of Oldfield's priorities was to establish HPA's strategy. After consulting other leaders in the region who had been successful in bringing about change, she embarked on an extensive process that involved HPA's board members, employees, customers, and other stakeholders in research and discussion on "what we did, what we should do and, as importantly, what we shouldn't do." The process led to HPA's first written strategic plan. "It wasn't perfect," said Oldfield, "but it was a good start."

The strategic plan had four components. First, it identified HPA's lines of business as containerized cargo, breakbulk and project cargo, cruise, and real estate. Second, it affirmed the importance of maintaining the port's full service status. Third, it set out strategic objectives that in 2012 still applied: growing Port of Halifax business by diversifying HPA's lines of business, maximizing revenues from real estate, and integrating the supply chain. Fourth, it called for the development of collaborative performance measurement systems. This, Oldfield explained, recognized that

> . . . on our very best day, all cylinders firing, HPA is a facilitator, collaborator, partner, and influencer. We cannot do very much alone [so] we worked with port partners—terminal operators, carriers, and the rail service provider—to set and measure key performance indicators (KPI's) across the port: cargo unloading and loading times, container ship to rail dwell times, many others. . . . Over a period of years, this methodology enabled all partners to market their services with performance data. Our ability to come to agreement on metrics, to integrate technology systems across carriers, terminal operators, and the rail service provider, [and] monitor performance in real time is unique [and] a service differentiator in the port system.

Over the years, the KPI approach had required investing in technology and developing capabilities that became useful in researching and undertaking deep analysis of HPA's potential cargo-handling markets around the world. This capability, Oldfield noted, allowed HPA to "know exactly where in the world we are competitive [and] where we are not" and to allocate travel dollars and staffing resources accordingly.

These four elements were the foundation of HPA's twenty-year strategic plan. A five-year rolling business plan was submitted to the minister of transport annually. A one-year plan that flowed from the five-year plan identified particular priorities for the year. In 2012, one of the priorities was to capitalize on the "Atlantic Gateway and

Trade Corridor Strategy" recently launched by the Government of Canada to integrate the region's air, rail, marine, and road transportation network. The Government had allocated $200 million to support the region's trade-related transportation system[10] and HPA wanted to ensure it would be shared with the Port of Halifax for cargo terminal expansions and improvements. HPA's Statement of Values in 2012 included long-term relationships, excellence, accountability, teamwork, and entrepreneurship spirit.

Organization

Internally, Oldfield took steps to develop an organization that would effectively implement HPA's strategy on a sustained basis. When Oldfield arrived, the organization was structured traditionally with functional areas (marketing, operations, finance, engineering, etc.) reporting directly to the top. Finding the structure not focused enough on the organization's lines of business, Oldfield began to reorganize in 2004.

Exhibit 2 shows a partial organizational chart of HPA in 2012. The president and CEO had seven direct reports including the senior vice-president responsible for finance, engineering and infrastructure, and maintenance and property services; the vice-president for business development and operations in cargo and cruise; the vice-president for real estate; the director of human resources; the director of information services and technology; and the senior manager for strategic relations, whose role was to develop and maintain relationships with transport partners.

Oldfield noted three things about the current structure. First, compared to the old structure, it brought greater focus to the organization's cargo, cruise, and real estate lines of business. Having vice-presidents manage these lines of business ensured that line-of-business needs, rather than technical needs, would be the driver of organizational work. Second, convinced that human resources and information technology would be critical to implementing HPA's strategy, Oldfield chose to have the director of human resources and the director of information services and technology report to her directly. Third, though not reflected on the organization chart, the new structure entailed extensive team work within and across departments to ensure that the many interdependencies the strategy required were attended to.

The nature of the port business called for a high degree of specialization in many technical areas. Thus, technical knowledge and skills had historically formed the basis of HPA's staffing, training and development, and performance management practices. Oldfield did not dismiss that basis. Instead, she built on it by giving it strategic direction and strengthening the rigor of HPA's HR processes. She handpicked her senior management team not only for their technical expertise and experience but also for their willingness and ability to work well in a team setting. Reflecting on staffing, Oldfield said:

> . . . Hiring [used to be] based on identifying employees with the requisite qualifications and little regard for "fit." Today, hiring is conducted on the basis of qualifications AND qualities. . . . Competency is "table stakes" [gets the person considered]. [Fit] is very important given that we have a small organization with a high degree of interdependence between departments. . . . We are looking for individuals who are collaborative, outward looking, flexible, entrepreneurial and who are able to "check their egos at the door." We . . . hire slowly. Applicants are required to undergo various testing for skills, values, and fit. . . . Every serious candidate across the board meet[s] with [me].

Oldfield considered lifelong learning and personal and professional development important to HPA's long-term success and HPA's training and development program reflected that belief. HPA required all employees to take an internally produced curriculum on the port business, paid for courses employees needed for job certification, and, in 2012, worked with Dalhousie University to deliver a tailored leadership program for its mid-level managers.

Performance management at HPA was a structured process. Oldfield explained:

> The CEO sets the corporate goals and objectives for the year in consultation with the senior management team and board. . . . The department heads set departmental goals and budgets. The employee prepares a performance agreement setting out individual goals—personal, professional development, stretch goals, and so forth. Agreements are signed by the employee and superior. The CEO signs off on the department heads and the board signs off on the CEO.

The senior management team met quarterly to review organization and department-level progress against goals, and to take corrective measures if there were issues. The results of the meetings were communicated to employees. Supervisors and subordinates met to discuss individual-level performance based on the performance agreement. For all managers, the system included 360-degree performance reviews.

HPA comprised approximately one-third unionized laborers, one-third unionized technical employees, and one-third non-unionized management employees. The unionized employees were subject to collective agreements that restricted HPA's ability to provide them with pay for performance incentives. Managers received bonuses provided corporate, departmental, and individual stretch goals were all achieved.

Employee survey results in 2011[11] showed an overall employee satisfaction rating of 84.9 percent (extremely satisfied 30.2 percent; somewhat satisfied 54.7 percent). Of the 54 respondents, 92.2 percent enjoyed at least 70 percent of their jobs, 86.5 percent were satisfied with the relationship they had with their immediate supervisor, and 97.9 percent would recommend HPA as a good place to work.

Halifax Seaport Farmers' Market

Founded in 1750, HSFM was the oldest continuously running farmers' market in North America. The market officially moved in 2010 from a brewery building nearby to a newly constructed facility at HPA-administered Pier 20. At that point, the market was renamed from *Brewery Farmers Market* to *Halifax Seaport Farmers' Market*.

HSFM's establishment was part of HPA's Seaport Redevelopment Plan formulated to support the port's cruise trade. The plan focused on making the Port of Halifax more than just an industrial area that moved cargo and from which cruise ship passengers disembarked and then departed to tourist sites elsewhere. "It is well known that tourists go where the local people go," said Paul MacIsaac, HPA's senior vice-president. Based on that, the plan was to make the area a vibrant arts and cultural district that was visited by the local community and provided tourists with an interesting place to sample the local flavor. By 2012, the area was home to an arts and crafts pavilion, a university for arts and design, a museum of immigration, a multipurpose event center, a film and media center, the cruise pavilion, and HSFM.

HPA considered having a market that attracted local residents by the tens of thousands every month important enough to actively support CMHC's start-up efforts. MacIsaac reflected:

> We were with CMHC arm in arm in dealing with the Atlantic Canada Opportunities Agency (a government agency that financed business start-ups), in dealing with the provincial government, and in dealing with others. We were instrumental in putting together the financing package to get them started. We wanted a market there.

HSFM opened to positive media attention. The facility was located on the waterfront adjacent to the city's cruise ship terminal and arts and culture district on one side, and the Halifax Harbourwalk that led to other downtown areas on the other. The three-story structure had 45,000 square feet of ecologically friendly space with ample daylight and natural ventilation. The facility operated partially on solar and wind micro-turbine power, had a centrally located vertical garden aptly called the 'living wall', and featured a 7,500-square-foot green roof with seating overlooking Halifax Harbour. **Exhibit 3** shows exterior and interior views of HSFM.

By 2012 HSFM hosted 380 vendors and attracted an estimated 10,000 shoppers on Saturdays. It was open six days a week and every day that cruise ships visited Halifax. HSFM's most important competitor was the Historic Market, located less than a kilometer away. The Historic Market had a similar merchandise mix to HSFM but was smaller and open only on Saturdays. Several grocery stores were located nearby, including one just a five-minute walk away. Tourist shops in nearby Pier 22 and in accessible downtown areas provided alternative sources of artisan products.

The market was constructed at a cost of $14.3 million. More than 500 local investors provided $1.7 million as seed financing for the building. That private investment was instrumental in raising additional funds that allowed construction to proceed. A secured loan of $6 million was obtained from Farm Credit Canada (FCC). FCC was a government corporation whose mandate was to provide financial services to farming operations and closely related enterprises.[12] The FCC loan was repayable in five years at a variable rate starting at 4.9 percent. The Province of Nova Scotia, the Atlantic Canada Opportunities Agency (a government agency that funded business start-ups), and the City of Halifax provided $2.5 million, $2 million, and $1 million, respectively, in grant money. Finally, HPA provided the market operator a leasehold allowance of $1.1 million and a secured operating line of credit of $2 million.

CMHC operated the market. It was a cooperative of market vendors that included some of HSFM's vendors. A board of directors was elected from among CMHC members to govern market operations. The organization employed a market manager and three staff for day-to-day market activities with oversight from the board.

HSFM had several types of tenants. The first and most important type was market vendors that included farmers, artisans, and the prepared-food tenants. "Storefront" vendors leased exterior-facing stores that sold meat, fish, dairy and other products, while others selling mostly prepared food leased interior-facing space. Storefront and interior-facing vendors were expected to be open six days a week regardless of activity in the market. The market interior was leased to some vendors that had permanent displays, and numerous "day hall vendors" that essentially rented available table space from $30 a day depending on size. Interior and day hall vendors tended to be open only on busy market days. A PPS survey[13] indicated that 15 percent, 93 percent, and 47 percent of vendors were open Fridays, Saturdays, and Sundays, respectively. A second HFSM tenant type was special event organizers that rented the mezzanine floor or the balcony-style rooftop area on the third level for weddings and other gatherings when the market was closed. A third type was the office tenant who would rent third-level space adjacent to the rooftop balcony. As of April 2012, the space had not been rented.

The market's main customers were local retail shoppers and cruise ship passengers. PPS reported that 16 percent, 93 percent, and 39 percent of all shoppers normally visited HSFM on Fridays, Saturdays, and Sundays, respectively. Less than 10 percent of retail customers visited the facility on weekdays, with many doing so for coffee or lunch. Several vendors had wholesale customers on a small scale, in addition to retail customers. Cruise ship passengers had a less than 10 percent impact on vendor sales on any given day.

The market benefited Nova Scotia in multiple ways. It generated an estimated $25 million per year for the vendors. It provided urban residents seeking farm-fresh and other local products a one-stop shopping place and rural Nova Scotia producers a reliable outlet to support their livelihoods. It anchored the Halifax downtown waterfront area and complemented the city's cruise trade. Finally, it provided a sense of community, a large local gathering place that according to PPS's survey of HSFM visitors attracted two-thirds of its customers in part for the social experience. Expressing a common sentiment, a surveyed customer said:

> . . . [the market] strengthens the fabric of the community by providing a public gathering space and by directly connecting the public to the local producers of their food. I love the magical feeling I experience every time I arrive at the doors. It is one of the most positive places in our area. The positive energy surrounds me . . . I love the market.

Performance and Issues

Within a year and a half of opening, HSFM was clearly in financial trouble. Although 2011 revenues of $1,169,365 generated a net operating income (NOI) of $372,901 after expenses, NOI was calculated before debt service and payment of payable expenses that were increasingly past due. By April 13, 2012, payables past due totaled $732,456. The amount included unpaid rent to HPA of $57,500, taxes owing to HRM of $182,161, construction bills over $200,000 that the creditor was threatening legal action for, and debt service and other payables. By that point, CMHC had no room remaining on its HPA operating line of credit.

CMHC Chairman Chris de Waal admitted that the organization was finding it difficult to address its financial situation and was considering liquidating assets and "[working] toward the eventual goal of dissolving the cooperative entirely [without] causing an upset in operations in the market. . . . That's the last thing we want to do."[14]

Several factors contributed to the market's poor performance. First was the heavy debt load, which in April, 2012 included $4.8 million still owing to FCC on the original $6 million loan, plus the $2 million that had accumulated in the HPA line of credit. It was clear that for the size of its revenues, the market could not service its debt. Noted de Waal:

> . . . unfortunately, it's simply a numbers game. The debt incurred from the construction of this building was incredibly high. Being able to service that debt while continuing to remain operational [is] just very, very difficult.[15]

The market's debt status was an anomaly among public markets. According to PPS,

> . . . most markets open up debt-free and operate self-sustainably. This is true across Canada at Vancouver's Granville Island Public Market, Winnipeg's Forks Market,

> Ottawa's ByWard Market, Toronto's St. Lawrence Market and even Kitchener's new $24 million market.

Second, the market had governance issues. The board of directors comprised mostly CMHC vendor members. According to Krista Dempsey, vice-president of real estate, the board as a group did not have the range of knowledge and skills normally needed to address the strategic, marketing, operational, and financial issues that governing a sizeable market facility entailed. Moreover, the vendor board members had their own businesses to manage, leaving them with very limited time for board duties. The lack of time and the range of needed skills combined for poor record-keeping practices. Financial record-keeping for HSFM was so poor and generally accepted accounting principles were so regularly violated that the organization's auditor was unable to certify its financial statements. Documentation on how decisions came about was scanty and led to questions about conflicts of interest on a variety of issues, including lease rates and the assignment of vendor locations within the facility.

Dempsey reflected:

> What I think happened was that you had a board with members who are also owners, who are shareholders, and who are running a real estate business. They deserve a platinum star for having raised funds to build the building and live their dream. But raising money, building a building, and running the building with tenants are different things. It's not a Saturday market where you walk in and set up for the day and you go home. A lot of board members are vendors. They travel [sometimes] three, three and a half hours to get to the market and still have to go home and work on their properties, perhaps to water the field or collect the eggs. Now they have this infrastructure they are responsible for, light bills and marketing and all the other things that come with running retail tenants. They did the best they could with the best resources they had.

A third contributor to the market's poor performance was poor marketing, operations, and strategic management. The issues were rooted in lack of stability and resources. On marketing, PPS noted:

> The market had three [different] managers in a little over a year, none of whom had related professional experience. While [the current] staff are incredibly dedicated and hard-working . . . previous market managers [have had to operate] with nearly non-existent funds for marketing, promotion, advertising, and other key items that are necessary to successfully open and manage a new market.

Operationally, the lack of funds was taking a toll on standards. According to PPS, maintenance and janitorial services were so stretched that although "vendors and customers were generally happy with cleanliness, washrooms are frequently criticized and there is a growing rodent problem in the market."

The financial pressure was compromising the strategic identity of the market. Julie Chaisson, an internal HPA consultant, observed:

> The original vision got watered down as to who or what the farmers' market was. If you have somebody standing there with money in their hand who wants to rent a table, you see the money and you make the decision to take the money. You think "It may not be the right vendor but I need the money." So decisions like that were made where you get whoever can pay rent because you need to generate more cash to pay this debt.

A disturbing trend in the composition of vendor types at the market followed. According to Dempsey, the ideal proportion of farmers, prepared food vendors, and artisans for HSFM was 40 percent, 30 percent, and 30 percent, respectively. However, of the 380 vendors at the market in April 2012, only 16 percent were farmers, 32 percent were prepared food vendors, and 52 percent were artisans. Although information on vendor proportions prior to 2012 was not available, some farmers were known to have moved their businesses from HSFM to the Historic Market since HSFM opened. This trend was a concern. Chaisson noted: "You can take the artisan out of a farmers' market and the market will be fine. But if you take the farmer out of the farmers' market the market will die."

Fourth, the market was not active enough throughout the week to produce the income that CMHC had anticipated. Internal HPA estimates broke down Saturday, Sunday, and Monday–Friday revenues as 70 percent, 20 percent, and 10 percent of total, respectively. About fifteen stores were supposed to be open through the week. However, they were spread out across the facility and sometimes not open when they were supposed to be, doing little to negate the impression of an empty market on weekdays.

PPS survey results indicated there was customer interest in the market being open all seven days, with potential demand heaviest on Fridays, Saturdays, and Sundays when 73 percent, 98 percent, and 90 percent, respectively, of survey respondents wanted the market to be open. The vendor survey yielded about the same results as the customer survey in terms of wanting to see the market open all three days. However, only 30 percent and 60 percent of the vendors indicated a willingness to be open themselves on Fridays and Sundays, respectively.

Exacerbating the performance situation was that design and construction flaws were still being discovered that needed to be addressed. According to PPS, the deficiencies were fueling disputes among CMHC, the architect, and the contractor over fees and construction problems. The deficiencies varied. As an example, the wooden floor on the mezzanine level needed to be redone because it leaked liquid matter down to the main floor below. The market's living wall was not getting enough light or water and so looked unhealthy, and had a rodent problem.[16] Electrical outlets were not available in the middle of the facility, so some vendors stationed there would tape wiring to the floor to reach outlets on the wall that more than occasionally caused walkers to stumble or trip. The centrally located "grand staircase" connecting the first and mezzanine floors bottlenecked traffic around already narrow aisles and a winding layout.

A study of the market's design and building deficiencies led PPS to conclude that the building was not complete, and to subsequently create a list of "critical" and "next priority" capital requirement upgrades and repairs. Critical items included attending to deficiencies in, among other items, electrical capacity and outlets, electrical and gas metering systems, the availability of hot water during busy days, cold and dry storage areas, sanitation, air handling and exhaust, and security. Next priority items included, among others, attending to deficiencies in external signage, landscaping, ambient lighting, flooring, and the locations of the main entrance, the stairs between the main and mezzanine floors, and the green wall. HPA estimated it would cost $2.7 million over two to three years to complete the upgrades and repairs.

The list was part of a repositioning plan by PPS for the market. The plan called for a change of governance to eliminate conflicts of interest, a "severe restructuring" of debt, hiring an executive director and additional staff, focused marketing with more promotional activity, a merchandise mix with more fresh produce, an improved market layout, a parking validation program, a significant increase in janitorial, maintenance, and security budgets, leasing third-level office space, and greater attention to the special events and cruise ship markets. **Exhibit 4** shows an item-by-item impact of the recommended changes on HSFM's income and expenses. **Table 2** shows 2011 summary financial data for HSFM and PPS's projections assuming change implementation.

Table 2: HSFM 2011 Financial Data and Projections with Implementation of PPS Recommendations

(In CAD)

	2011	2013*	2014	2015	2016
Income	1,169,365	1,373,400	1,438,852	1,482,018	1,526,478
Expenses	556,803	1,067,180	1,077,852	1,088,630	1,099,516
Sub-Total	612,562	306,220	361,000	393,388	426,962
Rent to HPA	57,500	57,500	57,500	57,500	57,500
Taxes to HRM**	182,161	182,161	182,161	182,161	182,161
NOI***	372,901	66,559	121,339	153,727	187,301

*Assumes the remainder of 2012 is used to implement PPS-recommended income and expense item changes. See Exhibit 4 for the affected items.

**May increase each year based on property assessment

***Before debt service and payment of all payable expense

Decision Considerations

Oldfield took the stairs briskly to her second-floor office, exchanged brief pleasantries with her assistant, and set her briefcase down. Leaning on the edge of her desk, she checked and replied to messages on her smart phone. With twenty minutes to go before the meeting with her management team, Oldfield stepped onto the balcony of her corner office. She barely noticed the beauty of the unimpeded, sun-bathed view of the harbor as she put her elbows on the balcony railing and thought through HPA's decision options for dealing with the HSFM situation.

The first option was to allow CMHC to fail and put the property up for lease. "Going dark," as Dempsey and others in the real estate business called it, was always an option. Tenants were ultimately responsible for their predicaments and if they were unable to pay rent, the landlord had the right to evict them. It would mean giving CMHC notice to wind down operations, and marketing the facility for a new occupant (or occupants). This option would likely be accompanied by months of litigation between CMHC and its investors and creditors. Oldfield thought that HPA would probably be dragged into the fight and the negative publicity that would surround it. The asset could sit idle for months waiting on a new occupant and such a prominent vacancy would be detrimental to the image of the Halifax Seaport.

A second option was to continue to support CMHC. This could entail raising CMHC's line of credit and relaxing repayment terms, which would give CMHC time to secure funding for the critical capital requirement projects PPS identified while continuing operations. Although this benevolent option could be viewed as being in the spirit of HPA's supportive port management approach, Oldfield felt that it would not work. First, it would not help with CMHC's debt to Farm Credit Canada that was perilously close to being in default. Second, CMHC had significant non-financial issues. One of them was the conflict of interest inherent to the market's governance structure that allowed being a market vendor and CMHC board member at the same time. Another lay in the difficulty discharging both roles competently—it was one thing to be running a stall at HSFM, but quite another to be running the infrastructure required to support 380 vendors and more than 10,000 shoppers every week.

The third option Oldfield and her team were considering was finding a new organization to take over the market. This option entailed sending out a request for proposal (RFP) from interested parties. PPS recommended the establishment of a not-for-profit organization called *Halifax Seaport Farmers' Market Partnership* with board representation from multiple market stakeholders that could bid on the RFP. This option would take a minimum of six months to come to fruition and, in Oldfield's view, ideally a year, with rigorous due diligence on bidder business plans and capabilities. Oldfield might have found this option attractive were it not for the fact that the new entity would be taking over CMHC's debt balance to Farm Credit Canada, the line of credit balance owing to HPA, capital requirement projects over two to three years, and a near doubling of expenses to meet the market's infrastructure needs. MacIsaac elaborated:

> There are building deficiencies, operating deficiencies, unhappy vendors, lots of work to do, so if we said, "let's go find an operator" I'm not sure we have something that people would really want to operate.

The final option was for HPA to commit to being the market's operator, at least for a time. Doing so would minimize the potentially ugly litigation that would accompany allowing CMHC to fail. Being at arm's length from the market's vendors, HPA would avoid the conflict of interest issue that plagued CMHC's governance of the market. While HPA had never operated a market, it had management expertise that included years of operating the Cruise Pavilion for kiosk vendors. HPA was on sound financial footing and was likely in a better position than any other entity to absorb CMHC's debt and the capital outlays the market required. This option did not preclude turning over the market to a different operator in the future. Said MacIsaac:

> Longer term? We're not sure we'd run it longer term. Years down the road when we've finished renovations, when we've operated successfully for a year and a half . . . that may be a point in time when we can spin it out to a community-based group because it is really supposed to be a community asset.

There was apprehension among the market's stakeholders about HPA taking over the market. Vendors worried about the possibility of rents going up and that HPA would add cumbersome rules and procedures to their already busy schedules. Market customers worried that HPA would convert part of the facility to office space and scale back the market. Port terminal operators and even cargo customers were concerned that the market would distract HPA from its core port business. PPS was concerned from the other direction, noting that in light of HPA's mission to foster and promote trade and transportation, "there would always be a question of whether the port's priorities were being served more favorably than the market's."

Despite the urgency of the situation, Oldfield knew that committing HPA to operating the market had to be considered carefully. Would being HSFM's operator be consistent with HPA's mandate? Did HPA have a social obligation to be so involved and potentially heavily invested in a market? Did HPA have the financial ability and management expertise to absorb, then turn around and make a public market profitable? How would HPA integrate the market into the current organization? What should HSFM's strategy be and how would it be implemented? And what steps needed to be taken with the market's stakeholders to ensure a good transition from CMHC to HPA as market operator?

With these questions in mind, Oldfield re-entered her office, took files from her briefcase, and left for the boardroom to discuss what to do about HSFM with her senior management team.

Exhibit 1: Halifax Port Authority and the Seaport Farmers' Market

Halifax Port Authority—Selected Financial Data (in CAD $000's)

	2009	2010	2011
Operating (port) revenues	26,664	28,840	29,642
Operating expenses	14,240	14,795	15,127
Other expenses[1]	9,655	8,179	8,014
Net earnings	2,769	5,866	6,501
Total assets	155,834	166,149	179,000
Current assets	4,139	8,587	7,818
Non-Current assets	151,695	157,562	171,182
Property and equipment	150,019	154,205	167,242
Current liabilities	15,806	19,467	26,766
Bank indebtedness[2]	5,840	4,168	12,068
Non-current liabilities	3,980	6,173	8,895
Equity of Canada	136,048	140,509	143,339
Contributed capital	50,857	50,857	50,857
Retained earnings	85,191	89,652	92,482

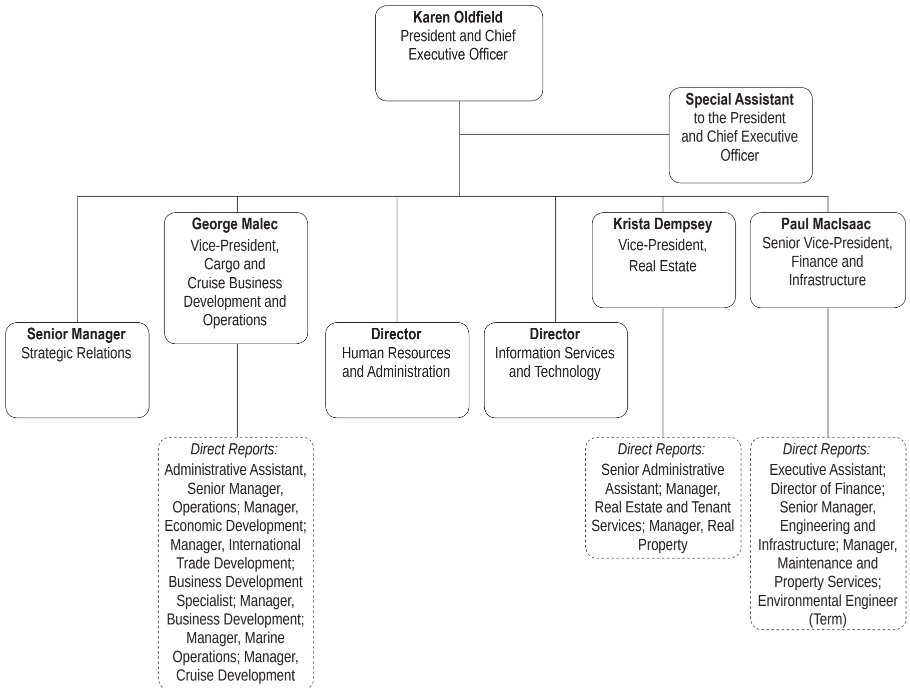
Notes:

1. Includes depreciation ($7.119 million in 2011).
2. In 2011, HPA had an unsecured, revolving term credit facility with its bank to a maximum of $35 million.

Source: Audited Financial Statements, Halifax Port Authority.

Exhibit 2: Halifax Port Authority and the Seaport Farmers' Market

2012 Partial Organization Chart, Halifax Port Authority



Source: Internal Organization Documents, Halifax Port Authority.

Exhibit 3: Halifax Port Authority and the Seaport Farmers' Market

Exterior and Interior Views of HSFM

Exhibit 4: Halifax Port Authority and the Seaport Farmers' Market

Actual and PPS-Projected Income and Expense Items for HSFM (in CAD)

	Estimated Actual 2011	Projected 2013**
INCOME		
Table Rents	870,513	925,000
Interior Facing Rents	75,225	75,000
Storefront Rents	129,587	140,000
Special Events Rents	13,480	20,000
3rd Floor Office Tenant Rents	0	80,000
Common Area Charges	4,787	20,000
Electrical/Natural Gas Billing	31,942	40,000
ATM	33,259	40,000
Miscellaneous Fees	8,072	8,400
Fundraising	2,500	25,000
TOTAL INCOME	1,169,365	1,373,400
EXPENSES		
General Manager/Executive Director	53,182	90,000
Operations Manager	40,302	55,000
Bookkeeping	39,383	45,000
Development and Events Manager	23,367	45,000
Office Manager		40,000
Custodian	40,180	40,180
Part-time Maintenance and Janitorial	5,865	80,000
Security	2,577	10,000
Fringe Benefits		80,000
Advertising/Promotion	8,906	100,000
Office supplies	16,673	25,000
Bank Charges	6,853	7,000
Parking Program	1,061	50,000
Legal/Professional Consultants	58,686	50,000
Insurance	14,670	20,000
Travel	2,150	5,000
Fees/Permits	9,575	10,000
Utilities	104,620	120,000
Janitorial Services and Supplies	52,296	60,000
Maintenance Contracts and Repairs	32,775	75,000
Garbage Services	32,100	35,000
Miscellaneous	11,582	25,000
TOTAL EXPENSES	556,803	1,067,180

Exhibit 4: continued

SUB-TOTAL	612,562	306,220
Rent to HPA	57,500	57,500
Taxes and Charges to HRM	182,161	182,161
NET OPERATING INCOME*	372,901	66,559

*Before debt service and payment of payable expenses.

**Assumes the remainder of 2012 is used to implement PPS-recommended income and expense item changes.

Source: "Halifax Seaport Farmers' Market Repositioning Plan," Project for Public Spaces, Inc., April 2011.

Notes

1. "Halifax Seaport Redevelopment Master Plan," Halifax Port Authority, 2006.
2. Internal organization documents, Halifax Port Authority.
3. Ibid.
4. Ibid.
5. Ibid.
6. "The Canada Marine Act: Creating Canada Port Authorities," Western Transportation Advisory Council, 1999.
7. See http://www.tpsgc-pwgsc.gc.ca/recgen/manuels-manuals/chap18/07-eng.html.
8. Internal organization documents, Halifax Port Authority.
9. Ibid.
10. "Canada Launches Atlantic Gateway Strategy," Materials Management & Distribution, March 28, 2011.
11. "HPA Employee Survey 2011 Summary," Halifax Port Authority.
12. See https://www.fcc-fac.ca/en/about-fcc.html.
13. "Halifax Seaport Farmers' Market Repositioning Plan," Project for Public Spaces, Inc., April 2012. All subsequent references to PPS findings are sourced from this report.
14. "Port to take over management of Seaport Farmers' Market," Bill Power and Kelly Shiers, *Chronicle Herald*, May 22, 2012.
15. Ibid.
16. "A tale of two markets," Hilary Beaumont, haligonia.ca, March 2013.