

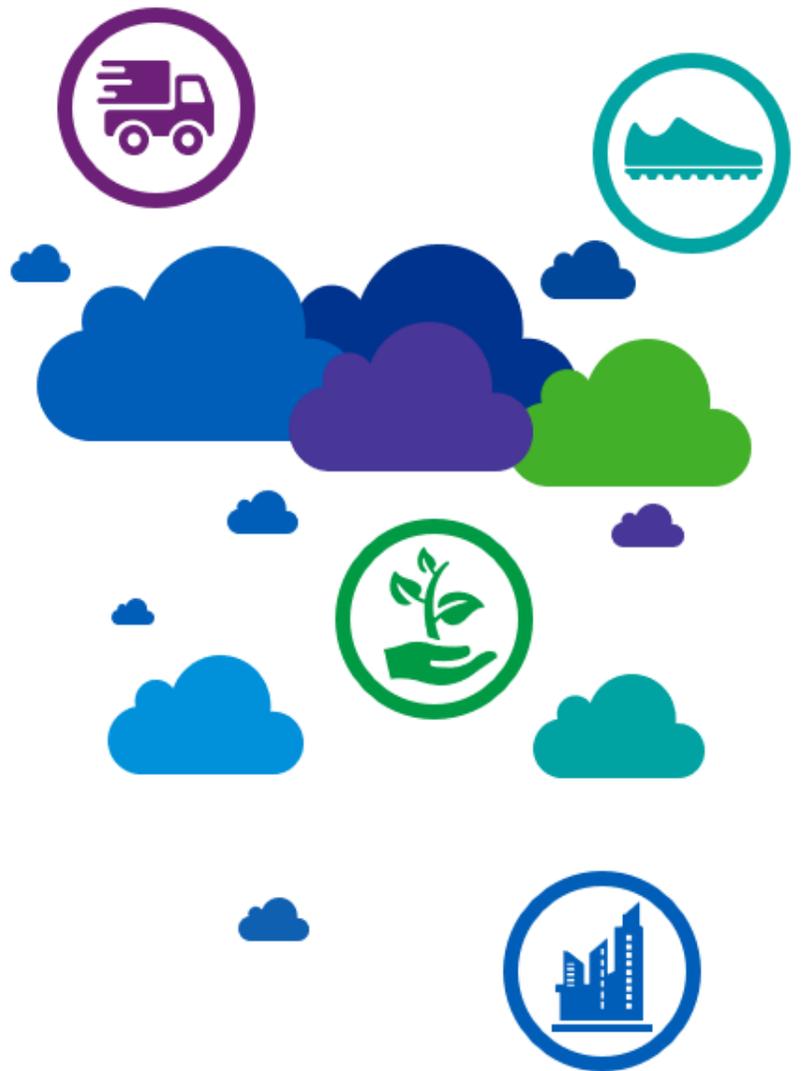


Reimagine Services

Business Case: Contracting
Out Facility Operations and
Programming

CITY OF EDMONTON

MAY, 2021



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Opportunity Summary

The City currently operates a large portfolio of recreation and culture facilities, many of which operate below cost recovery. This opportunity explored the feasibility of contracting out facility operations and the programming delivered within for specific types of recreation and culture facilities. Specifically, analysis of third-party operating options was completed for:

- **Lewis Farms Community Recreation Centre.** Analysis considered outsourcing the operations and programming for the Lewis Farms Community Recreation Centre, once constructed, as a pilot for future multi-purpose facilities.
- **Single-purpose Facilities.** Analysis considered outsourcing operations for a broad range of facilities such as leisure centres, arenas, seniors centres, art centres and specialty facilities. This specifically included consideration of three facilities previously proposed for closure by the City: Eastglen Leisure Centre, Tipton Arena and Oliver Arena. These latter facilities are characterized by low cost recovery, low attendance rates and high required costs related to capital upgrades and asset lifecycle.

In the Edmonton area, many third-party operators have a demonstrated proficiency in recreation programming and facility operations, and some of these also already have direct experience working with the City. Outsourcing to third-party operators could provide benefits to the City through cost savings. For operators, there are potential benefits through increased revenues, and potentially through a partnership model for a multi-purpose pilot at Lewis Farms Community Recreation Centre.

In order to assess options, it was assumed that the City would retain ownership of all facility assets, but transfer day-to-day management responsibilities for facility operations and program delivery to third-party operators. Single-purpose facilities would continue to operate under all applicable City provisions (such as the fee structure, allocation policy, Leisure Access Program, etc.), and operators would receive a negotiated fee for services rendered on behalf of the City. On the other hand, the viability of outsourcing a multi-purpose pilot facility would be impacted by the level of a third-party operator's autonomy to set prices, determine program offerings and generate alternative revenues.



Recommendation: Outsourcing of Recreation Facility Operations and Programming

Based on analysis completed, **the City should consider outsourcing arrangements for select single-use facilities and for the planned Lewis Farms Community Recreation Centre.** Both scenarios demonstrate the potential to meet financial and service goals.

Outsourcing operations and programming at select facilities could deliver overall cost savings to the City while maintaining service levels. The types of single-purpose facilities deemed viable in this analysis were predominantly arenas. Review of the data provided by the City as part of this opportunity suggests that eight facilities could benefit from using third-party operators.

The facilities identified were:

- Five Single Ice Arenas (as a pilot, to be selected by the City)
- Eastglen Leisure Centre
- Tipton Arena
- Oliver Arena

It is estimated that this opportunity could potentially result in lower projected operating costs for the Lewis Farms Community Recreation Centre over five years of \$2.7 to \$5.1 million, as compared to direct operation by the City. It is also estimated that outsourcing the operations of eight single-purpose facilities could potentially result in cumulative cost savings of approximately \$0.4 to \$2.3 million over five years and potential annual savings of approximately \$0.1 to \$0.5 million by Year 5.

The proposed operating model for both facility types would see the City clearly define its role in asset lifecycle maintenance, as well as general oversight and contract management.

When outsourcing at single-use facilities, there is still the potential that the City would need to subsidize operations of third-party operators, which is included in the costs presented in this case. However, the recommended option could enable communities to retain access to local facilities that may have otherwise been closed.

For the Lewis Farms Community Recreation Centre, the City could also consider involving potential third-party operators in facility design conversations to further facilitate financial feasibility and interest. However, this could result in costs for the re-design of this facility, and may also challenge fidelity to the original community needs or direction provided by Council. It appears that for this opportunity to be financially feasible to a third-party operator, the City would likely need to provide an annual operating subsidy to an operator, as included in the analysis for this case.

The impact to external stakeholders would be related to the general public's reaction to the concept of outsourcing at existing facilities however, the fee structure and allocation policies would remain consistent. Users and rental groups would experience little impact from the proposed fee-for-service model at single-purpose facilities as they would still use the City's booking and payment systems. In order to maintain accessibility at the Lewis Farms Community Recreation Centre, the City would likely need to compensate third-party operators for the Leisure Access Program subsidy or in order to achieve specific rates for admissions and fees.

Internal stakeholders impacted by this opportunity include City employees currently operating or delivering programming at existing facilities. Should their facility be contracted out to a third party, unionized staff would need to be redeployed to comparable positions within the City as per the stipulations of their collective agreement. These staff could be used to fill vacancies created through attrition to realize actual cost savings.

Opportunity Background & Context

OPPORTUNITY AND CURRENT SITUATION

City recreation and sport facilities do not currently recover their operating costs and the older age of many of the facilities is driving increased lifecycle and rehabilitative costs for the City. The City has previously proposed closure for low-performing facilities, including the Eastglen Leisure Centre, the Tipton Arena and Oliver Arena. As well, Council has recently directed administration to explore opportunities for third-party operators through Council motion CS00248 with respect to aging recreation facilities and Council motion CS00400 with respect to the Lewis Farms Community Recreation Centre. As part of the motion related to the Lewis Farms Community Recreation Centre, the City intends to issue a request for expressions of interest from potential third-party operators.

Working collaboratively with third-party operators is a well-established part of delivering the City's recreation and culture services. The City currently works with over 70 third-party operators to deliver recreation, sports and culture services; examples include [REDACTED], among others. Current arrangements include agreements related to facility access (i.e., leases or licenses) and the delivery of programming.

This opportunity explores the potential to contract out the operations and programming of several City recreation facilities.

CITY CONTEXT

The City's strategic goals, outcomes, and plans supported by this opportunity are summarized in Table 1.

Table 1: Alignment to City Strategies

Strategic Document	Policy Description	Relevance to this Opportunity
ConnectEdmonton¹		
Healthy City	Edmonton is a neighbourly city with community and personal wellness that embodies and promotes equity for all Edmontonians.	This opportunity supports the provision of quality recreation and culture programming and access to neighbourhood and district facilities.
The City Plan²		
1.1.1.4	Encourage healthy and active living by supporting community focused recreational, leisure, social and cultural programs.	15-minute districts: A livable city is one that allows people to easily address their daily needs within their District and within a 15-minute travel time by walking, rolling, biking or transit.

¹ City of Edmonton. CONNECTEDMONTON - Edmonton's Strategic Plan 2019 – 2028.

² City of Edmonton. The City Plan (2020)

Strategic Document	Policy Description	Relevance to this Opportunity
1.1.3.1	Create safe opportunities for women, girls and gender minorities to meet, connect, participate in and enjoy community and civic life.	Although this opportunity would see the City taking a less active role in the provision of services, it can set standards and performance indicators to support critical policy directions. If third-party operators encounter challenges with cost recovery for targeted programming, the City may opt to subsidize it in order to realize the intended social benefit.
1.3.2.2	Increase opportunities for Edmontonians to be physically active throughout all seasons.	This opportunity strives to sustainably preserve access to existing facilities and supports Edmontonians with a variety of sport and recreation activities all year round.
2.1.1.4	Facilitate access to City activities and programs for people of all ages and abilities.	Although this opportunity would see the City taking a less active role in the provision of services, it could set standards and performance indicators to support critical policy directions. If third-party operators encounter challenges with cost recovery for targeted programming, the City may opt to subsidize it in order to realize the intended social benefit.
4.1.3.2	Provide services and programs which reduce barriers for low income residents to community recreation facilities.	Ensuring Leisure Access Program discounts are honoured in the new operating arrangement contributes to the City's goals for affordable access and programming.
Live Active³		
Active Story	Promote opportunities for all Edmontonians to live active and celebrate Edmontonians who do.	
Active Environment	Advance accessibility for all Edmontonians to engage in physical activity in a range of inviting safe spaces, recreation and sport infrastructure, parks and green spaces, active transportation systems, workplaces, and more.	Provision of sufficient access and programming to meet mandate and promote community and personal wellness.
Active Opportunity	Advance a barrier free active recreation and sport system.	

Source: Based on information provided by the City.

³ City of Edmonton, Live Active: A Collaborative Strategy for Active Living, Active Recreation, and Sport in Edmonton, 2016-2026

LEADING AND COMPARATIVE PRACTICES

As the City considers potential outsourcing partnerships, it is important to learn from the approaches taken by comparator jurisdictions, such as Calgary and Lethbridge. Broadly speaking, there are two categories of third-party arrangements employed by these cities: Calgary uses partnerships with aligned objectives and shared results, and Lethbridge has implemented direct fee-for-service contractual relationships as well as partnerships, based on facility type.

In contrast to Edmonton's history as the primary operator and service provider, Calgary has a longer track record of working with partners and currently manages over 500 partnerships that stretch beyond recreation services. Calgary's robust Investing in Partnerships Policy guides the development of new or renewed arrangements, defines the parameters for a variety of partnership categories, lists sectors eligible for partnership and outlines expectations for accountability and reporting.⁴

CASE EXAMPLES FOR MULTI-PURPOSE FACILITIES

Three of Calgary's most recent partnerships for large-scale recreation facilities are with the YMCA. Calgary provided the newly built facilities at Quarry Park, Rocky Ridge and Seton at a minimal lease rate of \$10 per year, and the YMCA was fully responsible for all operating and capital maintenance costs, as well as programming and reporting. The YMCA is responsible for all management decisions, such as staffing, prices, program offerings and facility maintenance. In the case of major capital investments, Calgary may receive a request to support their costs. Overall, Calgary incurs the initial construction costs and maintains human resources required to manage these partnerships but receives the benefit of having partners who shoulder the risk and responsibilities related to operating, lifecycle and programming.

Calgary's Administration works closely with the partner, such as the YMCA, to appropriately maintain their asset and evaluate the results of regular reporting against a set of key performance indicators (KPIs). The intended role for Calgary is not to dictate operations but to work collaboratively towards meeting their strategic goals around access, inclusion, affordability, and environmental sustainability. For example, if a facility operates in a neighbourhood with 7% of the population being seniors, Calgary would expect to see a similar representation in the membership or participant demographics. If not achieved, the partner may need to provide a clear demonstration of the actions it has taken to increase the proportion of senior users. In the limited cases where Calgary stipulates the provision of less profitable programs or targeted discounts, the affected partner receives a corresponding level of funding to offset those requirements.

Lethbridge has a 40-year arrangement with its YMCA to operate ATB Centre, including all programming from aquatics and fitness to fieldhouses and childminding. The YMCA is responsible for all minor and major maintenance, programming, promotions and advertising. As part of the agreement, Lethbridge committed to providing an operating grant up to a maximum of approximately \$2.5 million paid over the first four years of operation. If the YMCA earns a net profit in any of those years, it is required to reimburse Lethbridge in an amount equal to the net profits, up to the funding support received in that year. In 2019, its first year of operation, the YMCA reimbursed Lethbridge approximately 38% of the value of that year's operating grant.⁵ It is notable that both cases include municipally-owned facilities that bear the name of the third-party operators and the name of a sponsoring business or major donor.

CASE EXAMPLES FOR SINGLE-PURPOSE FACILITIES

For Lethbridge, relationships with third parties in recreation and culture are often based on fee-for-service contracts. These outsourcing arrangements outline the specific needs for facility operations and program delivery and are awarded to a contractor through a public procurement process. The goal is to provide services in a more effective or cost-efficient manner than Lethbridge could directly deliver. Interviewees from Lethbridge reported benefits from working with passionate, knowledgeable contractors that bring a high level of expertise in program delivery.

⁴ City of Calgary. Council Policy: Investing in Partnerships Policy (2017). Accessed April 2021 at <https://www.calgary.ca/content/dam/www/csp/cns/documents/investing-in-partnerships-policy.pdf>

⁵ The Lethbridge YMCA 2019 Financial Statements. Accessed April 2021 at <https://s3-ca-central-1.amazonaws.com/reclique-core-lethbridge/wp-content/uploads/2020/05/29120759/YMCA-2019-financials-signed.pdf>

Like Calgary, each agreement that Lethbridge uses specifies the level of required reporting, KPIs and mechanisms for demonstrating alignment with its desired outcomes. As part of the relationship management process, contractors are required to share financial and program information, with a recent emphasis on demonstrating efforts for greater inclusivity and accessibility (meaning both physical and financial barriers are considered). Lethbridge's approach purposefully avoids their involvement in day-to-day operations but does review proposed fee changes in advance, not for approval but to provide any advice or helpful benchmarking considerations. Program registrations and facility bookings are handled directly by each third-party contractor as well as any promotions or marketing.

Responsibilities for facility maintenance vary slightly between agreements, but generally Lethbridge retains all structural and lifecycle planning and maintenance, as well as major systems upkeep to minimize the impact to the value and operability of these municipally owned assets. Most contractors are tasked with custodial and minor maintenance. Lethbridge's municipal resources are also required to manage contractor relationships and provide oversight. In recent years, Lethbridge has received requests from contractors to increase the operating subsidies to ensure staff retention, as wages in the sector continue to increase along with demand for their skills. Lethbridge evaluates requests for additional operating funds against the estimated cost of delivering the services itself in order to ensure the fee-for-service model still generates an acceptable level of cost savings for the municipality.

Key lessons drawn from Lethbridge's experiences, both in fee-for-service and partnership models, include the importance of detailing reporting requirements that are clearly understood, robust, and that align with its strategic goals and outcomes. Also, it was acknowledged that Lethbridge's current agreements and policies do not stipulate any clear consequences for non-compliance with the terms of their agreement. The goal is always to work with contractors or partners to improve performance and achieve the desired benefits for both sides; jumping straight to contract termination is not ideal, especially if the municipality is not prepared to take back the operating and programming responsibilities on short notice. It was suggested by Lethbridge that its future agreements may include penalty or delayed payment clauses to motivate contractors and partners to demonstrate compliance.

Calgary also utilizes partnership for operation of single-purpose facilities and service delivery for all related programming. Many of these arrangements involve bringing in third parties to operate existing facilities and require some level of subsidy to offset higher operating costs. While Calgary recently reviewed their approach to low-performing pools, options included either closing these facilities or engaging third parties to deliver. It was noted that its preference was to engage partners with new builds over existing single-purpose facilities that entail challenges around level of interest among potential partners, implications of successor rights on labour costs and lifecycle impacts of older infrastructure.

ENVIRONMENTAL CONSIDERATIONS

Notable environmental considerations related to this opportunity are described below in Table 2.

Table 2: Environmental Considerations

Factor	Descriptions
Political Context	There are reductions in provincial funding , as the Government of Alberta has made changes to municipal grants. These recent and potential future changes, such as recent reductions the Municipal Sustainability Initiative, impact the potential funding available to municipalities, particularly regarding capital. For recreation and culture services, this may mean that municipalities will need to consider how to meet growing demand while facing constrained funds.
Economic Context	City stakeholders, and some representatives from the market sounding exercise completed through this business case, indicated that it appears community organizations or recreation and sport groups are facing increasing financial constraints amidst the pandemic and declining revenues from limited usage. It may be challenging for third-party operators to entertain new agreements for facility operations and programming at this time.
Social Context	COVID-19 has altered how people are using municipal facilities and services. Restrictions have closed access to many facilities, with many people choosing not to use them, even if they are allowed, due to fears of the virus. The worsened economic situation is also increasing demand for activities that are free or low cost, as well as changing patterns of use such as timing (weekends and evenings vs. weekdays). Multiple studies show a global trend away from participation in organized activities (such as football or baseball leagues), in favor of informal or ad hoc activities. In Canada, participation in organized sport dropped from 45% to 28% of all adults, while similar proportions reported increasing involvement in informal activities such as walking, yoga and swimming. ⁶ This may create challenges and wariness of partners to enter into agreements when future usage patterns are unclear.
Legislative Context	There are constantly evolving COVID-19 restrictions and regulations that municipalities must adapt. These may not only impact whether services can be offered (e.g., whether recreation facilities are open) but also, must consider how services are delivered. Municipalities must also consider how changes to legislation and restrictions will be enforced, to ensure the safety of users within Edmonton.
Environmental Context	Focus on sustainability: The City would need to work with any third party to ensure compliance with several important policies such as Climate Resilient Edmonton, the living wage policy and the integrated pest management policy.

Source: Based on information provided by the City.

⁶ Statistics Canada, 'Who participates in active leisure?' 2009. Accessed April 2021 at <https://www150.statcan.gc.ca/n1/pub/11-008-x/2009001/article/10690-eng.htm#a17>

Options

This business case focuses on three options to contract out operations and program delivery at some of the City’s recreation facilities. The first option considers a partnership model for the Lewis Farms Community Recreation Centre, the second contemplates a fee-for-service model for eight single-purpose facilities and the third option entails pursuit of both Options 1 and 2.

OPTION 1: LEWIS FARMS PILOT

This option envisions contracting out operations and program delivery at the Lewis Farms Community Recreation Centre as a pilot, to determine feasibility for future multi-plex facilities. Components of the proposed partnership model and the delineation of City and third-party operator roles are summarized below in.

Table 3: Option 1 – Proposed Partnership Model Components

Components of Option 1	City Responsibilities (Lewis Farms Pilot)	Third-party Operator Responsibilities (Lewis Farms Pilot)
Partnership Structure	<ul style="list-style-type: none"> Retains ownership of facilities, including lifecycle maintenance responsibilities 	<ul style="list-style-type: none"> Has autonomy to determine programming, fees, allocation (with high-level guidance provided by the City) Collects all revenues
Programming	<ul style="list-style-type: none"> Communicates high-level objectives for recreation programming 	<ul style="list-style-type: none"> Delivers all programming Complies with high-level objectives as determined by the City
Access	<ul style="list-style-type: none"> Provides subsidies for Leisure Access Program access where applicable 	<ul style="list-style-type: none"> N/A
Operations	<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Performs day-to-day caretaking, operations (including front desk, lifeguards, etc.) and custodial operations (including minor maintenance)
Maintenance	<ul style="list-style-type: none"> Provides all maintenance, including minor maintenance (interior and exterior), as well as major maintenance (e.g., envelope / rehabilitative) and capital upgrades 	<ul style="list-style-type: none"> N/A
City Oversight and Support	<ul style="list-style-type: none"> Provides management and oversight support for third-party operator and contract management 	<ul style="list-style-type: none"> Complies with all relevant legal, health and safety, environmental requirements that the City follows

Source: Based on information provided by the City.

OPTION 2: SINGLE-PURPOSE FACILITIES

This option considers contracting out operations and program delivery at single-purpose facilities, suggesting the City select five single arena facilities to pilot. The Eastglen Leisure Centre, the Tipton Arena and the Oliver Arena are also included regardless of scoring against viability criteria, as per the scope of this opportunity and to address Council Motion CS00248.

Components of the proposed fee-for-service model and the delineation of City and third-party operator roles are summarized in Table 4.

Table 4: Option 2 – Proposed Fee-for-Service Model Components

Components of Option 1	City Responsibilities (Single-purpose Facilities)	Third-party Operator Responsibilities (Single-purpose Facilities)
Partnership Structure	<ul style="list-style-type: none"> – Retains ownership of facilities, including lifecycle maintenance responsibilities – Collects all revenues 	<ul style="list-style-type: none"> – Operates the facility within defined parameters, such as the City’s allocation requirements, fee structure, booking system, etc. – Receives a negotiated fee for services rendered on behalf of the City
Programming	<ul style="list-style-type: none"> – Communicates specific requirements for recreation programming – Determines allocation principles, including stipulating JUA requirements 	<ul style="list-style-type: none"> – Delivers all programming – Complies with City systems and interfaces to book programming – Third-party operator complies with allocation as determined by the City
Access	<ul style="list-style-type: none"> – Continues to provide Leisure Access Program directly to users 	<ul style="list-style-type: none"> – N/A
Operations	<ul style="list-style-type: none"> – N/A 	<ul style="list-style-type: none"> – Performs day-to-day caretaking, operations (including front desk, lifeguards, etc.) and custodial operations (including minor maintenance)
Maintenance	<ul style="list-style-type: none"> – Provides all maintenance, including minor maintenance (interior and exterior), as well as major maintenance (e.g., envelope / rehabilitative) and capital upgrades 	<ul style="list-style-type: none"> – N/A
City Oversight and Support	<ul style="list-style-type: none"> – Provides management and oversight support for third-party operator and contract management 	<ul style="list-style-type: none"> – Complies with all relevant legal, health and safety, environmental requirements that the City follows

Source: Based on information provided by the City.

OPTION 3: BOTH OPTION 1 AND 2

The third option contemplates pursuit of both Options 1 and 2 and proposes the implementation of arrangements previously described in both Table 3 and Table 4.

Impact Assessment

SERVICE IMPACT

This opportunity has the potential to change service levels or access to facilities.

In the case of the Lewis Farms Community Recreation Centre Pilot, there are no current users or service levels as this is a future opportunity. However, contracting a third party to operate the facility could result in different levels of service and access to facilities for users, as compared to similar multi-purpose facilities operated by the City. Under the proposed operating model, it is expected that third-party operators would be granted flexibility to determine fees and programming offered. However, the City could use processes, similar to Calgary or Lethbridge, in determining guiding principles for community impact.

Under a partnership model, changes in how users access these services may be impacted. For the Lewis Farms Community Recreation Centre, the third-party operator may have their own systems for program registrations, memberships and passes, facility rental bookings, etc. As such, users may be required to adapt to a new interface to access services at third-party operated facilities.

For single-purpose facilities, the service impact should be minimal as the proposed fee-for-service model would continue to comply with the City's fee structure, allocation policies, booking system, etc. Initial market sounding completed for this analysis suggested that third parties would be open to working with the City to define programming or allocation requirements.⁷

DELIVERY IMPACT

This opportunity does not appear to significantly impact the delivery of recreation services.

Contracting out facility access and programming would mark a significant departure from the City's traditional role as the primary deliverer of recreation services and facility operations. City staff would no longer be providing these services however, dedicated City resources would still be required to ensure accountability through relationship and contract management. The City's expectations and reporting structures around KPIs, risk management and operator capacity monitoring would need to be clearly articulated for both the partnership model at Lewis Farms and the fee-for-service model at single-purpose facilities. This oversight role will be critical towards mitigating risks around the delicate balance between cost recovery and fulfilling the City's goals and aspirations for community development.

While the City may lose some economies of scale, it is anticipated the impact of this would be low given the relatively few facilities included in the options. Potential impacts to delivery on the part of supporting services in the case of the Lewis Farms Community Recreation Centre, such as IT, 311, as well as Communications and Engagement, relate to the reduced burden of supporting facility operations, marketing, etc. Facility Management Services would still be involved with asset management and lifecycle maintenance, as negotiated with a third-party operator.

⁷ Market sounding sessions conducted in April 2021 included representation from the following organizations: [REDACTED]

VIABILITY

Several considerations may impact the viability of this opportunity, given the high-level analysis of the potential options within this business case. These factors include but may not be limited to public perception of outsourcing, current condition and performance of the proposed facilities, level of autonomy for third-party operators, general market interest, as well as programming and access expectations. Even though there may be challenges from a stakeholder acceptance perspective, if new outsourcing arrangements can sufficiently address the community's needs, the proposed model could be viable. There do not appear to be formal constraints, such as a policy or agreement, that would prevent the implementation of an alternative service delivery model at the City.

In terms of identifying specific single-use facilities as possible candidates for third-party operation, consideration was given to market interest and capacity. Those facility types identified as desirable by third parties were pursued. In some cases, specific insight into why a facility may be desirable even with the current low-cost thresholds was considered.

While not all facility types were represented by potential third-party operators at the market sounding sessions completed as part of this business case, it appeared that the most desirable facilities were arenas, and some discussion around pools. Potential arena third-party operators indicated they would be willing to comply with City allocation processes, but the concept of determining their own allocation and programming was intriguing from a revenue perspective.

This analysis identified that arenas appear to be appropriate candidates to pilot third-party operations of facilities. City stakeholders indicated that setting up new partnerships with third party operators would require considerable effort initially, and partnerships would require ongoing management. There are also risks associated with involving third parties in the delivery of City programs. Therefore, it would seem prudent that the City start with a small number of facilities to confirm market interest and financial viability and manage the City's internal effort.

It is suggested the City start with piloting similar facility types, to reduce complexity and for the potential to bundle contracts for an operator. For this reason, the City may wish to consider single arenas. It is proposed that the City select five single arena facilities to pilot, in addition to the Eastglen Leisure Centre, the Tipton Arena and the Oliver Arena. The City may also consider geographic location, facility age and condition, or interest among potential third-party operators when making its selection.

MARKET SOUNDING

The perspectives of various organizations as representative voices for the broad range of potential third-party operators were engaged through a series of market sounding sessions for this business case.

On the topic of single-purpose facilities, participating organizations included [REDACTED] and [REDACTED]. These potential partners expressed an interest in learning more about opportunities to partner with the City but were wary of taking on ageing or lower performing facilities.

Organizations generally reported a willingness to increase their current level of collaboration with the City or embark on new partnerships. Partnering in an outsourced model was seen to have potential in maximizing facility utilization and fulfilling their respective missions to deliver quality recreation services. Many shared that third parties were better positioned to recover costs through industry expertise, non-unionized staffing models and the availability of donations and / or volunteers to supplement their operations. The facilities that appeared to foster the most interest from participants were arenas and pools. It is noted that while volunteers may result in some cost efficiencies, there are limitations to this model in terms of ability to scale to operations, in terms of specific roles (e.g., lifeguards), as well as turnover and sustainability of operations. It is also noted that operator wages would still need to comply with the City's Living Wage policy, applicable to City employees and employees of contracted services.⁸

⁸ Living Wage for City of Edmonton Employees and Employees of Contracted Services (Policy C612A, adopted November 2019)

Several organizations mentioned that third-party autonomy would be attractive in terms of pricing, program allocations and day-to-day maintenance, with the City retaining all major maintenance and lifecycle responsibilities. Participants expressed flexibility in working within City standards and performance expectations if they were clearly understood from the outset. Opportunities for collaborative arrangements among multiple partners were suggested in recognition that not all participants may be able to deliver all aspects of programming in addition to facility management for single-purpose sites. It is notable that although several arts, culture, educational and seniors service providers were contacted, the engagement sessions primarily attracted third-party operators from the sport and recreation sector. As such, the level of interest outside of this sector is unknown.

In order to explore the Lewis Farms Pilot (framed as a multi-purpose opportunity), representatives from [REDACTED] and [REDACTED] were engaged through a market sounding conversation. Each demonstrated interest in learning more details around the financial arrangement and division of responsibilities before committing to partner with the City on a project, using the upcoming Lewis Farms Community Recreation Centre as a point of reference on scale.

Participants communicated willingness to work with the City to meet the goals of accessibility, quality and responsiveness and the needs of residents. Overall, the potential partners suggested they would like to support the City but suggested that large-scale recreation facilities (especially aquatics) can also encounter challenges with cost recovery and may require some level of operating support. Other than the financial relationship, understanding the level of autonomy in decision making was the second most important consideration related by the participants. The general sentiment was that the governance structure must be clear and consistent; the City could provide parameters but must allow third-party operators to run the facility to the best of their ability or compensate them for specific requirements that impair profitability. Some of these participants expressed more interest in undertaking single purpose facilities (such as arenas, sports fields or courts, etc.) than undertaking a larger multi-purpose facility such as Lewis Farms.

GBA+ IMPACTS AND MITIGATIONS

This opportunity could impact access for users depending on the agreed provisions for subsidized access and programming targeting demographic groups. This risk could be mitigated by defining clear requirements and reporting related to access. In addition, the City could fund partners to provide subsidized access for users.

Most single-purpose facilities deemed viable under this opportunity are arenas, which would have a lower impact on Leisure Access Program usage as arenas are mainly bookings, which are not impacted by Leisure Access Program discounts. It is expected that the City's allocation process would apply (during high usage periods at a minimum), which sets a framework for access. In addition, current programming at arenas is limited, meaning the number of programs that may be impacted could likely be accommodated at other City facilities.

Currently, the Eastglen facility provides program and space for several programs that may have a GBA+ impact. For example, there are "women only" swim times offered, youth programming, and seniors programming. Under the proposed operating model, third parties would comply with City allocation and programming requirements. It is unlikely that these users would be impacted by a transition to a third-party operator. Additional information and scoring of GBA+ impacts and mitigation are included in **Appendix A: GBA+ Assessment**.

Information on the estimated impact to FTEs is included on page 26. These impacts include an assessment of both the Eastglen Leisure Centre, as well as the proposed arenas. As Arenas are a pooled operating model, a proportion of the total FTE data was extrapolated to estimate impact. Detailed analysis based on specific facilities will need to be undertaken by the City to validate the specific FTE impact.

Based on analysis completed, males make up the majority of the anticipated FTE reductions, as well as individuals in the age brackets of 20-40. All impacted employees are unionized positions. FTEs for reductions under arenas were based on tenure (lowest tenure) and designation as provisional staff. All operating staff at Eastglen Leisure Centre were assumed to be impacted.

FINANCIAL IMPACTS

Financial impact estimates can be found in **Appendix B: Financial Projections**, which also includes a notice to reader and significant assumptions made. High and low scenarios are presented which differ based on the expected differences in a third party's operating cost.

SINGLE PURPOSE FACILITIES

Based on the financial analysis, it is anticipated that the City may be able to achieve financial benefits of approximately \$351,000 to \$2,276,000 over a five-year period.

Single-purpose facilities were assessed for their financial viability based on their potential operating cost structure under a third-party operator model. Assumptions suggest that the greatest cost savings from a third-party operator model are in personnel costs, due to lower wages from a non-unionized workforce, lower overhead costs, and the use of volunteer staff.

The third-party operator cost structure was estimated using examples of partner-operated facilities' financial statements and identifying the difference in the ratio of their salaries to overall revenues. This ratio was compared to the ratio at City facilities. An estimate was created based on the facility type and overall proportion of salaries to revenues, and applied to each single-purpose facility in the analysis. A comparison against current City operating revenues and expenditures (2019 data) is described in Table 5. This comparison assumes that all other revenues and other costs (utilities or other) would remain the same. In other words, the third party would abide by the City's allocation structure, which would result in consistent revenues obtained.

The net savings illustrated from third-party operations are anticipated to be realized from lower personnel costs. This calculation included a 5% premium paid to partners to operate the facility (5% was calculated as a figure that could be paid while still achieving net cost savings). Higher premiums (e.g., 10%) would be expected to result in no material cost savings through a third-party entity.

Table 5: City vs. Third Party Operational Costs

	City Operating Financials	Potential Third Party Pro Forma Financials (High)	Potential Third Party Pro Forma Financials (Low)
	Based on 2019 data	Based on 2019 data	Based on 2019 data
Revenues	\$2,267,000	\$2,267,000	\$2,267,000
Expenditures	\$4,620,000	\$4,067,000	\$4,435,000
Personnel	\$2,824,000	\$2,271,000	\$2,640,000
Utilities	\$992,000	\$992,000	\$992,000
Other	\$804,000	\$804,000	\$804,000
Net	\$(2,353,000)	\$(1,800,000)	\$(2,168,000)
Estimated Potential Savings	-	\$553,000	\$184,000

Source: Based on data provided by the City and assumptions outlined in Appendix B.

LEWIS FARMS COMMUNITY RECREATION CENTRE

The Lewis Farms Community Recreation Centre is not an existing facility and does not accrue any revenues or costs at the time of this analysis. Therefore, financial calculations estimated the potential cost of a third-party operator may be lower than the City's anticipated cost to operate it directly. This analysis included consideration of the cost structure of an example third-party operator, such as ██████████. The City provided financials for ██████████ facilities in the City, as well as models from Calgary were included. It was found ██████████ salaries relative to revenues were 2/3 of the City's projections for the Lewis Farms Community Recreation Centre.

This analysis indicated a potential upper bound for anticipating reduced operating costs at the Lewis Farms Community Recreation Centre. However, savings for this analysis were assumed to be more conservative, within these upper bounds. It was assumed that the third-party operator may obtain a 10-15% savings in personnel and goods and services. Based on these assumptions, analysis indicates that the City may be able to reduce its projected operating costs by approximately \$3.8 – \$5.3 million over a five-year period (from the time this option is initiated).

The projected benefits, for all three options explored, are summarized according to "high" (personnel and goods savings of 15%) and "low" (personnel and goods savings of 10%) in [Table 6](#).

Table 6: Pro Forma Financials City vs. Third Party Entity

	City Operating Pro Forma (based on current multi- purpose facility financials) Based on 2019 data	Potential Third Party Pro Forma Financials (High) Based on 2019 data	Potential Third Party Pro Forma Financials (Low) Based on 2019 data
Revenues	\$7,100,000	\$7,100,000	\$7,100,000
Expenditures	\$9,415,000	\$8,225,000	\$8,671,000
Personnel*	\$6,891,000	\$5,884,000	\$6,262,000
Goods & Services	\$1,150,000	\$966,000	\$1,035,000
Utilities	\$1,325,000	\$1,325,000	\$1,325,000
Other	\$49,000	\$49,000	\$49,000
Net	\$(2,315,000)	\$(1,124,000)	\$(1,571,000)
Estimated Potential Savings	-	\$1,191,000	\$744,000

Note: Figures rounded to the nearest thousand.

Source: Based on data provided by the City and assumptions outlined in Appendix B.

RISKS

There are several potential risks that may impact the feasibility of this opportunity. Key risks are summarized in Table 7. Further information on the identified risks is presented in **Appendix C: Risk Analysis**.

Table 7: Key Risks and Mitigations

Potential Risk	Potential Mitigation
<p>Financial Benefits</p> <p>There is a risk that the financial benefits may not be realized if third parties are unable to deliver services more efficiently than projected.</p>	<p>This risk may be mitigated through formal expression of request process, where potential third parties are given financial and operating information.</p> <p>If this occurs when the third-party operator is already in place, the City may need to work with the third party to negotiate the amount of operating subsidy required. This will still result in net savings if the operating subsidy required is less than the cost of the City operating it directly.</p>
<p>Asset Maintenance</p> <p>There is a risk that overall value of the asset is diminished if not properly maintained by the third party.</p>	<p>This risk may be managed with a clear delineation of maintenance responsibilities and expectations, coupled with regular asset management evaluations to detect early signs of non-compliance.</p>
<p>Labour</p> <p>There is a risk that the City's reputation negatively impacted by the shift to non-unionized positions as part of outsourcing programming and facility operations.</p>	<p>This risk may be mitigated through engagement and proactive communication with labour relations groups. Mitigation could also be supported through strategies to demonstrate the City's efforts to redeploy impacted human resources to other roles.</p>
<p>Service Levels</p> <p>There is a risk that third parties may deliver lower levels of service or reduced access and impact the City's reputation, and its ability to achieve its desired outcomes for recreation and culture programming.</p>	<p>This risk may be mitigated through initial selection of third parties that align with the City's public service orientation, as well as rigorous performance management processes and close oversight by City Administration to anticipate and coach partners through potential issues.</p>

Source: Prepared by KPMG.

Opportunity Assessment

OVERALL ASSESSMENT OF OPPORTUNITY AGAINST CRITERIA

The opportunity assessment of both options against the criteria identified in this business case is summarized in Table 8, where green, grey and red represent a positive, neutral and negative impact respectively.

Table 8: Opportunity Assessment

Options	Impact					Implementation				
	Service	Delivery	GBA+	Financial	Risk	Potential Estimated Five-Year Benefit (Millions)	Time	Cost	Risk	Potential Estimated Implementation Cost (Millions)
Option 1: Lewis Farms Pilot	●	●	●	●	●	*Cost differential excluded	●	●	●	*Cost differential excluded
Option 2: Single-Purpose Facilities	●	●	●	●	●	\$0.4 - \$2.3	●	●	●	\$0.6
Option 3: Both Options 1 and 2	●	●	●	●	●	\$0.4 - \$2.3	●	●	●	\$0.6

Source: Prepared by KPMG.

Note: Option 3 only includes cost savings; projected cost differentials have been excluded. Figures rounded to the nearest thousand.

CONCLUSION AND RECOMMENDATION

The City should consider pursuing **Option 3 and outsourcing operations and programming for both the forthcoming Lewis Farms multi-purpose and the single-purpose facilities identified below:**

- Five single ice arenas (to be selected by the City)
- Eastglen Leisure Centre
- Tipton Arena
- Oliver Arena

Both scenarios demonstrate the potential to meet both financial and service goals. Based on the analysis completed, the following recommended actions would support pursuit of this opportunity.

Recommended Action 1

The City should conduct formal calls for expressions of interest in support of Option 3.

Market sounding interviews provided a preliminary indication that this opportunity could garner interest among local recreation service providers. However, without greater specificity on the parameters and expectations, third parties cannot commit or fully understand financial viability. Key topics may include the proposed financial model, division of maintenance and lifecycle management responsibilities, and the level of vendor autonomy on pricing and programming. Formally engaging potential third-party operators may inform the details needed to develop a subsequent request for proposals.

Recommended Action 2

The City should extend requests for proposals in support of Option 3.

An RFP should specifically describe the standards, outcomes and key performance measures for a successful partnership, and provide access to relevant financial information, facility condition and usage data to inform potential bidders. The City could encourage proponents to describe how they are suited to operating recreation facilities and delivering programming on behalf of the City as well as any innovative approaches that would improve the site's profitability and / or quality of culture and recreation experiences for Edmontonians. It is essential that the partnership model and respective responsibilities are clearly articulated.

Appendix A: GBA+ Assessment

EVALUATION SUMMARY

What is the overall GBA+ assessment?

This opportunity could impact access of users depending on agreed provisions for subsidized access and programming targeting demographic groups at the Lewis Farms Community Recreation Centre Pilot. This risk could be mitigated by clear requirements and reporting related to access; in addition, the City could fund partners to provide subsidized access for users.

The proposed fee-for-service model for single-use facilities, however, would continue to see the City's fee structure, allocation policies, programming objectives and Leisure Access Program continue.

What are the main groups that could be affected (including those with no vulnerabilities), and what impacts are noted?

User groups could be negatively impacted if their program offerings are reduced. However, market sounding indicated that third-party operators would be willing to work with the City to identify needed areas of programming or to align with demand. Populations with limited incomes, youth and seniors are examples of populations who may be impacted by a change in pricing.

What do we know about the people who would be affected by this change?

-2. Very little known about them or their characteristics	-1. Some general idea of numbers or types of people affected	0. Good idea of overall numbers and some other aspects (e.g., time / nature of needs)	+1. Good information on the numbers of people affected and some key characteristics	+2. Good information on numbers, demographics groups, and contact lists (e.g., email / phone lists)
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What impact would there be from this change on the staff members of the City or other agencies who may be from these groups?

Staff members who currently work at these facilities will be impacted by this change. It is assumed that these staff members will be reallocated to other vacant roles in the City.

What equity measures could we use or implement to improve or positively mitigate impact for one or more of the groups identified?

Building specific clauses about access into the contract could ensure the City's objectives of providing public access and targeted programming are maintained by the new third-party operator. Impacted City staff could be redeployed to other areas of municipal operations or the new third-party operator could be encouraged to hire from existing staff to promote continuity of operations. This may depend on factors such as position availability and staff experience /

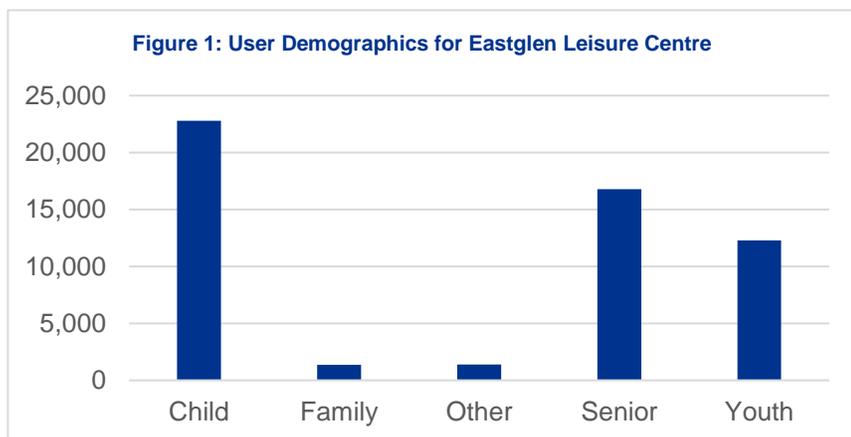
expertise level. For staff positions that cannot be meaningfully absorbed elsewhere, the City could arrange human resource services to provide career transition support.

An improved financial model for facility operations may also support enhancements to accessibility through capital improvements.

How confident we are in the information we are basing our decisions on? What could we do to check or confirm our assumptions?

Detailed information on attendance at arenas is limited, as the highest use of arenas are bookings. Bookings are an estimate of the number of people who attend, but do not give specific information on who or how many attends the bookings. However, potential third-party operators who expressed interested represent the user groups who typically book these facilities. It is not anticipated that users will experience much impact.

Attendance data by demographic breakdown is available for leisure centres. Figure 1 below depicts high usage among seniors, children and youth at Eastglen Leisure Centre suggesting third-party operator-led changes to programming and / or access may impact these user groups.



Source: Prepared by KPMG with data provided by the City of Edmonton.

IMPACT OF THIS CHANGE ON PEOPLE BY KEY IDENTIFIED VULNERABILITIES

Consider how you would expect this change to affect people with various types of characteristics that may give rise to vulnerabilities:

Personal Characteristics	-2 Could create new barriers	-1 Could exacerbate existing barriers	0 Limited effect or impact unknown	+1 Could reduce existing barriers	+2 Substantially improved access
People who are not physically strong or confident in their movements			0		
People with vulnerable people with them			0		
People who currently have very limited or no income			0		
People who may experience fear or distress due to threats or violence			0		
People with additional language or communication needs			0		
People who may find mainstream activities unwelcoming or not appropriate for their needs			0		
Total Score	0 Limited effect or impact unknown				

Appendix B: Financial Projections

NOTICE

The financial projections contained in this document provide future-oriented financial information. The projections are based on a set of circumstances and the City's assumptions as of April 2021. Significant assumptions are included in the document and must be read to interpret the information presented. Should events differ from the stated assumptions, actual results will differ from the financial projections and such differences may be material.

The financial information and assumptions contained herein has been prepared to assist readers in deciding whether to proceed with their own in-depth investigation and evaluation of the options presented and does not purport to contain all the information readers may require. Readers should conduct their own investigation and analysis of the options.

KPMG accepts no responsibility or liability for loss or damages to any party as a result of decisions based on the information presented. Parties using this information assume all responsibility for any decisions made based on the information.

FIVE-YEAR PROJECTIONS

The five-year projections for the facilities are summarized following in Table 9, Table 10, and Table 11.

OPTION 1: LEWIS FARMS PILOT

The Lewis Farms Community Recreation Centre is not an existing facility and did not accrue any revenues or costs at the time of this analysis. Therefore, the cost differential between the estimated cost of third-party operation and the projected cost as a City-run facility is not expressed as a cost saving but does represent an anticipated financial benefit to the City.

Table 9: Option 1 Financial Projections

	Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Potential Cumulative Five-year Cost Differential
Potential Estimated Cost Differential	<i>High</i>	\$1,191,000	\$1,174,000	\$1,142,000	\$1,081,000	\$1,012,000	\$5,600,000
	<i>Low</i>	\$744,000	\$712,000	\$664,000	\$584,000	\$495,000	\$3,199,000
Less Potential Estimated Ongoing / Implementation Costs							
Contract Management	<i>Both</i>	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$250,000
Procurement Costs	<i>Both</i>	\$200,000	-	-	-	-	\$200,000
Potential Estimated Net Cost Differential	<i>High</i>	\$941,000	\$1,124,000	\$1,092,000	\$1,031,000	\$962,000	\$5,150,000
	<i>Low</i>	\$494,000	\$662,000	\$614,000	\$534,000	\$445,000	\$2,749,000

Source: Based on data provided by the City and outlined assumptions.
 Note: Figures rounded to the nearest ten thousand.

OPTION 2: SINGLE-PURPOSE FACILITIES

Table 10: Option 2 Financial Projections

	Scenario	2022	2023	2024	2025	2026	Potential Cumulative Five-year Cost Savings
Potential Estimated Cost Differential	<i>High</i>	\$ 553,000	\$ 563,000	\$ 575,000	\$ 590,000	\$ 604,000	\$ 2,886,000
	<i>Low</i>	\$ 184,000	\$ 188,000	\$ 192,000	\$ 196,000	\$ 201,000	\$ 961,000
Less Potential Estimated Ongoing / Implementation Costs							
Severance Costs	<i>Both</i>	\$130,000					\$130,000
Contract Management	<i>Both</i>	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000	\$400,000
Procurement Costs	<i>Both</i>	\$80,000	-	-	-	-	\$80,000
Potential Estimated Net Cost Savings	<i>High</i>	\$263,000	\$483,000	\$495,000	\$510,000	\$524,000	\$2,276,000
	<i>Low</i>	\$(106,000)	\$108,000	\$112,000	\$116,000	\$121,000	\$351,000

Source: Based on data provided by the City and outlined assumptions.

Note: Figures rounded to the nearest ten thousand.

OPTION 3: BOTH OPTION 1 AND 2

Table 11: Option 3 Financial Projections

Option	Scenario	Potential Cumulative Five-year Savings
Option 3:	<i>High</i>	\$2,276,000
Both Option 1 and 2	<i>Low</i>	\$351,000

Source: Based on data provided by the City and outlined assumptions.

Note: *Includes only Option 2 cost savings, as Option 1 reflects an anticipated cost differential between the estimated cost of third-party operation and the projected cost as a City-run facility. Figures rounded to the nearest ten thousand.

SIGNIFICANT ASSUMPTIONS

COMMON ASSUMPTIONS

1. The City would retain ownership and responsibility for capital investment and maintenance; the private third-party operator would be responsible for all custodial duties and day to day operational tasks.

2. Labour and personnel costs provided by the City are inclusive of all direct benefits.
3. The third-party operators would provide all aspects of operations, including provision of fleet, fleet maintenance, IT systems, human resources and personnel management, etc.
4. Estimates of third-party costs to operate a facility were based on key differences between partner facilities and City operated facilities, including ██████████ and ██████████ (Edmonton and Calgary). The key area used to compare cost differences was salaries and benefits.
5. The costs for any procurement of third-party operators, including the City's expression of interest for the Lewis Farms Pilot, was assumed to be performed by City staff. It was assumed there was no incremental cost to tender bids.
6. Staff impacted by outsourcing the single-purpose facilities would be reallocated to vacancies and required positions in other similar City services.
7. Inflation is adjusted for each year at the following rates:

Table 12: Estimated Inflation Rates

	2022	2023	2024	2025	2026
Inflation Rate (%)	1.7%	1.9%	2.1%	2.5%	2.5%

OPTION 1: LEWIS FARMS PILOT

This option uses the Lewis Farms Community Recreation Centre projections data provided by CRF. The relative cost structure for this facility was compared to those of potential partner organizations, such as ██████████, to understand the differences in cost structure. ██████████ was found to have a higher revenue / expense ratio, meaning that they can obtain higher revenues in relation to their expenditures than the City.

8. It was assumed the expression of interest and tender process would take place in 2023 for the Lewis Farms Community Recreation Centre. This option could be implemented in 2024/25. All projected cost differentials, between the estimated cost of third-party operation and the projected cost as a City-run facility, for this opportunity have been based on 'years', with Year 1 being the first year in implementation, rather than basing this opportunity on the current timeframe (e.g., starting in 2022).
9. Financials from ██████████ facilities in Edmonton and Calgary, as well as input from interviews regarding Calgary and Lethbridge's experience with ██████████, were used to understand cost structure differences across partner and City operated multi-purpose facilities. This was used as a proxy for all external organizations.
10. Calgary's approach for multi-purpose facilities, as evidenced by their many partnerships with ██████████, was used to inform the proposed governance structure.
11. The City's financial operating projections for the Lewis Farms Community Recreation Facility were used as a baseline. Estimated cost savings for a partner to operate this facility were based on the personnel / revenue's differential of third-party run facilities to City run facilities. An estimated differential of 10-15% was used as a low and high case.
12. It is assumed that ongoing contract management would be required across the facilities operated by the third party. It is assumed 1/2 FTE (\$35,000) plus \$10,000 to \$15,000 in extra costs (e.g., legal etc.) would be required on an ongoing basis.
13. It is assumed there would be a one-time procurement cost to issue expressions of interest and contract third party entities. This is assumed to be \$200,000 to handle procurement, legal fees, fees related to initiated contracts, etc.
14. It is assumed that the projections for revenues and admissions from the Lewis Farms Community Recreation Facility, provided by Community and Recreation Facilities, was based on actual admissions from other multi-plex's. This is assumed to include the Leisure Access Program usage at this facility, based on historic averages of other facilities. This revenue data reflects the City's current pricing and discount structure, which assumes that Leisure Access

Program and other subsidies would be included in the operating subsidy provided by the City to the third-party operator.

OPTION 2: SINGLE-PURPOSE FACILITIES

15. Arenas, leisure centres, outdoor pools, seniors centres and specialty facilities were assessed in the analysis, against the viability criteria. It was determined that arenas appear to be the most suitable facility type for outsourcing currently. It is suggested that the City start with a small pilot of similar facilities, to reduce complexity of outsourcing and / or for the potential for bundling of facilities or contracts. This has resulted in a suggestion to pilot five single ice arenas, in addition to the three facilities identified in the scope of this business case (Oliver Arena, Tipton Arena, and the Eastglen Leisure Centre).
16. The City was unable to provide detailed expenditure and revenue by facility. To understand the proportion of salaries and benefits relative to overall cost, known proportions from detailed expenditure and revenue data provided for select facilities were applied to relevant facility types.
 - A. Detailed data provided included financials for the Eastglen Leisure Centre, Oliver Arena, Tipton Arena, O'Leary Leisure Centre, Scona Pool (limited), Mill Creek Outdoor Pool, and Hardisty Leisure Centre. Combined average costs for the Castle Downs / Callingwood Arena were also provided.
17. Estimated cost savings for a partner to operate this facility were based on the personnel / expenditure differential of third-party run facilities to City run facilities. This information was obtained using examples from [REDACTED] and [REDACTED] financials, in Edmonton and Calgary.
18. The high and low range for partner facilities was using a range for salary to expenditure ratio. High scenario uses the third-party ratio of salaries to benefits, while low scenario is halfway between the partner salary to expenditure ratio, and the City's salary to expenditure ratio.
19. All programming at facilities would be provided by partners on a cost-recovery basis (using volunteers, or due to differences in cost structure).
20. This analysis used the operating costs (including overhead), revenues, and maintenance costs from the Community and Recreation Facilities Financial Summary worksheet provided by Community and Recreation Facilities, using 2019 data.
21. Utilities costs were calculated based on proportions of total expenditures, as provided by Facilities Management Services.
22. Facilities would be piloted for delivery by a third-party entity in 2022.
23. Bonnie Doon and Jasper Place Leisure Centres were closed 2016-2020; as a result, averages from 2010-2016 were used as a proxy of "average" expenditures per facility.
24. The City would also compensate the partner with an additional premium for operating the facility. Analysis suggests the City could offer a 5% premium while still obtaining overall net savings.
25. Severance costs were calculated for the 24.6 temporary employees and 11 regular that are candidates for reduction. Temporary employees were calculated at 2 weeks' severance, and regular employees were calculated at 8 weeks. Average salary for temporary employees was \$76,000 and \$90,000 for regular.
26. It is assumed that ongoing contract management would be required across the facilities operated by third parties. It is assumed one FTE (\$70,000) plus \$10,000 in extra costs (e.g., legal etc.) would be required on an ongoing basis.
27. It is assumed there would be a one-time procurement cost to issue expressions of interest and contract third party entities. This is assumed to be \$80,000 to handle procurement, legal fees, fees related to initiated contracts, etc.
28. Staffing implications are presented in detail in the following table. This data includes estimates of staffing impacts for the Eastglen Leisure Centre, as well as Arenas. As Arenas are a pooled operating model, a proportion of the total FTE data was extrapolated to estimate impact. Detailed analysis based on specific facilities will need to be undertaken by the City to validate impact.

Table 13: Estimated Impacts to City of Edmonton Employees

	Potential Estimated Changes in Regular Employees (FTEs)	Potential Estimated Changes in Temporary Employees (FTEs)	Potential Estimated Reductions in Employees (FTEs)
Estimated Reductions in Existing Employees	11.0	24.6	35.6
Estimated Reductions by Age			
Under 20	0.0	0.2	0.2
20 – 29	0.1	9.6	10.6
30 – 39	6.0	8.5	14.5
40 – 49	2.0	1.7	3.7
50 – 59	2.0	2.3	4.3
60 and over	0.0	2.3	2.3
Estimated Reductions by Sex			
Female	4.0	2.9	6.9
Male	7.0	21.7	28.7
Estimated Reductions by Tenure			
Under 5 years	0.0	19.9	19.9
5 – 10 years	7.0	4.0	11.0
Over 10 years	4.0	0.6	4.6
Estimated Impact on Existing Employees	(11.0)	(24.6)	(35.6)
Estimated Additions	1.0		1.0
Estimated reductions in Vacant Positions			
Estimated Net Impact	(10.0)	(24.6)	(34.6)

Source: Based on information and assumptions provided by the City.

Note: Analysis is based on data at a point in time.

It is estimated that up to 80 individuals could be affected by the FTE reductions noted above.

Table 14: Estimated Impacts to City of Edmonton Employees by Union Classification

	Potential Estimated Changes in Regular Employees (FTEs)	Potential Estimated Changes in Temporary Employees (FTEs)	Potential Estimated Reductions in Employees (FTEs)
Estimated Reductions in Existing Employees	11.0	24.6	35.6
CUPE Local 30	11.0	24.6	35.6

Note: Analysis is based on data at a point in time. Totals may be affected by rounding.

Source: Analysis of information and assumptions provided by the City.

29. The single-purpose facility types to pilot for outsourced delivery were identified based on assessment of the evaluation criteria. While the Eastglen Leisure Centre, Tipton Arena and Oliver Arena were automatically included as part of the business case scope, it is suggested the City start with a small number of facilities in the initial pilot, of the

same type of facility to reduce overall complexity. As a result, single ice arenas were identified as candidates. The City should consider selecting any five single ice arenas and may consider geographic location, facility age and condition, or interest among potential third-party operators when making its selection.

30. Financial projections for the five single ice arenas are based on the average potential savings across the current portfolio of single ice facilities.

OPTION 3: BOTH OPTION 1 AND 2

All assumptions are included in Options 1 and 2.

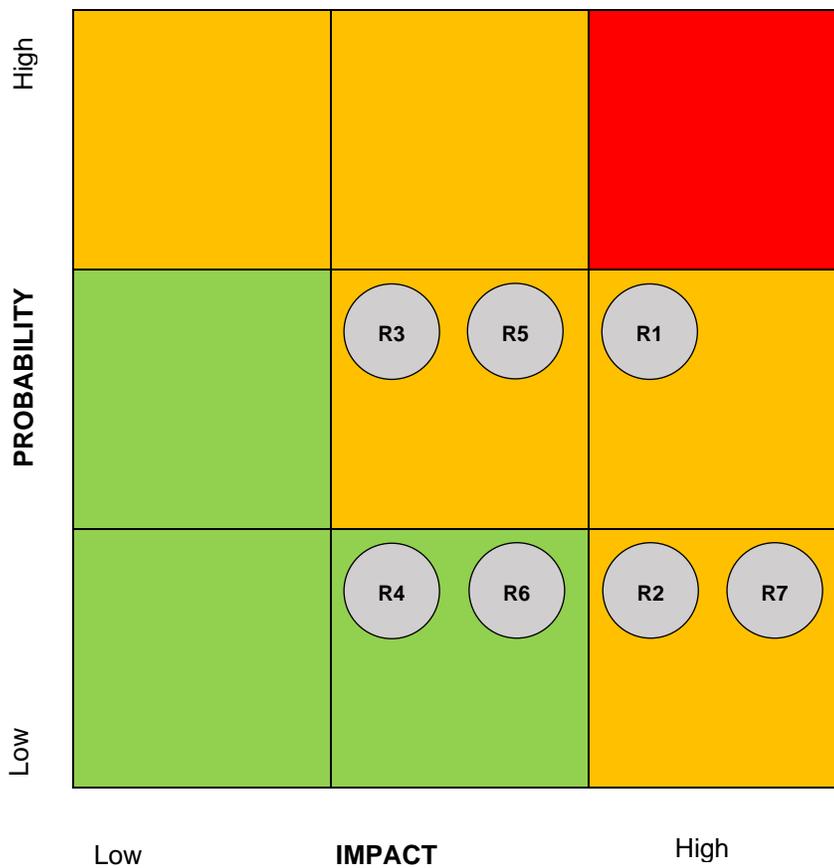
Appendix C: Risk Analysis

RISK ASSESSMENT

Engaging external entities to operate City-owned recreation facilities comes with a low to medium degree of strategic, reputation, operational, market and financial risk.

The following matrix summarizes the key risks of this opportunity, measuring probably against impact.

Figure 2: Risk Matrix



RISK ASSESSMENT AND MITIGATIONS

The risks and mitigation strategies identified for this opportunity are summarized in Table 15.

Table 15: Risk Register

Risk	Relevant Categories	Highest Rating	Mitigation	Residual Risk
<p>R1. Financial Benefits</p> <p>There is a risk that the financial benefits may not be realized if third parties are unable to deliver services more efficiently than projected.</p>	Financial	<p>Financial</p> <p>Impact: High</p> <p>Probability: Medium</p> <p>Overall: High</p>	<p>This risk may be mitigated through formal expression of request process, where potential third parties are given financial and operating information.</p> <p>If this occurs when the third-party operator is already in place, the City may need to work with the third party to negotiate the amount of operating subsidy required. This will still result in net savings if the operating subsidy required is less than the cost of the City operating it directly.</p>	<p>Financial</p> <p>Impact: Medium</p> <p>Probability: Low</p> <p>Overall: Medium</p>
<p>R2. Asset Maintenance</p> <p>There is a risk that overall value of the asset is diminished if not properly maintained by the third party.</p>	Financial Operations	<p>Financial</p> <p>Impact: High</p> <p>Probability: Low</p> <p>Overall: High</p>	<p>This risk may be managed with a clear delineation of maintenance responsibilities and expectations, coupled with regular asset management evaluations to detect early signs of non-compliance.</p>	<p>Operations</p> <p>Impact: Medium</p> <p>Probability: Low</p> <p>Overall: Medium</p>
<p>R3. Labour</p> <p>There is a risk that the City's reputation negatively impacted by the shift to non-unionized positions as part of outsourcing programming and facility operations.</p>	Reputation	<p>Reputation</p> <p>Impact: Medium</p> <p>Probability: Medium</p> <p>Overall: Medium</p>	<p>This risk may be mitigated through engagement and proactive communication with labour relations groups. Mitigation could also be supported through strategies to demonstrate the City's efforts to redeploy impacted human resources to other roles.</p>	<p>Reputation</p> <p>Impact: Low</p> <p>Probability: Low</p> <p>Overall: Low</p>

Risk	Relevant Categories	Highest Rating	Mitigation	Residual Risk
<p>R4. Service Levels</p> <p>There is a risk that third parties may deliver lower levels of service or reduced access and impact the City's reputation, and its ability to achieve its desired outcomes for recreation and culture programming.</p>	Reputation	<p>Reputation</p> <p>Impact: Medium</p> <p>Probability: Low</p> <p>Overall: Medium</p>	This risk may be mitigated through initial selection of third parties that align with the City's public service orientation, as well as rigorous performance management processes and close oversight by City Administration to anticipate and coach partners through potential issues.	<p>Reputation</p> <p>Impact: Low</p> <p>Probability: Low</p> <p>Overall: Low</p>
<p>R5. Perceived Privatization</p> <p>Possible negative public reaction to the use of external third-party operators on principle.</p>	Reputation	<p>Reputation</p> <p>Impact: Medium</p> <p>Probability: Medium</p> <p>Overall: Medium</p>	This risk can be addressed through proactive communication surrounding the criteria for partner selection and accountability measures for quality assurance.	<p>Reputation</p> <p>Impact: Medium</p> <p>Probability: Low</p> <p>Overall: Medium</p>
<p>R6. Access</p> <p>Reduced access for vulnerable groups.</p> <p>For example, competition for access could include specialty / boutique groups interested in facilities for niche recreation purposes (e.g., focus on competitive swim training facility vs. general leisure).</p>	Strategy	<p>Strategy</p> <p>Impact: Medium</p> <p>Probability: Low</p> <p>Overall: Medium</p>	This risk could be addressed through clearly define performance expectations for access and hold partners accountable through regular reporting. Offset costs of Leisure Access Program users, allocations, discounts and perhaps programming targeted at vulnerable groups.	<p>Strategy</p> <p>Impact: Low</p> <p>Probability: Low</p> <p>Overall: Low</p>

Risk	Relevant Categories	Highest Rating	Mitigation	Residual Risk
R7. Market Interest Limited capacity, capability, or interest of the market in undertaking certain types of facilities, such as leisure centres, seniors centres, or specialty facilities.	Supplier/Market	Supplier/Market Impact: High Probability: Low Overall: High	This risk could be mitigated by conducting a preliminary request for information or expression of interest to gain a clearer picture of market appetite before proceeding to outsource.	Supplier/Market Impact: High Probability: Low Overall: High

Source: Prepared by KPMG.



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