

Ottawa's "Orphaned" Community Recreation Facility

My name is Mike Pyndus. I am a tax-paying Ottawa citizen living in Orleans since 1985. I am not associated with any group or organization, other than friends who also use the Ray Friel Recreation Complex to maintain a level of fitness. I didn't receive any funding from anyone to research this situation. The cost of submitting *Municipal Freedom of Information and Protection of Privacy Act* requests to the City of Ottawa for information comes out of my pocket. Having said that, this is what I have found.

For the past eight months, I have been researching problems at the Ray Friel Recreation Complex (RFRC). I started researching trying to understand why problems were occurring at the RFRC and why the RFRC was so different from other City facilities. Questions to Serco, the private company that runs the RFRC on behalf of the City and to the City staff resulted in sometimes no answer, sometimes partial answers, and sometimes answers that begged further questions. After much time and effort I have come to believe that the Public Private Partnership (P3) agreement between the City and Serco¹ may have had flaws in its development, shortcomings in its completion, and insufficient resources applied to the agreement to be properly administered. I am continuing my research, but I felt that this was an opportune time to reveal what I have learned to date and to seek comments from City Council candidates.

This narrative presents facts and my perceptions in the way that the Ray Friel Recreation Complex has been orphaned by the City of Ottawa. I have tried to obtain as many facts as possible, but City Staff have either been unable to provide the information or the cost of having the City research the information, which I assumed to have been easily available as part of a management monitoring process, exceeded my modest budget. I therefore have filled in the gaps of information with reasonable assumptions or perceptions. I hope that as a result of this discussion, more information may be made available to the public, especially concerning the *Curious Points* discussed later.

I have tried to clearly differentiate the facts, my perceptions and my assumptions.

I have grouped the information and my perceptions into several main categories:

Recognition;

Funding;

Support; and,

Curious Points.

I summarize with recommendations, one of which is to reopen the agreement that has some serious flaws and oversights.

¹ In my dealings with the City, it appears that the City wishes to be a silent partner.

Recognition

Many people using the facilities at the Ray Friel Recreation Complex (RFRC) don't realize that it is a City facility, built by and for the community. A visit to the Recreation Facilities page of the City's Parks and Recreation website (http://www.ottawa.ca/residents/parks_recreation/facilities/index_en.html), will not show the RFRC. I have been told that by choosing the phrase "The City of Ottawa owns **and operates...**", the City can exclude the RFRC from the list of recreation facilities, as the City does not operate the Centre. The six other Class A facilities are the Nepean Sportsplex, the Kanata Leisure Centre, the Orléans Recreation Complex, the Plant Recreation Centre, the St-Laurent Complex and the Walter Baker Sports Complex, as shown on the City's web site. One can search the Ottawa web site using the term "Ray Friel" and, among the many documents that discuss the Ray expansion and reports, there is a "Neighbourhood Recreation Partners" link that eventually links to the Serco Ray Friel Recreation Complex website.

At the RFRC, the only indication that the City has anything to do with the Centre is a small logo on the advertising sign by 10th Line Road and a drooping flag by the entrance. Other than that, the RFRC is void of any City logos or indications that this is a community centre or a City facility. However, there is a memorial plaque to Ray Friel in the main lobby.

Funding

There is a great difference in the City's funding of their Class "A" recreation facilities. During the Health, Recreation, and Social Services Committee meeting on the 7 Sep 2006, I addressed the committee regarding Item 2 - Physical Activity Strategy – One Year Update. My concern was the value that the City is receiving for the money that it is spending on the various programs. I stated that I was surprised that the City's recreation facilities were not included in the City's Physical Activity Strategy. I went on to ask if any sort of performance measurement could be put in place to measure whether the many physical activity initiatives were accomplishing their aims and at what cost. The City Manager subsequently responded indicating that the City of Ottawa was in the process of obtaining and developing performance measurements and that they should be available next year. I stated that the City is subsidizing shortfalls in the operation of its six Class "A" facilities with about \$9 M, based on 2005 actual expenses². I was forced to draw this information from several different City data sources, as the City is not yet able to associate total costs with an activity area. In responding to a subsequent Councillors question, the City Manager indicated that he hopes to have activity based reports available next year.

² The City under its "business as usual" process provided the source data.

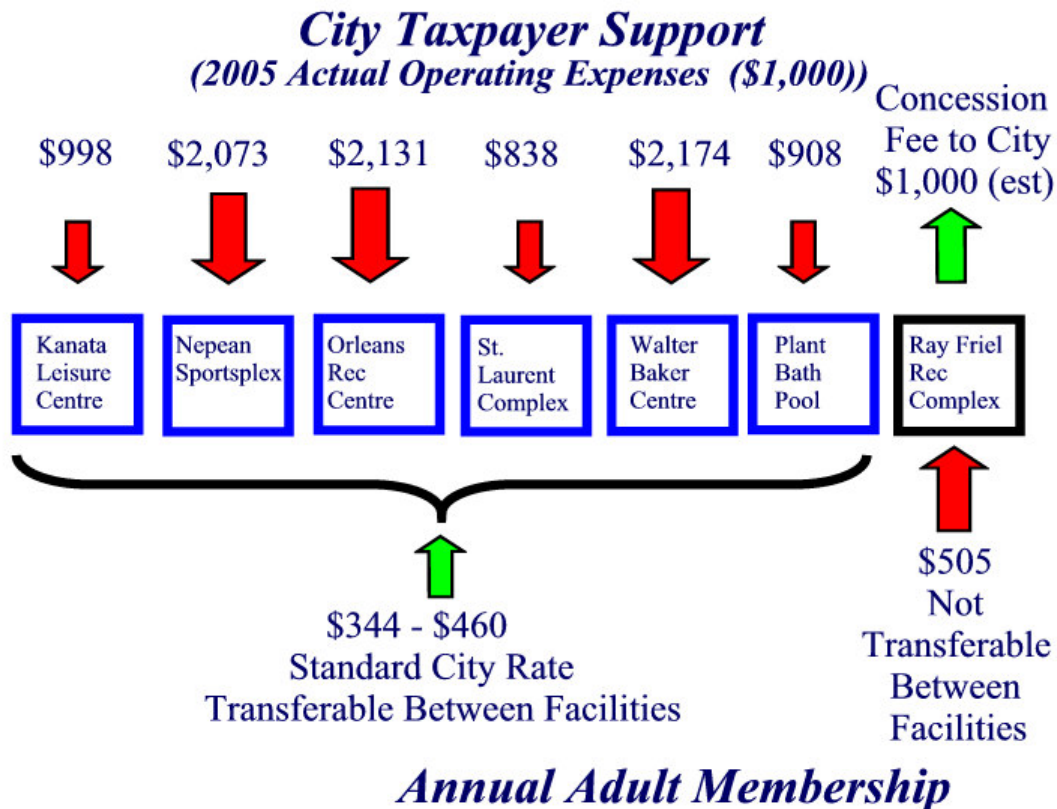
The following are the 2005 operating shortfalls by facility (the accuracy of these figures is as good as the City's data provided to me³):

- ▶ Kanata Leisure Centre - \$998 K operating deficit paid by the taxpayers.
- ▶ Nepean Sportsplex - \$2,073 K operating deficit paid by the taxpayers.
- ▶ Orleans Recreation Center - \$2,131 K operating deficit paid by the taxpayers.
- ▶ St. Laurent Complex - \$838 K operating deficit paid by the taxpayers.
- ▶ Walter Baker Centre - \$2,174 K operating deficit paid by the taxpayers.
- ▶ Plant Bath Pool - \$908 K operating deficit paid by the taxpayers.

In contrast, for the RFRC, based only on the \$13 M loan at 6.5% and the 20-year term of the agreement, I estimate that Serco/RFRC is paying the City about \$97 K each month as part of its concession fee. That is a profit to the City of about \$1,164 K each year. However, there is a price for this. Ottawa tax-paying citizens using this City facility pay different fees than the standard fees paid at the six other Class A facilities. For example, the City approved rate for an annual adult membership at the RFRC is \$505 (http://www.rayfriel.com/offerings/fitness/details.asp?SUB_CATEGORY_ID=25). The standard city rate varies from \$344 (http://ottawa.ca/residents/parks_recreation/memberships/fitness_en.html) to \$460 per year (http://ottawa.ca/residents/parks_recreation/memberships/all_inclusive_en.html). Furthermore, the RFRC membership, unlike the other Class A facilities, is not transferable to the other City facilities⁴. The diagram below shows the cash flows:

³ These figures were sent to Mayor Chiarelli, and to Councillors Monette and Jellett on May 13, 2006. These figures were also presented to City Staff through the July 2006 meeting of the Parks and Recreation Advisory Committee. I also presented the total of about \$9 M operating deficit to the Health and Recreation Committee in September 2006. To date, these numbers remain undisputed.

⁴ I spoke to this point at the Parks and Recreation advisory committee meeting in July 2006. The committee asked the City staff member attending the meeting to look into making the Ray Friel pass transferable.



I believe the reduced funding experienced by the RFRC causes very tight spending controls in the operation of the RFRC which causes the recurring cleanliness issue, reduced and aging equipment and increased staff turnover, which manifests itself in programming inconsistencies. Essentially the members of the Orleans community who use the RFRC bear the effects of the City's savings while still subsidizing, with their tax dollars, the memberships of the City's other Class A facilities.

In economics, the term externality is used to describe a cost borne by someone other than the bargaining parties. For example, the cost of pollution in a process that produces a product for a customer under an agreement is borne by society, an externality outside the customer/producer agreement. In the case of the RFRC, the bargaining parties were the City staff and Serco. The externalities are the members of the community using the RFRC who face higher, unsubsidized costs and poorer services linked to expense items.

A report to Corporate Services and Economic Development and Council, 8 May 2003, submitted by Steve Kanellakos, A/City Manager, when comparing break-even rates for ice time (based on the Public Sector Comparitor (PSC)) versus the rates that would be charged to City Groups, states:

“The difference between these figures (PSC) and the city established ice rental rates represents the level of support the City provides to encourage and sustain recreational activities within its facilities. As an example, in the case of the adult rental rate set at \$143 per hour, this represents a level of support ranging from \$95 to \$115 per hour, and for minor organizations, with a city rate set at \$87 per hour, this represents a level of support ranging from \$151 to \$171 per hour.”

Unlike the Ice Surfaces there does not appear to be any level of support for the RFRC fitness centre,”...to encourage and sustain recreational activities within its facilities.”

Support

City support to the members of the community using the fitness centre of the RFRC is minimal.

For example, a part of the City/Serco agreement, Annex E to Schedule “H”, is supposed to include housekeeping standards. As of May 2006, the City’s Real Assets and Property Management Branch were still reviewing a draft of the cleaning standards⁵. This was ten months after the Agreement was deemed to come into effect, in July 2005. This is significant in that a Report to Corporate Services and Economic Development Committee and Council on 6 May 2004, submitted by Kent Kirkpatrick, the then City Manager, in recommending the Ray Friel P3, stated that:

“During the same period (December 2004 to January 2005), staff responsible for overseeing the existing Serco management contract at the Ray Friel Centre were reporting a net degradation in the cleanliness of the facility and a significant increase in customer complaints. In March, the City deferred its negotiations with Serco until there was a marked improvement in Serco’s management of the existing contract.”

⁵ Although I have asked for an update on whether housekeeping standard has been approved, the City has remained silent.

During the Spring of 2006, under the new agreement, a significant degradation was again experienced by the patrons as can be attested to by Councillor Monette who visited the Centre to personally witness the low housekeeping standard. It is very difficult to quote a standard for cleanliness if the City and Serco do not have one. I did obtain a copy of the standard for other City Recreation facilities. The City standard seems reasonable, so I don't understand why the City is having so much difficulty in producing a standard for the RFRC.

The agreement between the City and Serco requires ongoing participation by both parties to uphold the agreement. I asked City staff how they were performing their responsibilities detailed in the City/Serco agreement and specified certain City obligations. Their email basically said that they could not perform all of the monitoring that they were supposed to do because the City had not budgeted resources for this function. My experience with services that are contracted out is that money should be set aside to administer and monitor the contract and should be included in an analysis of the cost of a P3 alternative compared to other options, such as a City-run facility option.

There are other flaws in the agreement. For example, one pertains to improvements that involve stationary equipment. In the agreement between SERCO and the City, Schedule "H", Article 3-Duties and Responsibilities of SERCO, paragraph 3.08 (c), it states that, "Serco shall be responsible for the repair and replacement of all non-stationary equipment in the Complex..." A 140-person petition was sent to City Council asking for ceiling fans to remove an air circulation deficiency that was overlooked during the RFRC expansion. The City did add a wood floor and mirrors to the fitness room during that expansion effort. In April 2006, City staff had indicated that the work could be added to the 2006 City budget, but then in July 2006, City staff reversed their position saying that they couldn't budget money for the fans because the Complex is being run under contract. The RFRC was under Serco management when the wood floors were installed using City money, so I am having trouble figuring this one out. Unless someone sees through this obvious gap in responsibilities, the next 19 years of the agreement will restrict any improvement to the facility as the City won't fund stationary equipment and Serco is not responsible for it.

Unlike the ice surface component of the RFRC, separate from the pool and fitness component, where the City buys and resells ice time at below market rates to promote fitness and healthy living, the City has no involvement, or intention as far as I can tell, in buying or subsidizing fees in the fitness component. This is essentially a private company "leasing" space from the City in order to compete with the YMCA a few kilometres to the North, the Goodlife Fitness Centre a couple of kilometres to the South and the new Goodlife Fitness Centre opening in the Place d'Orleans Shopping Center. I don't believe that this is the intended function of a City recreation facility.

As stated previously, at the September Health and Recreation Council Meeting, I addressed the council with my concerns of the effectiveness of the many programs that are being funded to improve fitness and healthy lifestyles in the City's citizens and the requirements for performance measures. For fitness programming, the current City/Serco agreement states the following, in total, for fitness programming to be provided by SERCO⁶.

"A variety of activities and programs shall be available, such as but not limited to personal training, weight and cardio and aerobic fitness classes. Aerobic fitness classes should be available on a daily basis"

I find that the terms used in this statement, "such as" and "should" do not provide enough direction to ensure that City goals to promote fitness and healthy living are being promoted. It has been argued that the profit motive will encourage Serco to maximize fitness classes and encourage maximum attendance. This may not be true in all cases. For example, let's say that there are fitness classes scheduled each day of the week. Attendance varies from class to class. Let's also assume that there is room for forty participants in the fitness room and there are twenty sets of equipment. Let's also say that about one-third of the classes see an attendance of thirty people. This is where the goal of the City and the profit motive may vary. The City's goal to encourage participation would contribute to a decision to provide ten more sets of equipment, whereas, a profit-motive decision may ask whether the cost of tens sets is profitable if they are required for only one-third of the classes. I believe that the performance measurements that the City Manager said are being developed will include the Recreation Facilities. They should also be applied to the RFRC as I believe that Serco should be, as a minimum, providing City services equal to those offered by the City-operated facilities with the same City goals.

I always understood that in contracting out a service, the Contractor should provide better service for the same price or the same service for a lower cost. In this case, as indicated by the previous diagram, the City is saving money, but it is at the cost of the community served by the Ray Friel Recreation Complex.

⁶ City/Serco agreement, Schedule "H", Annex A, paragraph 1.4.

Curious Points

When the Public Private Partnership (P3) was proposed in 2002, it was for two ice surfaces. This idea of the P3 only for the ice surfaces continued into 2003 with council approval being sought for the ice surfaces. Somehow, the funding grew to encompass a restaurant/bar, a retail store and a sports medicine clinic. I find this curious because if someone were to approach City council and ask the City to borrow several million dollars and hand it over to that person so he or she could build a commercial building with a bar, a clinic and retail space, and subsequently pay rent to the City so that it could pay back the loan, I don't think that it would go very far - even if the City were to take possession of the building after 20 years. But this is what happened at the RFRC. This is strange because adjacent to the RFRC is a mall with restaurant and plenty of retail space. I don't think that the City should be competing with the local entrepreneurs.

In a report to the Corporate Services and Economic Development Committee and Council on 30 September 2002, Submitted by Bruce Thom, City Manager and Prepared by Réjean Chartrand, they stated, "Foremost, the creation of a P3 must be in direct response to a program need generated within a city department and approved by Council." Was there a City program need for a restaurant bar, a clinic and retail space? Effectively, these City spaces are in competition with the retail space in the Fallingbrook Mall adjacent to the RFRC. This is further aggravated by the City/Serco agreement that has the City receiving a portion of the profit generated by these spaces.

Furthermore, in evaluating the P3, the Report to/Corporate Services and Economic Development Committee and Council, 8 May 2003, Submitted by Steve Kanellakos, A/City Manager, Public-Private Partnerships – New Ice Surfaces, states that the Serco proposal was to "...add two new ice surfaces on the site as an addition to the existing building. The addition would include approximately 6155 sq.m of floor space to accommodate the ice surfaces, a concession area, a storage area, and an expanded entrance and main corridor." A cost analysis is provided later in the report at Annex A to that document, but the analysis is based on, "A cost profile for a twin-pad facility (that) was developed from actual costs over the 1999 to 2002 period, and projected to 2004." The cost of running the bar/restaurant, the sports medicine clinic, the retail store and the fitness centre does not appear to have been factored in to compare the cost of running the facility through a private organization, through the City or through other options. To date, I have not been able to find data that provides a cost comparison for different options to operate and manage the RFRC as a total entity. City Council, in Oct 2002, Minutes 42, directed that "full financial disclosure" was required to be provided to the community for P3 projects. I recently submitted a *Municipal Freedom of Information and Protection of Privacy Act* request to obtain this disclosure but only partial information has been provided.

On a side note, it would be interesting to see if the projected ice usage profiles estimated in the *Public-Private Partnerships – New Ice Surfaces* report are being met. A shortfall in ice usage time and revenues would place additional pressure on the fitness centre as I believe that the whole complex is regarded as a single revenue generator and not held financially separate.

My perception is that as the May 2003 election approached, the City Council was eager to formalize the development of the two east-end ice surfaces. Pressure may have been placed on the City and Serco negotiators to develop an agreement. However, Serco seems to have been hesitant as indicated in this excerpt from a Report to Corporate Services and Economic Development Committee and Council on 6 May 2004 Submitted by Kent Kirkpatrick, the then City Manager, recommending the Ray Friel P3:

“Negotiations were initiated immediately following Council’s approval and progressed steadily until the early part of November (2003) when it became obvious that movement in interest rates were creating significant pressure on Serco’s business case. Interest rates had dipped under 5.0% at the end of August when the agreement framework had been negotiated and steadily increased to just under 6.5% in early November creating considerable exposure for Serco on the long-term debt repayment.

Furthermore Serco had entered into the negotiations on the expectation that construction could have been initiated by end of November, and given that this timeline was at risk, was getting concerned about its commitment to deliver the building at the start of the season in September 2004. As a result, Serco advised in late November that it wanted to reconsider its involvement in this project and deferred the negotiations.”

It is my perception that “sweeteners” were added to the agreement to sway Serco’s business case. For example, Serco’s original agreement to “operate and manage” the Ray Friel Centre, which was to expire in 2007, was extended for 20 years without a competitive tender. Note that the original MERX tender, according to City documents, was for a P3 for two ice surfaces, and that the addition of the rest of the facility (pool, fitness areas, meeting rooms, etc...) appears to have been added after the tender process. Other “sweeteners” may have been the bar/restaurant, the clinic and the retail store.

I am also curious about how the people who negotiated the agreement (City and Serco) thought that by changing the facility manager, an average operating shortfall of \$1.5 M⁷ could be eliminated and an additional \$1 M could be generated as concession fees paid to the City. All this without, I presume, reducing the quality and variety of services. I believe that the RFRC pays the same utility rates as the other facilities, is exposed to the same labour market wage rates, buys equipment from the same fitness industry (maybe the City receives better rates buying for six major facilities instead of one), and maybe gets by with less pension contributions, etc. Therefore, I cannot see where a \$2.5 difference in savings can be achieved between a City facility and the RFRC, other than by increasing membership and user fees and reducing services.

Recommendations

If the City is satisfied with the performance of Serco and the fees charged to the Orleans community to participate in this fitness centre at the RFRD, then, by applying the same management procedures and fees to the other Class "A" facilities, the City could eliminate \$9 M in spending and also receive \$1 M from each of the six recreation facilities (I did not investigate the Class "B" facilities). This would put the City ahead by \$15 M. Note that the Serco website indicates that they have helped governments improve the way they do business without necessarily operating the process or facility. Serco could be contracted to assist the other facilities in generating profits.

Otherwise, the agreement between the City and Serco should be revisited and amended. Personally, I feel that the "profit and loss" situation at the RFRC is too tight to offer the services and equipment at reasonable rates to meet the City's objective of increasing fitness and encouraging healthy life-styles. A "...level of support the City provides to encourage and sustain recreational activities within its facilities" is required. To accomplish this, the current landlord/tenant-like arrangement for the RFRC fitness centre should be replaced by a more reasonable plan that brings in City support. For example, the Ottawa Paramedic Service Headquarters P3 has the following structure:

"Forum (the operator) will be responsible for the property management of the facility for an annual management fee, to be escalated over time. All costs related to the operation of the facility will be paid for by the City without mark-up, or contingencies."

⁷ Based on the numbers previously stated in this document, it appears that the 2005 average operating deficit for the City's other six Class A facilities is \$1.5M.

The West Carleton Community Complex P3 has the following structure:

“An additional management success fee will be provided to the private-sector partner if they successfully reduce the facility’s projected annual operating shortfall.”

The City and Serco should consider the West Carleton P3 structure for the RFRC. Using the average 2005 operating deficit of \$1.5 M for the other City Class A recreation facilities as a benchmark, a formula could be developed that would provide an incentive program that would encourage Serco to improve efficiencies. The standard City fees for the other City Class “A” facilities should be applied to the RFRC to reflect a, “...level of support the City provides to encourage and sustain recreational activities within its facilities.” The performance measures that the City Manager has indicated will be introduced to the other City recreation facilities, should be also be applied to the RFRC.

Revising the agreement would also provide an opportunity to remove the flaws that some City staff have indicated are in this agreement that was apparently used to start the City’s learning experience in preparing P3 agreements.

Possibly a combination of having Serco assist the other facilities in reducing their reliance on tax-payer money and a review and revision of the City/Serco agreement may be in the best interest of all tax-payers and remove the unfair situation that has been imposed on the Orleans community using the RFRC.

In summary, I feel that this agreement between the City and Serco is the result of a learning exercise for the City with the addition of pressure to finalize, or at least show significant progress, before the November 2003 municipal election. I believe that this P3 agreement between the City and Serco may consequently have had flaws in its development, shortcomings in its completion, and insufficient resources applied to the agreement to be properly administered. I believe that it is time to amend the agreement to bring the services and rates of this orphaned City Recreation Facility into harmony with those of the other recreation facilities still enjoying the care and support of the City parents.

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