

Report to Council



Date: February 26, 2024
To: Council
From: City Manager
Subject: H2O Adventure & Fitness Centre Lease and Operating Agreement
Department: Active Living & Culture/Real Estate

Recommendation:

THAT Council receives, for information, the report from the Active Living & Culture Division and Real Estate department dated February 26, 2024, with respect to the Lease and Operating Agreement between the City of Kelowna and the YMCA of Southern Interior of BC;

AND THAT Council approves the YMCA of Southern Interior of BC Lease and Operating Agreement generally as attached to the report from the Active Living & Culture Division and Real Estate department dated February 26, 2024;

AND THAT the Mayor and City Clerk be authorized to execute the Lease and Operating Agreement and all documents necessary to complete this transaction;

AND FURTHER THAT the 2024 Financial Plan be amended to meet the requirements of the Lease and Operating Agreement.

Purpose:

To obtain Council approval for the Lease and Operating Agreement between the City of Kelowna and the YMCA of Southern Interior BC for the operations of the H2O Adventure & Fitness Centre.

Background:

The City has contracted the YMCA of Southern Interior BC (YMCA) to operate the H2O Adventure & Fitness Centre (H2O) since 2008. The H2O Adventure and Fitness Centre houses a natatorium that includes a competition size 50M pool, splash park, waterslide features and more in addition to health, wellness, and fitness spaces. The YMCA offers a variety of services including swimming lessons, pool rentals to local sport organizations, fitness classes, personal training, programs, camps, and childcare

opportunities. An overview of program and service impact is highlighted through the attached infographic (Attachment B).

The existing agreement with the YMCA expired December 2023 and is currently operating on a month-to-month basis.

Discussion:

City Staff have worked closely with the YMCA to develop a new Lease and Operating Agreement which provides clarity to the working relationship and expectations of both parties while outlining shared objectives including providing accessible, high-quality aquatic, fitness and wellness services and amenities to the Kelowna community. The new agreement establishes a legal framework for responsibility and accountability by each party while reflecting the collaborative and mutually beneficial relationship between the City and YMCA.

Highlights of the agreement include:

- Providing a three-year lease to the YMCA with the opportunity for one two-year renewal, at the mutual discretion of the Parties.
- A financial framework capturing costs associated with the operations of H2O while providing the YMCA operational flexibility in achieving the desired performance and objectives to ensure strong financial management.
- The YMCA is fully responsible for all day-to-day operations, management decisions, and staffing the facility.
- The agreement addresses facility and equipment renewal to maximize the lifespan of the facility and equipment.
- The City and the YMCA are jointly responsible for the maintenance of the facilities, with their respective responsibilities outlined in Schedule "E" of the Lease and Operating Agreement.
- Established reporting requirements, key performance indicators and feedback opportunities.
- Public access to the facility is defined and assured over the life of the agreement and ensures barriers are reduced.
- Branding guidelines that reflect H2O is owned by the City and operated by the YMCA.

Financial/Budgetary Considerations:

The financial framework for H2O is based on a model that aims to achieve cost neutrality for the City over the term of the agreement. This will be accomplished through gradually reducing the City's current operating subsidy, (given as an operating grant to the YMCA), over the full term of the agreement until zero dollars is achieved in the final year, while allowing the YMCA operating flexibility to adapt to market conditions and meet performance and operating objectives. Beyond the scope of the operating grant, the YMCA will be responsible for any operating deficits.

The financial framework and H2O operating budget will also include:

- An annual YMCA Management Fee and YMCA Affiliation fee.
- Contributions to an Operating Reserve Fund and Program Asset Management Reserve Fund.
- The City will contribute to Minor Repairs annually if the cumulative costs meet the agreed threshold.
- When a Facility surplus is realized, the YMCA and the City shall share the surplus at the percentages outlined in Schedule D of the agreement.
- The City shall provide up to \$425,000 over the first two years from the H2O Equipment Replacement Reserve for program asset upgrades as outlined in Schedule C - Program Asset Management Plan.

The 2024 H2O operating financial forecast is included in the Agreement (Schedule G):

City H2O Reserves

Since H2O first opened, the City has funded two reserves specific to H2O; a general reserve which supports major system renewal and an equipment replacement reserve which supports program related assets such as fitness equipment and natatorium specialty equipment. The City currently maintains both reserves and will continue to do so.

As the City's Operating Grant is reduced and/or a facility surplus is realized, the funds will be redeployed to the general reserve.

Existing Policy:

The proposed non-market facility leases align with Council Policy 347 — Non-Market Leasing of Civic Lands and Buildings. For this reason, staff are recommending non-market leases and operating agreements as detailed in this report.

Conclusion:

This agreement provides program continuity and quality services to the community, operational support from an experienced organization and renewed financial framework that reflects the potential of the facility.

As Kelowna's sport and recreation landscape evolves, H2O will continue to play a significant role in the health and wellness our community and remains a flagship facility.

Internal Circulation:

Active Living & Culture
Property Management
Financial Services
Building Service

Considerations not applicable to this report:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Consultation and Engagement:

Communications Comments:

Submitted by:

J. Gabriel, Divisional Director, Active Living & Culture

Approved for inclusion: J. Gabriel, Divisional Director, Active Living & Culture

cc: Divisional Director, Partnerships & Investments
 Divisional Director, Financial Services
 Divisional Director, Corporate Strategic Services