

Funding Regionally Significant Recreation Facilities Based on Residency of Use

November 13, 2019

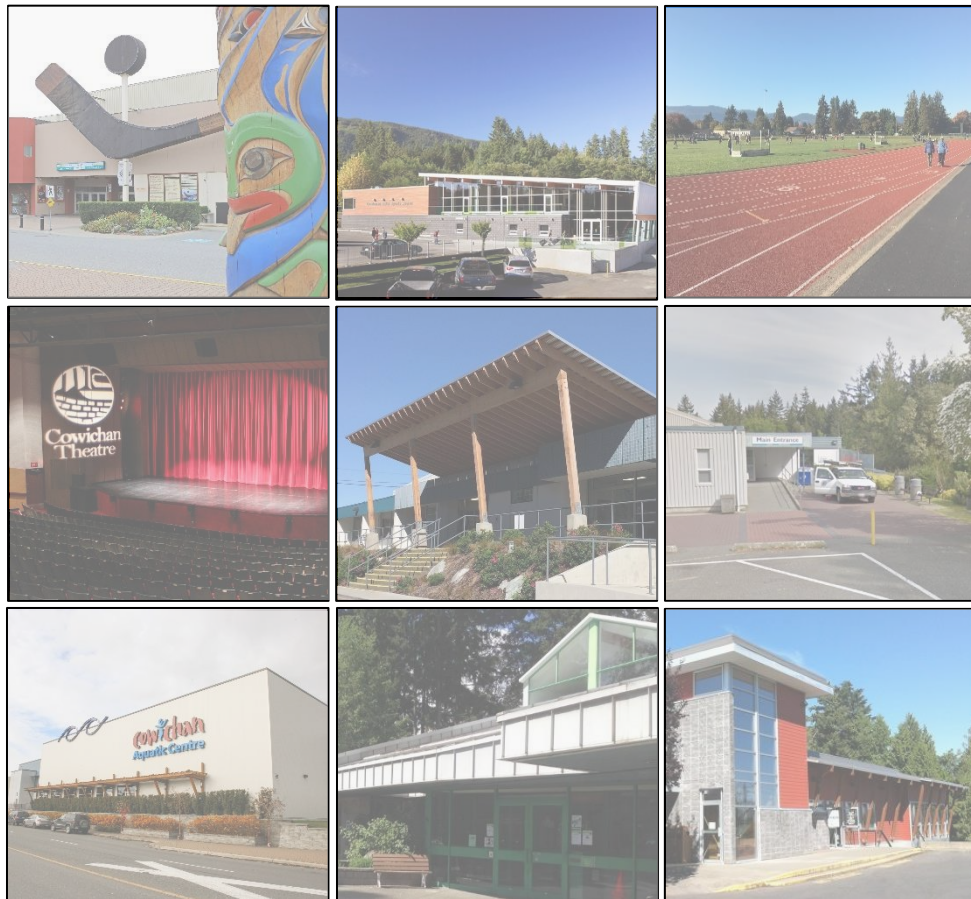


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Overview

In August of 2019, the Board of Directors passed a resolution to approve, in principle, funding nine regionally significant recreation facilities on the basis of the residency of uses. The Board asked for a report on options for changes to governance and for phasing in the implementation of the new funding model. The staff involved in operating and financing those nine facilities discussed how to implement the Board's resolution during two workshops facilitated by a consultant retained to assist with the process. Their experiences and input have been incorporated into this report.

It should be noted that the nine regionally significant recreation facilities are owned and operated by different public entities, which complicated governance significantly. Five are owned and operated by the Cowichan Valley Regional District (CVRD), three are owned and operated by municipal governments, and one is owned by a municipality but operated by a not-for-profit society.

1.0 Assumptions and Principles

The following assumptions and principles have been developed that underpin what needs to be done to make the new funding formula work:

1.1 Zero Sum Result

This new funding model would shift who pays into the current funding for regionally significant recreation facilities. There is no intent in this new model to change the overall level of funding, which is a separate decision.

1.2 Governance Linked to Funding

Whichever jurisdictions are involved in paying for a facility or service should be involved in the governance of that facility or service. Traditionally in the CVRD, as in most other Regional Districts in BC, the Board has appointed recreation commissions to govern specific recreation facilities or services. In the future, commissions or comparable structures will need to ensure that if a jurisdiction contributes to the operation of the regionally significant facility or service, it is represented on the commission or advisory committee that governs it. To the extent that implementing the new funding formula adds jurisdictions to funding recreation facilities, the structure of the commission or advisory committee that oversee such facilities will need to include them.

1.3 Debt

Taxpayers in the jurisdictions that authorize debt for regionally significant recreation infrastructure, need to assume it. While jurisdictions can contribute to the operation of a specific regional recreation function, they will only participate in the funding of the debt service charges associated with that function if they agreed to the debt initially. They can't be forced to participate in debt servicing after the fact, once others have voted to borrow the debenture and assumed a legal obligation to service that debenture.

1.4 Funding Now vs. Funding in Future

Committing to fund the operation of a specific regionally significant recreation amenity should not obligate a jurisdiction to fund future changes to the function of the facility or any future long term debt. Any new debentures will require new authorization. Any new facilities added to a funding model will require separate authorization to develop that facility before it gets added to the regional funding formula. Any significant additions to an existing facility funded under this new formula will require a separate decision to be included in it. A process for future proposed expansions of service opportunities, especially from grants, would need to be developed.

1.5 Participation

All jurisdictions need to participate in the function for the new funding formula to work effectively.

1.6 Current Capital

Operating a recreation facility also involves current capital. Maintaining the functionality of a facility includes operating costs, but also includes long term lifecycle maintenance funding, replacement of small capital items and emergency capital outlays (e.g. if a roof starts to leak or piece of major equipment breaks down and needs to be replaced, the operator has little choice but to incur a capital cost that is required to keep the building operational). So, operating budgets and short-term capital budgets are two sides of the same coin and both are required to maintain a current level of service. Significant additions to a facility, and/or incurring long term debt to develop a new facility, are part of adding to a service level and must be treated separately as outlined in item 1.4.

1.7 First Nations Funding

Funding by Cowichan Tribes, and possible other first nations entities, shall continue to be pursued and secured, but will not be a prerequisite of this new funding formula. The Cowichan Tribes currently provides funding for one of the nine regionally significant recreation facilities and it is assumed that continued funding will be forthcoming. The CVRD can request additional funding from the Cowichan Tribes for other facilities and may request funding from other First Nations entities that use the regionally significant recreation facilities. However, the CVRD cannot require that the Cowichan Tribes or any other local First Nations entity participate in this new funding formula. Where a contribution is made by a First Nations entity for any facility, it will be used to reduce the net contribution by the region's taxpayers or enhance the service.

1.8 Changes to Ownership or Operating Entity

No changes to the ownership of facilities are required, nor is any change necessary to the operating entity of any facility. Across BC there are many examples of regionally significant recreation facilities that are financed by regional taxpayers, but are not operated by the Regional District. There are many examples where a Regional District contributes to the operation of a facility which is owned and operated by a municipality or a not-for-profit society. In Phase Three of the recent Regional Recreation Planning study, the issue of whether changes were required to the current ownership or operation of regionally significant recreation facilities in the CVRD was indicated. That study concluded that sufficient collaboration and cooperation was happening informally at present, and that no changes were required to ensure continued optimization of all resources and services. Therefore, it is assumed that the status quo (i.e. five regionally owned and operated facilities, three municipally owned and operated facilities, and one municipally owned but not-for-profit operated facilities) could and should continue, even with a significant change in the funding for all those facilities.

2.0 Recommended Process for Adopting the New Funding Formula

In order to shift from the current fragmented system of funding nine regionally significant recreation facilities to a new, more cohesive and comprehensive model, the following steps will need to be taken:

2.1 Voter Approval

It is anticipated that the CVRD Board will obtain voter approval of the new funding model before it adopts it. A public approval process would have to be held on a region wide simple-majority basis, and if a majority of all votes from the 13 jurisdictions is registered in the affirmative, the new funding model would be implemented.

2.2 Creation of New Region-Wide Recreation Function

For purposes of this recommendation it might be titled something like “Funding Regionally Significant Recreation Services.” It would initially set a limit of total funding which allows for some variance and emergency capital funding in order to not unduly limit the sustainability of the operation of the nine facilities. This new function would be intended to replace municipal funding through existing functions and programs for a net zero overall effect on total funding of the nine facilities (no increase or decrease in funding, but a shift from where the funding is derived). A new “commission” would be set up which would consist of current Board members. However, since there would be overlap with the current Community Services Committee of the Board, it is suggested to collapse these two entities into one, and we will now refer to the Community Services Committee as the oversight body.

2.3 Oversight of the Funding Process

In initial years, each of the entities responsible for operating the regionally significant recreation facilities would prepare an annual budget which separates operating costs and revenues from planned capital, as well as an allowance for emergency capital, and submit it to the Community Services Committee. In subsequent years, once all owner/operators of the regionally significant recreation facilities have a comparable asset management program, a transfer to a lifecycle asset management reserve for each facility would be added as an additional category to each budget. Each budget would clearly show a net bottom line of tax support required. The Community Services Committee associated with the new model would meet to review all budgets and ask questions for clarification and request any adjustments required to ensure consistency and equity of process. For example, if a net requisition is significantly increased from the year prior, the Community Services Committee could ask for a meeting with that authority to review the recommended increase. The committee would then sign off on all budgets and turn the technical part of the funding process over to CVRD finance staff to implement. The authors of this report believe that the oversight as noted above can be sufficient and that no local oversight to augment it is necessary.

2.4 Implementing the Funding Process

The budget for each facility would be prepared by the operator, clearly identifying the requisition amount. This budget would then be sent to the CVRD Finance department and each of the nine facilities' requisition would be allocated based on usage of the 13 jurisdictions. The total for each jurisdiction would be determined and included in the annual requisition that was sent to the four Municipalities and the Province by the CVRD Finance department.

2.5 Phasing in the New Funding Formula

Because significant change in shifting to a new funding formula will cause some stress on taxpayers, the change from the current funding model to the new funding model should be phased in over three years. In the first year, which could be 2021, one third of the funding would be allocated on the basis of the new usage model and two thirds based on existing sources of funding. In the second year, two thirds of the net cost should be funded on the basis of the usage model and one third based on the past model. In the third year of the shift, and each year thereafter, all the net costs should be apportioned on the basis of the new user based model.

2.6 Updating the Usage Data

Collecting the usage data and assigning residency to it is a significant undertaking that may have significant cost attached to it. To track changes in the residency of uses and update the funding formula, a five year data collection cycle should be adopted. Every five years the residency of uses of the regionally significant recreation facilities should be collected. In order to soften any

significant changes from one data collection cycle to the next, a rolling average of the past three data collection cycles should be adopted to smooth out peaks and valleys. Before fifteen years of data is available, an interim process is required as follows:

- 2.6.1** Initially the data collected for 2017 should be used for five years;
- 2.6.2** Once the data has been collected again in 2022, an average of those first two data sets should be used;
- 2.6.3** When the third set of data is collected in 2027, the average of all three data sets should be used; and
- 2.6.4** Thereafter the most recent three data sets should be used to calculate an average that is applied.

2.7 Significant Changes to Regional Recreation Infrastructure

New facilities and/or significant enhancements to existing facilities would have to go through a separate process which would be similar to the process that has resulted in the existing facilities. In order for a new or expanded facility to be added to the regionally funded facilities within the purview of this new funding model, an estimate of usage by residency would need to be made and used until actual residency of use can be measured.

2.8 Mandated Review of the Governance and Funding for the New Funding Function

The new funding model should have a built-in review period intended to ensure a review, and to potentially improve the funding model and governance system. A five year initial review should be built into the new function.

3.0 Changes to Oversight at the Facility Level

If additional oversight of the nine facilities at a level below the Community Services Committee is deemed necessary by the Board, at least five potential options are available.

Background

As mentioned earlier in this report, municipalities exercise oversight of recreation services differently than regional districts. In the case of the nine regionally significant recreation facilities in the CVRD:

- The five that are owned and operated by the CVRD each have a local commission responsible for oversight of that facility. However, as two of the facilities (the Cowichan Community Centre and the Cowichan Performing Arts Centre) come under a single commission, there are four separate commissions.
- The four that are owned by three municipalities are controlled directly by two municipal councils and there is no specific commission set up to oversee them. The only exception is that the Cowichan Sportsplex is operated on behalf of the District of North Cowichan by a not-for-profit society which has its own Board of Directors that provides local oversight.

Across BC there has been a very clear and consistent shift in the governance of municipally owned and operated recreation facilities. Whereas commissions were quite common in past decades and they often had significant influence over the governance of municipally owned and funded recreation facilities and services, this has since shifted away from commissions to advisory committees of council, and then to no specific oversight at all. Councils control the services directly just as they control all other municipal services. This has become the norm and is widely considered as a Best Practice. In regional districts however, commissions are still widely used as a basis of governance where there is no local council to assume that role. With very few exceptions, the nine regionally significant recreation facilities are broadly used by residents of all 13 jurisdictions within the CVRD, as **Figure One** outlines below.

Figure One
Summary of All Use of Regionally Significant Recreation Facilities in 2017

Regionally Significant Recreation Facilities	Electoral Area A	Electoral Area B	Electoral Area C	Electoral Area D	Duncan	Electoral Area E	Electoral Area F	First Nations	Electoral Area G	Electoral Area H	Electoral Area I	Lake Cowichan	Ladysmith	North Cowichan	Total
Cowichan Aquatic Centre	3.8%	11.6%	7.1%	3.6%	8.1%	7.4%	0.7%	3.2%	0.2%	1.0%	0.4%	2.2%	0.6%	50.1%	100%
Cowichan Lake Recreation	3.9%	4.1%	3.7%	0.7%	6.4%	3.4%	4.8%	3.8%	0.7%	0.2%	12.3%	18.5%	2.3%	35.4%	100%
Cowichan Sportsplex	5.1%	7.6%	3.8%	4.2%	4.4%	7.5%	1.3%	4.3%	1.0%	0.9%	1.1%	4.1%	6.1%	48.8%	100%
Cowichan Performing Arts Centre	5.6%	7.2%	7.3%	6.1%	7.8%	7.8%	1.3%	2.0%	1.4%	0.6%	0.9%	0.8%	3.2%	48.3%	100%
Frank Jameson Community Centre	0.3%	1.0%	0.2%	1.1%	0.3%	0.6%	0.3%	0.9%	6.0%	11.5%	0.2%	1.3%	62.6%	13.4%	100%
Fuller Lake Arena	0.2%	1.0%	0.5%	2.1%	2.3%	9.4%	1.3%	0.3%	3.9%	1.0%	0.3%	2.5%	19.0%	55.8%	100%
Cowichan Community Centre	6.3%	10.2%	6.5%	7.1%	7.2%	8.6%	1.0%	1.4%	0.4%	0.1%	0.6%	0.8%	1.7%	48.6%	100%
Kerry Park Recreation Centre	18.9%	34.1%	15.2%	9.8%	2.0%	2.9%	0.2%	1.6%	0.0%	0.1%	0.2%	0.1%	0.3%	14.8%	100%
Shawnigan Lake Community Centre	8.3%	73.4%	3.4%	2.2%	2.1%	0.7%	0.1%	1.2%	0.6%	0.0%	0.2%	0.2%	0.0%	7.6%	100%

Given the complexity of the situation, implementing the assumption that any jurisdiction that pays for a facility should have some input to the oversight of that facility can be quite complicated. While the authors believe that the Community Services Committee with all CVRD directors on it may suffice in the provision of oversight of all the regionally significant recreation facilities in our region, the authors explored ways of augmenting this oversight with some optional local oversight structures. The following are several possible approaches to aligning the jurisdictions that pay with the jurisdictions that have oversight at a local level.

Option A: Expanding Each Local Commission

According to a strict interpretation of item 1.2 in the body of this report, if the larger oversight role of the Community Services Committee was not sufficient, and more local oversight was deemed necessary, one would add to local oversight all jurisdictions that contribute any funds to each of the nine facilities. That would mean adding almost 100 incidences of oversight to the status quo; some for a contribution of as little as \$1,000.

There are several problems in this approach. As mentioned above, some of the nine facilities have oversight by a local municipal council (i.e. Sportsplex, Cowichan Aquatic Centre, Fuller Lake Arena and Frank Jameson Community Centre) and it would be impossible to add a representative from another jurisdiction to that council.

Also, many of the cells in **Figure One** show relatively little use, which will trigger relatively little contribution. In some of these cases, it may be that use and contribution are so minimal that exceptions to item 1.2 can be made in the interests of practicality. For example, contributions of as little as \$1,000 (or 0.2%) of the total costs from a jurisdiction may not justify or warrant a seat on a local commission. And, if a voting seat on a local commission were added for that jurisdiction it would have much more influence than indicated by the contribution.

Option B: Adding Only Significant Contributions to Local Oversight

Another approach would be to add local oversight to a facility only if a significant amount of use has been measured (and therefore, a significant amount of contribution is made). In this option, the number of additions to local oversight would be reduced to a somewhat more practical number of about 50 additions. However, there would still be the problem of adding local oversight to a municipal council which would be very problematic.

Option C: Reduce the Number of Local Oversight Commissions into Fewer Entities with Broader Levels of Oversight

In this option, all four of the CVRD commissions could be collapsed into one broader commission with broad representation of the areas that contribute to those five facilities, and leave the municipal councils to control the other four the way they do now.

This single commission representing all jurisdictions would effect local oversight of the five facilities, enhance regional collaboration and streamline commission responsibilities. It should be noted that for some of the existing four local Commissions, there have been problems recently of reaching a quorum for some commission meetings. Also, it would mean that virtually all the 13 jurisdictions would be contributing to at least one of the five CVRD operated facilities, and therefore would need to be represented on the single collapsed new local oversight commission, which would duplicate the role of the Community Services Committee to provide oversight of all nine of the facilities.

Option D: Maintain the Status Quo

A fourth approach would be to simply continue with the four existing commissions representing the five CVRD owned and operated facilities. However, reaching a quorum for some commission meetings remains an issue. This indicates that the existing system is not working as it was intended, and suggests that it may not be necessary. Option D is also the option that conforms the least to the principle that governance should be linked to funding, with many new contributing jurisdictions not having a say on existing commissions or committees.

Option E: Collapse Two of the Existing Four Commissions

It has been suggested that the Kerry Park Recreation Centre and the Shawnigan Lake Community Centre operate in similar markets, have the same management and share many services and resources and that this overlap suggests that the two could share one commission to provide local oversight. At a minimum, if commissions were to be retained in some fashion, collapsing these two should happen. That would leave three local commissions, one for facilities in the south, one for facilities in the central area and one for the single facility in the west, but it does not deal with how to add oversight by other jurisdictions which would be paying for services in one of those areas.

The authors of this report are not able to support any of the five options listed above as they believe that the Community Services Committee described in the body of this report should provide sufficient oversight. However, if some form of local oversight is deemed important by the Board, then Option C can be made to work if the local oversight commission described in it is collapsed with the Community Services Committee. If that is not sufficient, at the least, changes to the existing Commissions as outlined in Option E should be considered. That would leave the facilities under the ownership of local governments as they are now, but would reconcile the CVRD owned facilities under fewer, more viable Commissions.

The authors of this report believe that the eight step process outlined under section 2.0 appropriately protects the eight assumptions outlined under item 1.0 and represents a practical and defensible approach to both funding and governing the proposed new funding model. This proposed process also builds on the experiences of the only other two jurisdictions in BC which were found to use a similar model, the details of which are included in the Appendix.

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Appendix: Survey of Other Jurisdictions

Only two other jurisdictions were found in BC that had adopted a funding model for recreation facilities based on residency of users. In order to learn from their experience, they were surveyed.

Jurisdiction: District of North Vancouver / City of Vancouver

North Vancouver Recreation Commission (NVRC) has an inter-municipal agreement to share the costs of more than a dozen facilities and services between the City of Vancouver and District of North Vancouver. It has been in place, unchanged, for decades.

What is included in the net cost which is allocated back to jurisdictions on the basis of proportionate use?

All net operating costs. Each jurisdiction provides an annual capital contribution separately to the NVRC for the facilities it owns and the NVRC uses that to fund capital projects. There is also an “emergency capital” allotment made available to the NVRC by the owners of the facilities to use for unplanned replacements or fixes.

How do you collect the usage data and how often?

One week each season, four times per year, every drop-in use is recorded and used as a sample to represent year round use. Programmed uses are collected within the CLASS software system and rentals are collected annually from user groups.

How accurate is the usage data you collect?

Programmed uses are 100% accurate. Drop-in uses are a sample and therefore subject to sampling error, and rental uses are quite problematic. We don't know how accurate they are.

Does proportion of use change much year to year?

No, uses have remained reasonably consistent and changes seem to track with population growth in each of the two municipalities.

What does it cost to collect the data?

It is reasonably expensive, because we collect regularly and we have a large staff that turns over, so staff training on how to collect and interpret the data is cumbersome. We have had examples in the past where one staff member makes different assumptions about how to collect the data than another. We don't know the total cost to collect the data, but it is quite considerable.

In your opinion, does it work well? Is it accepted and well supported by the public and the elected officials?

The system seems to work, but is constantly under attack by one or the other of the municipalities. Also, we are vulnerable in that if one municipality is willing to support a 2% increase in net subsidy in next year's budget, and the other a 3% increase, we always have to go with the lowest common denominator. That effectively gives each municipality a veto over tax increases. But, that is not an issue about how costs are apportioned on the basis of usage. That is an issue of a different nature.

Jurisdiction: Regional District of Nanaimo

The Regional District of Nanaimo uses usage of facilities to allocate net public subsidy for some, but not all of the regionally funded and operated facilities.

What is included in the net cost which is allocated back to jurisdictions on the basis of proportionate use?

We have two systems which operate similarly; one for the south half our regional district called District 68 and one for the north half called District 69. In each half, the regional facilities in that half are included. This typically includes arenas, pools, and sports fields. We have collected data for other facilities in the region (e.g. Oliver Woods Community Centre), but found that they have no appreciable regional use.

How do you collect the usage data and how often?

We collect data on five year cycles. We have now collected three such sets of data over the past fifteen years and will soon need to collect a fourth set. The data shows what proportion of use of each facility comes from residents in each of our jurisdictions and we use that to apportion the net requisition required to fund each facility. We average the most recent three data sets and use it for five years to smooth out peaks and valleys that might be due to sampling error.

How accurate is the usage data you collect?

Some of the data is very accurate, and some is less accurate due to sampling error. Overall, we believe, and our consultants have asserted, that the total proportions are accurate to about +/- 2% nineteen times out of 20. Our accuracy has improved in each cycle.

Does proportion of use change much year to year?

It doesn't change a lot. Over three data cycles, we have measured a total of 64 potential changes. The vast majority of those changes are well under 4% and almost all are within 2% and all changes are typically explained by a significant change in population in the jurisdiction which has exhibited the change.

What does it cost to collect the data?

It varies over time, but is currently in the range of about \$10,000 per year. That is, once in five years, it would be about \$50,000.

In your opinion, does it work well? Is it accepted and well supported by the public and the elected officials?

There is always some debate when new data is collected about how good the process is, especially if there is a change in the proportion of use. But, overall, it has worked for us. There are no plans to change it.