



# Staff Report to Committee of the Whole

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**DATE: Monday, February 27, 2023**

**DEPARTMENT: Administration**

**SUBJECT: YMCA Financial Challenges and Next Steps**

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## **BACKGROUND:**

Pre-2013, the City worked with the YMCA-YWCA of Greater Victoria (the YMCA) and Westhills Land Corporation (Westhills) to create a plan to provide an aquatic centre (the Recreation Centre) on Westhills Drive.

The plan called for Westhills to fund and build the Recreation Centre, which would be purpose built to meet the requirements of the YMCA and the City. The plan also called for the YMCA to lease the Recreation Centre from Westhills for 25 years, and for the City to purchase recreation services from the YMCA, also for a period of 25 years.

A Tripartite Agreement between the City, the YMCA and Westhills was also developed under which the City agreed to assume the Lease if the YMCA ceased to operate the Recreation Centre or defaulted under the Lease, including by failing to make the monthly rent payments to Westhills. The purpose of the tri-partite agreement was to provide certainty to Westhills that the lease payments for the Recreation Centre would continue to be paid for the full term contemplated.

In early 2013, Council approved the Tripartite Agreement and Operating (Services) Agreement, copies of which are attached to this report.

Since the opening of the Recreation Centre in 2016, the YMCA has indicated that it has lost more than \$10,000,000 operating the Recreation Centre. Further, since 2020, Westhills has provided a variety of rent deferrals to the YMCA. (See attached letters between the YMCA to Westhills, which the City was copied on.)

In late January, 2023, Derek Gent, the Chief Executive Officer advised the City that the YMCA Board had passed the following resolution:

*BE IT RESOLVED THAT due to ongoing financial deficits in the operation of the Westhills YMCA/YWCA facility in Langford (hereinafter "WHY"), the Board directs staff to initiate actions toward a facility closure starting March 31, 2023 unless, prior to March 31, 2023, the City of Langford commits to a further annual contribution of \$950,000 which*

*contribution shall be in addition to that required under the Services Agreement dated for reference February 7, 2013.*

Given the requirements within the existing agreements and the above resolution from the YMCA Board, the intent of this report is to provide a path forward for the City that meets the following objectives:

1. Ensure the continued operation of the Recreation Centre under the YMCA in the short-term;
2. Ensure the residents of Langford are getting the best possible services at a good value at the Recreation Centre; and
3. Ensure the City is taking all the steps necessary to minimize its long-term financial exposure.

**COMMENTARY:**

Objective 1: Ensure the continued operation of the Recreation Centre under the YMCA in the short-term

In the short term, staff believe that it is critical that the YMCA remain the operator at the Recreation Centre. This will ensure that the existing services levels at the Recreation Centre are maintained, without the City having to financially contribute anything greater than if the YMCA were to cease operations and the Recreation Centre to be without an Operator.

Under the terms of the Operating agreement, the City is obligated to provide \$950,000 to the YMCA as an annual subsidy. The YMCA has advised that, unless the City increases the annual contribution to \$1,900,000, as of March 31, 2023, they will begin to initiate a closure of the Recreation Centre (actual date not defined). If the YMCA were to initiate a closure of the Recreation Centre, they would be in breach of the Operating Agreement, allowing the City to terminate the Operating Agreement (and obligating Westhills to terminate the Lease Agreement). If this were to happen, the City would no longer be obligated to provide the annual subsidy, but would become responsible for the monthly rent due under the Lease Agreement until a new operator is found, which the City understands to be an amount equal to approximately double the City's annual contribution, until a new operator is found.

Therefore, in the short-term, by increasing its annual contribution to the Recreation Centre, the City will maintain existing services to the community at approximately the same cost as if the Recreation Centre did not have an operator.

Objective 2: Ensure the residents of Langford are getting the best possible services at a good value at the Recreation Centre

Staff believe that if the City agrees to double its annual contribute to the Recreation Centre, it should be conditional upon the City conducting a governance and operational review of the Recreation Centre to ensure the residents of Langford are getting the best possible services at a good value for money spent.

This review would have three parts:

First, section 4.8 of the Operating Agreement requires the YMCA, on a bi-annual basis, to provide the City with a report relating to the operation and management of the Recreation Centre. No reporting has been received by the City since the opening of the Recreation Centre in 2016. Therefore, staff recommend that the City requires detailed reporting of the operation and management of the Recreation Centre going back five years be provided to the City.

Second, and using these reports, once received, as a starting point, staff also recommend that the YMCA commits to a comprehensive governance and operational review of its operations at the Recreation Centre to determine what improvements can be made, if any.

Third, staff recommend that the governance and operating structure of the YMCA at the Recreation Centre be assessed and compared to other similar facilities in the region to help determine the most suitable governance and operating structure that best meets the needs of Langford residents going forward.

Objective 3: Ensure the City is taking all the necessary steps to minimize long-term financial exposure.

As noted above, the City is currently providing \$950,000 as an annual subsidy to the YMCA. If the City were to increase its contribution, the City would pay approximately \$34,000,000 over the remaining term of the Lease Agreement (approximately 18 years). However, at the end of the Lease Agreement, Westhills would continue to own the Recreation Centre and additional lease payments would be required at that time to continue to provide the Recreation Centre as a benefit to the community.

Through conversations with the YMCA and Westhills, staff understand that Westhills may be willing to sell the Recreation Centre. Therefore, staff recommend that the City enter into negotiations with Westhills for the potential purchase of the Recreation Centre, including entering into detailed discussions regarding purchase price and terms, and seeking relevant information from Westhills regarding the Recreation Centre (e.g. available depreciation reports, lease agreements with other tenants, etc.).

**FINANCIAL IMPLICATIONS:**

In the short term, in order to ensure the ongoing operation of the Recreation Centre, it is recommended that the City increase its annual contributions from \$950,000 to \$1,900,000. For the 2023 budget, this would have a tax implication of approximately 2.5%, if the additional contribution was provided from April to December).

In the long term, it is recommended that the City consider purchasing the Recreation Centre. The financial implication of this purchase would be determined through negotiations with Westhills.

**LEGAL IMPLICATIONS:**

Detailed legal implications regarding this matter will be provided to Council at an In-Camera Council meeting.

Council may wish to note that under the current operating agreement, the YMCA does not have the authority to initiate a facility closure, as indicated in the YMCA Board resolution in the January 27th email (attached). If the YMCA were to take this step, the City would be in a position to terminate the Operating Agreement with the YMCA (and cease the \$950,000 annual subsidy to the YMCA).

If this occurs, the City will become the month-to-month lessee of the Recreation Centre on the terms of the current Lease until the City and Westhills have entered into new agreements with a replacement operator. As noted above, the cost of this would be approximately double the City's annual contribution, until a new operator is found.

#### **OPTIONS:**

##### **Option 1**

THAT Committee of the Whole recommends that Council:

1. Direct staff to include an additional \$950,000 in the 2023 budget and five-year financial plan as an additional financial contribution for the operation of the Recreation Centre by the YMCA under the current tripartite, operating and lease agreements;
2. Direct staff to request the following information and assurances of next steps from the YMCA:
  - a. Operating reports, as specified under the operating agreement, for the last five years;
  - b. Commitment to a comprehensive operational review of the YMCA governance and operating structure at the Recreation Centre;
3. Direct staff to assess and compare the governance and operating structure of the YMCA at the Recreation Centre to other comparable facilities in the region to determine the most suitable governance and operating structure that would provide the greatest level of service at the lowest cost for Langford residents going forward; and
4. Direct staff to enter into negotiations with Westhills for the potential purchase of the Recreation Centre;

##### **OR Option 2**

THAT Committee of the Whole recommends to Council an alternative direction regarding the YMCA's funding challenges and next steps.

**SUBMITTED BY: Braden Hutchins, Director of Corporate Services**

**Concurrence:** Donna Petrie, Senior Manager of Business Development and Events  
**Concurrence:** Yari Nielsen, Director of Parks, Recreation and Facilities  
**Concurrence:** Matthew Baldwin, MCIP, RPP, Director of Planning and Subdivision  
**Concurrence:** Katelyn Balzer, P.Eng., Director of Engineering and Public Works  
**Concurrence:** Michael Dillabaugh, CPA, CA, Director of Finance  
**Concurrence:** Marie Watmough, Deputy Director of Corporate Services  
**Concurrence:** Darren Kiedyk, Chief Administrative Officer

Attachments:

Attachment 1 – Letter from YMCA to Westhills Dated February 17, 2023  
Attachment 2 - Letter from Westhills to the City Dated February 14, 2023  
Attachment 3 – Letter from Westhills to the YMCA dated February 14, 2023  
Attachment 4 – Letter from the YMCA to Westhills Dated January 30, 2023  
Attachment 5 – Email from the YMCA to the City Dated January 30, 2023  
Attachment 6 – Letter from Westhills to the YMCA Dated Jan 25, 2023  
Attachment 7 – 2013 Staff Report to Council Regarding Agreements  
Attachment 8 – Tripartite Agreement  
Attachment 9 – Operating (Service) Agreement