

SHERWOOD CITY COUNCIL WORK SESSION

AUGUST 29, 2017

The Recreation and Aquatic Center discussion starts at about the one hour and six minute mark of the audio recording of the council meeting.

The main question that Josh proposed to the City Council members regarding the Agreement with HealthFitness: ***"In order for me to vote "yes" on a proposed contract with HealthFitness Corporation to operate and manage the Recreation and Aquatics Center, the following components need to be within the proposed contract.***

COMPONENT #1

Ensure that the swim team does not get cut ("Sherwood Y Dragons"). This is a 5 team club that is currently run by the Y that requires staggered pool time (e.g., 2 lanes closed in the afternoons for practice). Make sure the continuance of this program is included in the MSA/SOW. It was also noted that the High School Principle expressed concern about getting continued access to the pool for the school's swim team as well. This also needs to be include this in the MSA/SOW.

COMPONENT #2

Continuation of the Sliver Sneakers and Silver & Fit Programs. It was noted that they would like the "program" to be dedicated to the Citizens of the City of Sherwood.

COMPONENT #3

They do not want the City to absorb any deficit from HealthFitness. Clarity was asked for in regards to what they meant by "deficit".

- An example was raised that what if the center/program needs a new check-in system – does this fall within the definition of a deficit from HealthFitness, or does it fall under a cost of doing business? It was noted that they need to define these expense items.
- It was also stated that they need to identify how updates to the facility are paid for? For example, if the facility needs a new front door, how is it paid for – does it come from an operating expense budget?
- An additional participant raised a potential idea that if the operations don't reach 100% recovery say by the third year that at that point HFIT could possibly be responsible for a deficit. She also noted that the City is "saving a little on the HFIT management fee, in comparison to the Y's fee", so there is a little wiggle room in the budget.
- An additional Council Member commented "I don't want to see operational losses, I want us to limit our risk on that". However, it would be unreasonable to expect any new operator in a facility, whether it's the one we are negotiating with currently, or another one, to absorb first year start-up fees". She noted possibly developing a "bracketed process", example not being more than \$50,000 to \$70,000 in the first year. She would like to see the City limit as much as possible any operational losses. She noted again that it is important for the Council to understand that there is going to be a reasonable start-up cost no matter who is in the facility new, so the City needs to account for that. Ultimately she wants the City's risk to be limited as much as possible.

- Another Council Member noted that she could support that type of approach but she stated that “the City needs to give HFIT a chance to get in the facility to best understand what they need and to identify what they can and cannot do. I don’t think it’s reasonable from the get-go for HFIT to have to do that (be responsible for start-up expenses)”. The other Female Council Member agreed that it wouldn’t be a reasonable expectation of the City to place on HFIT in the first year.

- The Mayor commented “and we didn’t even hold ourselves to that type of standard with the Arts Center, we as a community felt that the Arts Center was important to have, and there was a cost associated with having an Arts Center, and every year the cost for it has gotten better”.

- Another Female Council Member raised the topic that if the City is going to account for a \$50,000 to \$70,000 loss in year 1, where is that money going to come from?

- Joe stated that he would let Katie comment, but his initial thought was that the ability for the City to absorb a deficit for the center would be difficult because they have a very tight budget. They just went through the budget in May, where the Council mentioned several things that they wanted to do but they couldn’t because they didn’t have the on-going revenues to pay for those things, and he didn’t see that changing in the next few years. He noted tax revenues from several new construction projects may help a bit, but they won’t kick-in for a few years. He concluded that it would be hard to absorb other costs without cutting somewhere else. He then opened it up for Katie to respond.

- Katie went into description as to whether it would be a need for “one-time money” (e.g., for a new software system during transition), and are we (the City) looking at one-time start-up costs or are they looking at long term operational on-going costs. She noted that it may make sense to use “one-time” money in the first couple years as we (HFIT) may show negative financials, but that we show positive financials a few years down the road so assistance from the City may only be needed at the on-set. She stated that “obviously there are cuts and or choices that have to be made in respect to budgeting and that this is only one of those decisions they will need to make over the course of the next year”. She brought up that there are also “new monies that will be coming in that aren’t on the table yet (e.g., new development projects, one-time marijuana money, etc.)”. She said “yes, we have to be cautious on expenses, but there are different sources for money that are coming in that are not factored in yet, so the picture they see in January will be different”. She stated they need to be cautious but she is optimistic that they will have options.

- Another Female Council Member raised another issue regarding their uncertainty about equipment and other hidden costs. She noted that she doesn’t have a good understanding on the cost of equipment and whether the City is expected to pay for new equipment. She noted that it may be a huge “chunk of change” if the City has to foot that. She asked if there has been discussion about that topic.

- Joe asked Josh to clarify that “equipment” is defined as fitness equipment. Joe asked for clarification regarding the existing equipment in the facility, who owns it (a female voice chimed in that their current operating agreement with the Y is unclear on this item). Joe noted from our meeting last week that it was HFIT’s assumption that the City owned all of the current fitness equipment in the facility.

- Josh stated that the operating agreement with the Y ties ownership of the equipment to the revenue source that was used to pay for the equipment, so trying to nail that down may be difficult – to figure out how the equipment was originally paid for and thus who owns it. There’s also the issue that some of

the equipment is apparently leased and not owned, which may further complicate things. Josh noted that there was also a provision in their current Agreement with the Y that if the Agreement ends, the parties can also negotiate what to do with the equipment. He noted that it may be a possibility that the Y doesn't want all of the existing equipment, so it may be more convenient for the Y to sell it to someone (the City) and leave it in place as opposed to selling it to a third party who will have to relocate it. Josh noted that the City will have to have further discussions with the Y regarding this ownership aspect. He also noted they need to identify the "state" of the current equipment and if the City even wants to keep some of it due to its age and or state.

- A Female Council Member responded with "that is not what the Council was told before". She stated that it was the Council's understanding that the Y purchased at least \$90,000 worth of equipment in the last year, and if they are purchasing the equipment, then the City is supposed to own it once the contract ends, based on language that was cited in the Agreement with the Y.

- Another participant responded that she thought that some of the surplus revenue each year goes towards equipment purchases. The team jointly chimed in that maybe some of the purchases are with revenue and some from Y assistance. The Mayor stated that she assumed the new equipment (\$90K) was purchased from revenue.

- A Female Council Member stated that after her review of all the information, she believes that the City will end up with ownership of about half of the center's equipment. The reason she believes this is that she stated that it is traditional and or typical now to present equipment on a lease basis. She noted that in our discussion last week that a portion of the equipment cost is spread out over a lease term, and that a portion of the equipment is turning over on leases on a regular basis. So there may be up-front equipment costs as HFIT projected, but she believes a good portion of the equipment will remain in the center with the City as owners because of the recent \$90,000 of equipment that was purchased within the last year. She also noted that some may need to be replaced in the next year given its age. She doesn't anticipate the up-front cost being extensive (e.g., \$100K or \$200K) and she noted that HFIT has a purchasing program to assist with good pricing.

- Josh, Joe, and the Mayor noted in response to the discussion that this topic needs to be clarified with the Y so that there isn't any "unexpected" costs, especially in the \$50,000 to \$150,000 range.

COMPONENT #4

A Female Council Member raised an additional topic that she does not want to see HFIT cutting any of the programming scope and or volume to try and "hit the bottom line".

- Another Female Council Member asked her to clarify if that was "indefinitely". The Council Member who raised the item noted "Not indefinitely, I'd say at least for the first year because that is what HFIT's proposal was based on, and I think if there are any changes they would come to the City to discuss."

- The Mayor noted that HFIT comes to the table with a bunch of "extra" programs, so she thinks there can be an analysis of programs to see if some of the HFIT classes are acceptable replacements for some of the current programs.

- Another female noted that she would want HFIT to be able to come to the City with information for example if one class has 3 participants and another has 72, that they recommend we continue with the

larger one and be able to drop the other, but not maybe immediately. Examples were given like insurance paid programs such as Silver Sneakers and the community outreach programs for High school students.

- The Male Council Member added that he wants to see the “Child Care” program remain in the scope of “Programs” as well, along with the near existing City approved child care policies, until further input can be given regarding any future changes to the program.

COMPONENT #5

The group also brought up that input regarding the direction of programming in general needs to be given. It was raised that they develop a 9 person Advisory Board including citizens, a staff person, a council member, and the facility manager. Joe brought up the potential of using the Park & Rec board that is already established to serve as the advisory board, with the possibility of a sub-group that is focused on the center in the first year of transition. He thought that creating another 9 person board specific to the center is too much. A response was given by a Female participant that they should look at having a few more citizens on the advisory board, in addition to the 7 person park & rec count, to be advocates of the community and provide more voice from the citizens. The Mayor asked if this additional work-load is something that the current 7 person Park & Rec board could take on, or would it be overload. Response was given that the Park & Rec board would be OK to take this on. Joe also noted that the City Liaison for HFIT (Kristen) has 15 years of tenure and comes from the Park & Rec area and that would allow for more consistency as well. He noted he would be open to additional citizen input on various program topics, but he stated that the City already has an advisory board, and that’s the Park & Rec board, and they need to step up and be more involved in the Recreation and Aquatic Center moving forward. Josh also noted that with the current Y situation they have a “local board of Y managers” as the advisory board, and with the new partner HFIT, they will not have that in place.

COMPONENT #6

A Female Council Member raised that the swim lesson program moving forward be Red-Cross certified, or at least United States Swim Team certified. She stated that “we really need to take care of how we teach our babies to swim”. She also noted that she generically stated that the Y currently has 115 programs and that she would like the volume to stay, and she would also like them to be for ages 0 to 100.

COMPONENT #7

Another Female Council Member stated that she wants to see an itemization of our \$192,000 management fee regarding what it covers (e.g., Overhead, G&A, and Profit), so there are no surprises coming out of the operations.

COMPONENT #8

Another Female Council Member noted that she would like to see in the Agreement that all current employees would be given the opportunity to be on-boarded to HFIT for the moving forward program. Further clarity was given that HFIT would include the existing staff in the interview process. The Mayor chimed in that it shouldn’t be a requirement for HFIT, rather that HFIT include the existing employees in the interview process, and if they meet the requirements, then they would be on-boarded. They added

additional comment that the existing employees should at least get the “first opportunity” to stay on-board.

COMPONENT #9

A Female Council Member noted that HFIT already committed to keeping membership fees the same at least for the first year. She noted that all future fee increases need to be reviewed by the City for approval, and go through citizen focus group review as well.

COMPONENT #10

A Female Council Member asked for detail in the Agreement regarding Scholarships. The Mayor noted other programs within the community like the “friends of the Art Center”. She noted that moving forward they should create a “Friends of the Rec Center” program to assist with scholarships. It was also noted that Sherwood Citizens get priority in respect to scholarship awards, along with a review of a non-resident award process.

COMPONENT #11

Another Female Council Member raised the want for a more robust program and class offerings for special needs and handicapped children. She noted that this category in their community is underserved and the need/demand is growing.

COMPONENT #12

A Female Council Member asked to see at least 10-12 community outreach programs each year, whether they are fund-raising or just community outreach such as a triathlon. She noted that the frequency of these programs may not have to be each month because it can get tricky in certain months, but at least a range of 10-12 a year, or whatever the reasonable number is.

COMPONENT #13

Another Female Council Member noted that she would want HFIT to take direction from the City Council for special requests and or needs such as “homeless showers”, or needs to have the center open extended hours for a certain reason. They want HFIT’s agreement to this included in the MSA/SOW.

COMPONENT #14

Part of this next topic was inaudible, but the tail end of the discussion was regarding HFIT’s commitment within the management fee to come in to assist consultatively with items such as the pool expansion when needed.

COMPONENT #15 (FOOTNOTE KEY #5 OF PRO FORMA)

A Female Council Member asked for facility rentals to be clarified in the Agreement and or scope of work language. What type of rentals will they be (e.g., birthdays).