



# City of Richmond

## Report to Committee *Closed*

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**To:** General Purposes Committee **Date:** March 2, 2017  
**From:** George Duncan **File:** 01-0107-08-01/2017-  
Chief Administrative Officer Vol 01  
**Re:** **Update on City of Richmond Owned Enterprises - Richmond Olympic Oval  
Corporation and Lulu Island Energy Company**

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### Staff Recommendation

That the Report titled, Update on City of Richmond Owned Enterprises - Richmond Olympic Oval Corporation (ROOC) and Lulu Island Energy Company (LIEC), dated March 2, 2017 from the Chief Administrative Officer be received for information, released at the next Open Council Meeting and placed on the City's website.

George Duncan  
Chief Administrative Officer  
(604-276-4338)

## **Staff Report**

### **Statutory Closed Meeting Criteria:**

This report meets the following statutory closed meeting criteria:

90(1)(a) - personal information about an identifiable individual who holds or is being considered for a position as an officer, employee or agent of the municipality or another position appointed by the municipality.

### **Recommendation on Disclosure**

Report to be released for public disclosure.

### **Origin**

The City of Richmond has historically utilized arms-length independent boards to operate City owned facilities and/or enterprises. This practice was first adopted in the 1960s to 1970s when the City's community centres were operated under community association board governance with City management overseeing community association employees. Gateway Theatre is also operated under an arms-length independent governance model, as is the Richmond Public Library. As these various examples represent traditional civic facilities, programs, and services which have been operated by external boards for a considerable period of time, the City's decision to not operate them directly does not tend to attract any negative attention or generate controversy. That, however, has not been the case in regard to some other City owned facilities and/or enterprises, which have been established more recently, such as the Richmond Olympic Oval Corporation (ROOC) which was incorporated in 2008; Lulu Island Energy Company (LIEC) in 2013; and VROX Sport Simulation Ltd (VROX) which ROOC established in 2014.

Unlike the traditional facilities and enterprises identified above, as financial and other business related reports are made public, these newer companies tend to attract heightened attention and/or generate further inquiries. It is with this consideration that the following Staff Report has been prepared to provide an orientation/update on ROOC and LIEC. A separate Report has been prepared in order to provide a similar orientation/update on VROX.

### **Analysis**

ROOC, LIEC, and VROX operate under a corporate governance model. Richmond's community centres and Gateway Theatre are governed under a not-for-profit society governance model. Richmond Public Library is also operated under a separate governance agency; however, the Library's governance is prescribed by a Provincial Act. Other than the obvious difference in the legal description of the governance models (Corporate vs Not for Profit) identified above, there is only a nominal difference, if any, in how these organizations relate to the City and/or serve their intended purpose in regard to service delivery. Under both the corporate and not-for-profit society governance models any surplus revenue and/or profit must be reinvested in the asset or held in reserves, both of which the City own.

## Richmond Olympic Oval and Richmond Olympic Oval Corporation

### Challenges & Opportunities

It is important that we distinguish the Richmond Olympic Oval (the Oval) from the Richmond Olympic Oval Corporation (ROOC). The Oval is a City owned asset. The ROOC is the company that has been delegated responsibility to operate it.

### Richmond Olympic Oval

The Oval is the model post-Olympic Games Community Legacy venue. Since opening in 2008, it has been a huge popular success. People chose to attend the Oval over 950,000 times in 2016. This includes regular use by the Oval's approximately 6,000 members, 81% of which are Richmond residents. In addition to sport and recreation, the Oval also offers family and sport medicine services in on-site clinics, major sport competition events, trade shows and corporate events.

Over 40 Richmond-based sports groups were active in the Oval throughout 2015. More than 2000 children have participated in Oval Sport Camps in the last year. The Oval also provides subsidized rental rates to numerous community sport organizations.

The Oval was also just recently identified in Vancouver Business Magazine as the fourth ranked tourist attraction in Metro Vancouver.

The Oval, by virtue of its vast size and sophisticated building systems and physical plant is both expensive and challenging to operate. The complexity of the building and systems is further exacerbated by the diversity of uses and frequency with which the physical spaces need to be changed to adapt to the needs of the various users. As a result of both its size and these various combinations of building use scenarios, the Oval is a more expensive building to operate than other typical community sport and recreation type facilities.

## Richmond Olympic Oval Corporation

### Purpose

The purpose of the ROOC is to oversee the day-to-day operation of the Oval on behalf of the City of Richmond. The corporation, through an operating agreement, is responsible to ensure the Oval realizes its full potential as a community legacy venue of the 2010 Olympic Winter Games. In this regard ROOC has three primary areas of responsibility:

- Ensure that the Oval meets its target to provide a minimum of 80% community programming; including, but not limited to recreational sport, wellness and fitness, entertainment, non-sporting events, volunteer involvement, ancillary and related activities and services;
- Ensure that the Oval meets the high performance sport programming content needed to meet Games Operating Trust (GOT) funding requirements; and

- Oversee Oval operations within prescribed funding allocations and administer short and long term Oval capital and maintenance programs independent of the City's capital program, with the exception of physical changes to the base building and structure, which can only be undertaken by the City, as the owner of the asset.

ROOC was established to help ensure the financial viability of the Oval which must operate in a competitive market outside of that which the City's other sport and recreation facilities operate in. The ROOC also take care to ensure that the Oval does not negatively impact the demand for use of the City's other recreation facilities, such as the community centres and arenas.

One of the more delicate challenges that the ROOC encounters, however, is to overcome misperceptions that some critics of the Oval attempt to perpetuate - that the Oval is a financial burden for City taxpayers and that ROOC, the corporation that operates the Oval, receives some form of financial benefit at taxpayers' expense, through its role and responsibility for operating the Oval. That clearly is not the case. Since it began operations in 2008, the ROOC has received greater scrutiny than any other City owned facility. Such criticisms of the ROOC fail to recognize some basic facts about the Oval:

#### Ownership

The City is the sole exclusive owner of the Richmond Olympic Oval, as well as being the sole shareholder owner of the company (ROOC) that operates it. ROOC is not paid by the City to operate the Oval. The Oval Corporation simply operates the Oval on behalf of the City, just as the library board and community associations oversee their facilities and services. All profits realized through the operation of the Oval must be invested back into the asset (Oval), or be placed in financial reserves, both of which belong to the City. The Oval is financially sound while having to meet more stringent performance requirements than any other City owned facility. Any physical assets acquired or monies received by the Oval Corporation ultimately belong to the City. The ROOC does not receive a fee, dividend, or share of profits for operating the Oval. The \$1 per annum rent that the Oval Corporation pays to the City is needed to satisfy a legal formality. Just as is the case with all other City owned facilities, the Oval also receives a property tax exemption, which much be approved annually by Council. Some question the property tax exemption - portraying it as a hidden subsidy. That also is not the case. All City owned facilities receive a property tax exemption. The two most compelling justifications for the exemption are:

- (1) Local governments must make a contribution to the operating costs of all City owned facilities. If facilities such as the Oval or Gateway Theatre were not awarded a tax exemption, the City would have to submit the full amount of the property tax to itself.
- (2) As the City only retains as portion (50%) of the property tax it collects, with the remainder going to TransLink, the School District and other agencies, the City would not be able to recover these funds. The result, would be higher costs to operate City facilities with the City unnecessarily subsidizing the agencies identified above.

It should also be noted that given that the Operating Agreement is approved by Council and the management structure, the Oval essentially functions similarly to a City department. ROOC's authority and level of responsibility is determined solely by City Council.

Governance - The ROOC Board of Directors

All directors presently sitting on the ROOC Board of Directors have been appointed by Richmond City Council. The board has the authority to appoint up to a maximum of two directors, subject to vacancies. With the exception of the City's CAO, (who does not receive any compensation for serving on the board), board directors receive compensation, similar to that provided to Metro Vancouver Board Directors.

The Board has 13 director seats. As present 12 seats have been filled, one remains vacant. Following a major governance review by the City, City Council expanded the board from seven to thirteen directors. Five long serving directors were retained and seven new directors were recruited.

ROOC board directors are selected on the basis of their strong connections to and investments in the community. With the exception of one director who was recruited to the board due to his extensive business background and involvement at the executive level in high performance (professional sport), all other board directors are either residents and/or owners/operators of Richmond businesses. They are also selected due to their business acumen, skills, expertise and over-all business and community engagement experience.

Critics of the Oval contend that it is a financial burden for Richmond taxpayers. This incorrect observation is not borne out, however by the Oval's stellar financial performance and fails to recognize that ROOC board directors are respected members of the community who would potentially put their professional and/or personal reputations at risk if they were to fail to ensure that the ROOC is operated in a responsible and effective manner. Due in part to the effective work of the Oval board of directors, the Richmond Olympic Oval is the model for success amongst post-Olympic Games community legacy venues.

ROOC Board Directors include:

Michael O'Brien (Chair)	Tony Kwan
Dennis Skulsky	Gail Terry
George Duncan	Dan Nomura
Moray Keith	Lisa Cowell
Umendra Mital	Walter Soo
Peter German	Gary Collinge

Reporting & City Contribution to Operating Costs

The Oval operates under a more stringent financial reporting format than any other facility and is required to meet performance standards of both the City and Games Operating Trust. The Oval receives approximately \$3.24 million (2015) per year in operating revenue from the City; however, a portion of these funds are retained by the City through the Oval's transfer of profits

to its reserves. This contribution is not a subsidy - it is provided in support of the Oval offering community programming and to off-set the higher operating costs that are associated with operating such a unique extraordinarily large and complex facility, as stipulated in the Operating Agreement executed between the City and the corporation.

Another important point about the annual funding contribution, is that the City would have to contribute exactly the same amount of money, or more, each year due to higher operating costs, if the Oval were operated by the City.

The ROOC's financial performance post 2010 Olympic Winter Games has been consistently positive. As noted in the chart below, the actual net annual cost or contribution from the city in 2015 was \$1.06 million, versus the \$3.24 million gross amount of the contribution. Please note that the chart also reflects significantly more favourable net contributions for four prior years of Oval operations. Over 80% of the Oval's programs and services are community based and approximately 78% of current Oval members are from Richmond.

	Total Oval Members (Note 1)	Total Revenues (\$'s)	Total Expenses (\$'s)	Total Profit/Surplus (\$'s)	Total Contribution from City (\$'s)	Total Net Contribution from City (\$'s)
2011	3,738	10,860,216	8,645,746	2,214,470	3,022,500	808,030
2012	4,531	12,922,553	9,855,729	3,066,824	3,073,883	7,059
2013	5,073	13,770,991	10,508,524	3,262,467	3,144,700	(117,767) <b>Note 2</b>
2014	5,288	13,769,352	11,064,149	2,705,203	3,207,600	502,397 <b>Note 3</b>
2015	5,850	15,570,219	13,395,811	2,174,408	3,239,700	1,065,292 <b>Note 4</b>
<b>TOTAL</b>		\$ 66,893,331	\$ 53,469,959	\$ 13,423,372	\$ 15,688,383	\$ 2,265,011

**Note 1** - Membership numbers fluctuate from month to month. These numbers are the average active memberships, exclusive of Yyoga memberships, for a given year based on monthly figures.

**Note 2** - Adjusted expenses for base building capital work of \$430,000.

**Note 3** - Adjusted expenses for capital costs of \$24,505 for the Oval's contribution to the retail store.

**Note 4** - Adjusted revenue by \$575,000 for Council approved contribution to the ROX Project. Adjusted expenses by \$437,017 for the Oval's contribution towards the retail store.

### Lulu Island Energy Company

Lulu Island Energy Company (LIEC) operates on a slightly different basis, as it is a district energy utility, as opposed to a program/membership based operation. Like the ROOC, LIEC is a wholly owned subsidiary of the City.

Unlike the ROOC, LIEC will own a significant amount of assets. Ownership of some of these assets includes City assets which were transferred to LIEC. The transfer of the district energy assets from the City was done in order to ensure that the district energy utility business was captured and measured in a separate entity and to ensure that the LIEC's balance sheet reflected

fair market value in the event the City should choose, in future, to sell the business and/or to support the attraction of investment by service providers, who without LIEC owning assets would require a guarantee from the City. As the City owns LIEC, Council will control any potential sale or disposal of its assets.

In 2008/2009, district energy (DE) was emerging as a leading strategy for reducing community greenhouse gas emissions and a sustainability best practice. For cities, it was also a new economic development opportunity; cities could invest directly or work with the private sector to develop infrastructure to bring local jobs and energy generation to the community. In 2010, Richmond residents, businesses and institutions spent \$440M on energy; those dollars were largely given to large energy utilities and multinational oil companies. Each new building connected to DE in Richmond represents a new significant retention of energy dollars in the community.

The City's research and analysis concluded that the private sector would be interested in developing DE in Richmond, but soon found that private companies could not secure new customers without direct city support or involvement. Recognizing this, Oris Consulting approached the City in 2010 to work together to develop what eventually became the 1<sup>st</sup> phase of the Alexandra District Energy Utility (ADEU). The City's 1A5B (One Administration/Five Businesses) model was critical in allowing the depth of corporate resources and knowledge to be applied to this opportunity. It was clear that the City could leverage staff's utility management expertise (rate setting, billing, asset management, operations, customer service, etc.) with Oris' geo-exchange experience.

Since 2010, with Council's support and direction, the City worked with design consultants and operations experts to design, build and operate the system. In that period and by leveraging staff's project management, procurement and finance expertise, four phases of ADEU expansion were delivered successfully (on time and budget). 1A5B played a critical role advising and directing staff to ensure that the phasing and delivery of ADEU's infrastructure minimized risk to the utility and ensured the phasing of capital investment could be supported by customer rates. This approach led to the City being recognized by the International District Energy Association as a global leader in district energy development and management; the city's impressive and near perfect system reliability was noted.

Recognizing that there was greater potential for district energy development beyond the Alexandra area, the City established the Lulu Island Energy Company (LIEC) in 2013 to manage district energy in Richmond. There are a number of benefits to the City for using this approach that includes the ability to leverage the expertise and equity of private companies for funding infrastructure and growing a non-tax base revenue source. Under this approach, the City minimizes investments of its capital while retaining ownership of the assets, management oversight, billing and customer outreach.

Under LIEC, the Oval Village DEU was established in partnership with Corix Utilities, selected through an open procurement process. This leverages the 1A5B model using the City's billing, customer service and utility management expertise with the day-to-day operational expertise of a district energy service provider. It also takes advantage of the City's knowledge of the timing of

new development and its regulatory powers to ensure every new building is connected to the system on time. Day-to-day operations are automated using controls, by design, and Corix Utilities manages any technical issues that arise, which may fall outside of the City staff's ability to address. City staff and the operator have access to control dashboards and alarms were set up to alert staff of any issues.

The LIEC Board of Directors makes decisions for the company, but City Council, representing the interests of the City as the sole shareholder, sets customer rates and approves new service areas. The Board consists of senior City staff that have extensive experience in utility (sewer, water, drainage) design, construction and operation, business development and finances. Board directors are not compensated for their additional services.

Customer rates are guided by Council's direction to staff to ensure rates are competitive with conventional utility rates. To date, LIEC's rate changes have been below those increases of BC Hydro and Fortis BC. Customers also enjoy more direct contact with LIEC. Staff are frequently asked to attend strata Annual General Meetings to provide an overview of the rates and technology.

The City has been operating utilities for decades. Extending this expertise to district energy utilities has proven to be a successful endeavor while furthering Council's sustainability and greenhouse reduction targets. In a relatively short period, LIEC now has permanent, expert staff that are supported by qualified operators in a model that is now being replicated by other cities.

All costs for developing and operating the City's District Energy initiatives, whether incurred internally or externally, will be fully recovered through the utility rates.

From 2010 to the end of 2016, total costs for full-time dedicated DE staff have been approximately \$1.15M (or \$160k per year), while the value of other staff resources applied to DE through the 1A5B model is approximately \$1M (or \$140k per year) for an estimated total of \$2.2M. The required services delivered by 1A5B could alternatively have been delivered through the hiring of additional dedicated staff or consultants at an estimated total cost of \$3.15M to \$4.15M.

LIEC has three regular full-time employees - all recently transferred from the City, and who up until the transfer supported LIEC through the administration's Human Resources' support program - One Administration/Five Businesses (1A5B) Program. Senior City managers also support LIEC by serving as board directors, as well as, in senior management capacities. Utilization of City Staff resources in this manner helps to mitigate the costs associated with managing a start-up business.

Staff involved with Lulu Island Energy Company (LIEC) are:

Lulu Island Energy Company (LIEC) Board of Directors	<ul style="list-style-type: none"><li>• Chief Administrative Officer</li><li>• General Manager, Engineering &amp; Public Works</li><li>• Director, Engineering</li></ul>
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	<ul style="list-style-type: none"> <li>• Director, Administration &amp; Compliance</li> <li>• Director, Finance</li> </ul>
Lulu Island Energy Company (LIEC) Management	<ul style="list-style-type: none"> <li>• General Manager, Engineering &amp; Public Works</li> <li>• Director, Engineering</li> <li>• Director, Finance</li> <li>• Senior Manager, Sustainability &amp; District Energy</li> <li>• Director Administration &amp; Compliance</li> </ul>

**Lulu Island Energy Company**  
Audited Financials

	Total Revenues (\$)	Total Expenses (\$)	Annual Surplus (\$)	Total Contribution from City (\$)
2013	1	-	1	1
2014	31,326	8,259	23,067	31,326
2015	1,018,950	491,271	527,679	21,187
	\$ 1,050,277	\$ 499,530	\$ 550,747	\$ 52,514

**Notes:** Contribution from the City:

- 2013 – share capital
- 2014 – building permit revenue relating to DEU permits
- 2015 – building permit revenue relating to DEU permits

**Financial Impact**

N/A

**Conclusion**

Given the broad scope of programs and services offered by the City, it is not surprising that utilizing alternative service delivery models can enhance the probability of achieving Council's objectives. As subsidiary municipal corporations, ROOC and LIEC will produce many significant benefits for the community for many years to come. Richmond has established a creative and cost-effective manner through which to manage these companies. The City should continue to provide the assistance and guidance that is essential for this success.



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