

Environment and Parks — Contracting Processes and the Kananaskis Country Golf Course

SUMMARY

Kananaskis Country Golf Course (KCGC) experienced severe flooding on June 30, 2013, along with many other parts of southern Alberta. Damage to KCGC was extensive, and most fairways and greens were damaged or destroyed. The flood did not affect buildings that were located on higher ground, such as the pro shop and clubhouse. KCGC has been closed since the flood occurred.

In April 2014 the Department of Tourism, Parks and Recreation¹ submitted a recommendation to the Southern Alberta Recovery Ministerial Task Force² to restore KCGC. The task force agreed that the proposal to restore KCGC should go ahead. The Minister of Tourism, Parks and Recreation, a member of the task force, gave the department direction to restore KCGC and negotiate an amended operating agreement with the operator, Kan-Alta Golf Management Ltd.

In July 2014 the department amended one agreement and signed two new agreements with Kan-Alta. These agreements committed the government to an operating relationship with Kan-Alta until 2025.

In April 2015 a member of the Legislative Assembly requested the auditor general perform an audit of the department's decision to sign these agreements with Kan-Alta. The MLA's request occurred subsequent to media reports that the department made \$9.3 million in payments to Kan-Alta and that the department had extended the operating agreement. We decided to perform an audit to assess whether the new agreements:

- provided value for money for Albertans
- followed government contracting practices

What we examined

We examined whether the department used adequate contracting processes in 2014 when it recommended to Cabinet that the government should:

- rebuild the golf course
- amend the operating agreement with Kan-Alta
- provide flood compensation to Kan-Alta
- lease land for housing for Kan-Alta staff

What we found/overall conclusion

The department used adequate contracting processes in 2014 when it recommended to Cabinet to rebuild KCGC and signed the three agreements with Kan-Alta in July 2014. The agreements made financial sense given the existing contractual commitments the department had with Kan-Alta at the time of the flood. We make no recommendations to the department.

¹ The Parks Division is now part of the Department of Environment and Parks.

² The ministerial task force comprised ministers led by the Minister of Municipal Affairs. It set direction and made decisions on behalf of Cabinet to support and coordinate the flood response and recovery.

Why this is important to Albertans

Albertans need assurance that the department's decision to rebuild the golf course and sign a new long-term agreement with the operator was in the best interests of Alberta taxpayers.

AUDIT OBJECTIVE AND SCOPE

Our objective was to assess whether the department used adequate contracting processes in 2014 when it recommended to Cabinet that the government should rebuild the golf course, amend the operating agreement with Kan-Alta, provide flood compensation to Kan-Alta and lease land for housing for Kan-Alta staff.

We asked three questions:

- Did the department use a reasonable process in deciding whether to rebuild KCGC?
- How will the department protect KCGC from future flooding?
- Did the department use a reasonable process in deciding the risks and rewards to the Crown when entering into the 2014 agreements with Kan-Alta, given the pre-existence of the 1999 operating agreement with Kan-Alta and the 2013 flooding?

We conducted our field work from September 2015 to March 2016. We substantially completed our audit on April 1, 2016. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

Our audit did not examine the department's contracting processes to enter into the 1999 operating agreement. We did not set out to conclude whether the department should be running golf courses. At the time of the audit, the government was in a long-term contract with Kan-Alta.

We also reviewed the August 2015 KCGC contracts report commissioned by the Department of Treasury Board and Finance. We used that report where we could in carrying out our audit.

BACKGROUND

In 1978 Premier Lougheed officially dedicated Kananaskis Country and Kananaskis Provincial Park.³ The overall management direction⁴ of this park is to:

- provide high-quality, safe and enjoyable recreation experiences for visitors in well-designed and maintained facilities, as well as acting as staging areas for recreation opportunities on adjacent Crown lands
- support the development of healthy, sustainable tourism activities that complement park features and facilities, as well as nearby community initiatives
- protect significant natural, cultural and scenic values within the areas
- provide interpretation and educational opportunities at appropriate sites

KCGC opened in 1983 and has been operated by Kan-Alta from the beginning. The Department of Environment and Parks⁵ is responsible for KCGC and the business relationship with Kan-Alta.

³ Now called Peter Lougheed Provincial Park.

⁴ <http://www.albertaparks.ca/media/447248/kcpraandbcppmgmtplan.pdf>

⁵ The Department of Recreation and Parks was initially responsible for the golf course. Responsibility was then transferred to the Department of Community Development and then to the Department of Tourism, Parks and Recreation.

The Operation, Lease and Redevelopment Agreement between the Government of Alberta and Kan-Alta was signed on April 1, 1999. It was amended three times between 1999 and January 2010. The amendments covered changes such as the amount of rent, the term length of the agreement and the amount of redevelopment work and additional maintenance.

FINDINGS

Contracting processes

CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have adequate contracting processes to support its business decision to rebuild KCGC, extend the operating agreement with Kan-Alta, provide flood compensation to Kan-Alta and lease land for housing for Kan-Alta staff. Adequate contracting processes should ensure compliance with department contracting policies and practices, such as:

- identifying alternatives
- assessing the costs, benefits and risks associated with each alternative
- seeking expert advice
- making a recommendation

OUR AUDIT FINDINGS

KEY FINDINGS

The department:

- used expert advice in various stages of its analysis
- identified possible alternatives in operating the golf course
- assessed the costs, benefits and risks for each alternative
- made a recommendation to Cabinet
- began flood mitigation work on the waterways adjacent to the golf course

Renegotiation of the operating agreement

The department used adequate contracting processes when it recommended to Cabinet in 2014 that the government should rebuild the golf course, amend the operating agreement with Kan-Alta, provide flood compensation to Kan-Alta and lease land for housing for Kan-Alta staff.

The department sought expert advice throughout the process. The first steps taken were to assess the damage to the golf course. Independent golf course architecture companies completed two separate damage assessment reports⁶ in 2013, with one being updated in 2014. In addition, the department hired a consultant to assess the damage to the two cart bridges, restore the waterways adjacent to the golf course to their pre-flood condition and provide options and estimated costs to prevent or minimize damage from future floods.

The department also engaged a firm to analyze the operator's lost profits resulting from the closure of the golf course and its ongoing expenses. The analysis included a review of Kan-Alta's previous financial statements and its revenue and expenses from January 2013 to the time of the flood. The 1999 agreement stated the Crown was responsible for damages over \$100,000 to the operator resulting from the effects of the adjacent Kananaskis and Evan Thomas waterways.

⁶ The department hired one company, and Kan-Alta hired the second company.

The department hired a firm to review the different business options available to the Crown in deciding whether KCGC should reopen and how it should be operated if so. The options were:

- keeping the existing operator
- going to a new operator
- taking over the operation of the golf course
- closing KCGC and returning the land to its original state or using the land for another purpose

The department also conducted its own analysis of the different options. It examined the strengths, weaknesses, opportunities and threats for each business model.

The department received legal advice on the existing operating agreement with Kan-Alta. The department wanted to know its options and financial liabilities under the existing agreement.

With the various reports it had, the department conducted an assessment to identify the costs with each business option. The assessment included:

- the economic impact KCGC had on Kananaskis Country and the extended area
- the cost to restore KCGC
- the flood compensation that Kan-Alta should receive
- the cost of terminating the contract with Kan-Alta
- the cost of flood mitigation
- funding from the Disaster Financial Assistance Arrangement⁷

In March 2014 the department prepared two funding requests⁸ to the Ministerial Task Force, one for \$18,025,000 to restore KCGC and one for \$13,900,000 for contractual commitments to Kan-Alta under the 1999 operating agreement. The department used expert reports and its own analysis to support these requests. The task force approved both funding requests, and the minister gave direction to the department to negotiate an amended operating agreement.

The department's negotiations with Kan-Alta resulted in several key results:

- a new end date in 2025, when there will be a request for proposals for the next operator
- a reduced financial risk to the government through:
 - eliminating payments to Kan-Alta in the event of another flood
 - capping the amount Kan-Alta would receive should the golf course be closed for other reasons⁹ at the request of the department
- an increased total return to the Crown

The 11-year term of the amended agreements (2014–2025) is in line with similar leases that other Canadian governments have signed with operators.

Flood mitigation

After the June 2013 flood, the department assessed the cost of mitigating the effects of future floods. The assessment included the cost of flood mitigation for the waterways adjacent to the golf course. The department's initial cost estimate for repairing the waterways was \$2.8 million, but the estimate was later increased to \$7.8 million for enhanced flood protection.

⁷ The costs of disaster recovery may be eligible for cost sharing with this Government of Canada program.

⁸ There were also two similar funding requests in September 2013 that were not approved.

⁹ Major repairs, emergencies and public safety.

The department has begun the flood mitigation work on the waterways responsible for the flooding: the Evan Thomas and the Kananaskis. As a result, Evan Thomas Creek is now wider than it was pre-flood, and the creek berms that protect the golf course have been raised from two metres to three metres.

Improvements to the waterways will resume in the spring of 2016. The department plans to complete the remaining portion of the flood mitigation for the creek prior to the spring runoff, which usually starts after May 15.

Project manager for the restoration

The department selected Kan-Alta to act as the project manager for the restoration of the golf course. We found the decision to engage Kan-Alta to act as the project manager was reasonable. Kan-Alta, as the operator since the course opened, had a history of performing redevelopment work (capital expenditures) over the years as part of the 1999 operating agreement, and it knew the site well. Kan-Alta also had a vested interest in seeing the restoration proceed properly and efficiently. The department engaged a golf course architecture company to assist in the oversight of the project to ensure the restoration proceeded properly.

Consolidated Housing Agreement

Before the department signed the Consolidated Housing Agreement, the residences leased to Kan-Alta were in three different agreements: the 1999 agreement and two agreements signed in June 2008, when two new residences were built. The department wanted to consolidate the three leasing arrangements for the residences in one agreement. The resulting Consolidated Housing Agreement ensures consistency in the terms and conditions for all the residences and has the same end date (2025) as in the 2014 amended agreement.

Included in the Consolidated Housing Agreement was a change to the purchase value of the residences from fair market to assessed value. The department intends to purchase Kan-Alta's residences before 2025. Owning all of the residences would allow the department to combine the golf course and the residences in one package in future requests for proposals.

Payments to Kan-Alta

We examined the payments to Kan-Alta from April 2014 to October 2015 to ensure they complied with the existing agreements or letters of authorization¹⁰ to restore the golf course. The payments of \$9.6 million complied with the existing agreements or letters of authorization.

¹⁰ Two letters issued to Kan-Alta in August and September 2014 authorizing restoration work.

