



PARKS BUREAU SOFTBALL:
Operating agreement for the softball program
should be revised as it nears self-sufficiency

A REPORT FROM THE CITY AUDITOR
August 2005



Office of the City Auditor
Portland, Oregon



CITY OF
PORTLAND, OREGON

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August 30, 2005

TO: Mayor Tom Potter
Commissioner Sam Adams
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Erik Sten
Zari Santner, Director, Bureau of Parks & Recreation

SUBJECT: Audit of Portland Parks and Recreation contracts with the
Portland Metropolitan Softball Association, Report #323

Attached is Report #323 containing the results of our audit of the Bureau's contracts with the Portland Metropolitan Softball Association (PMSA) to run the softball program. A written response from Commissioner Saltzman and Parks and Recreation Director Zari Santner is attached to the report.

We ask that the Director of the Bureau of Parks and Recreation prepare a status report in one year detailing steps taken to address the recommendation contained in our report.

We appreciate the cooperation and assistance we received from personnel in the Bureau of Parks and Recreation, and also the Portland Metropolitan Softball Association.


GARY BLACKMER
City Auditor

Audit Team: Drummond Kahn
Ken Gavette

Attachment

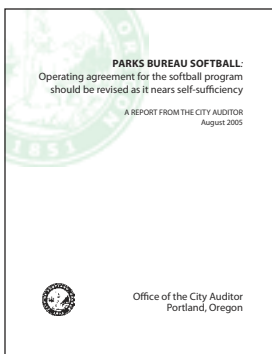
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RESPONSE TO THE AUDIT



Production/Design

This report was produced in-house using desktop publishing software on Pentium 4 personal computers, and a Hewlett Packard Laserjet PCL/Postscript laser printer. It was printed at the Printing and Distribution Division of the City's Bureau of General Services. Adobe InDesign CS PageMaker version was used to design and layout the finished product. Tables were created in InDesign.

PARKS BUREAU SOFTBALL:

Operating agreement for the softball program should be revised as it nears self-sufficiency

Summary The Portland Bureau of Parks and Recreation shares the operation of the Citywide softball program with a not-for-profit charitable organization, the Portland Metropolitan Softball Association (PMSA). The Bureau is primarily responsible for maintaining the facilities while the PMSA programs league play and tournaments. We conclude this has been a successful partnership. Sports facilities are maintained at a high level and league programs give thousands of Portland residents the opportunity to play recreational softball. Importantly, the program as a whole appears to be collecting enough revenue to be nearly self-supporting. Specifically, we found:

- The City's general fund continues to subsidize the program for about \$100,000 per year despite the fact that PMSA runs an annual operating surplus averaging about \$70,000 per year and an accumulated fund balance of about \$600,000
- Contract responsibilities and the flow of money between the two parties is unclear and unnecessarily complex
- Concession payments to the City by the third party concession provider appear to be consistent with contract requirements, based on our limited observations and estimates

As the Bureau proceeds to draft new contract arrangements, we discuss several options. These options include leasing the maintenance and programming of the operation to a contractor, taking over program scheduling and renting the fields on an individual basis, and making adjustments to the current contract arrangement with PMSA. If the Bureau decides to continue contracting the programming to PMSA, we suggest several contract design principles to clarify roles and enhance the Bureau's oversight of the program.

Introduction

The Portland Parks and Recreation Bureau has two contracts with the Portland Metropolitan Softball Association (PMSA) for managing softball leagues and events at the William V. Owens softball complex at East Delta Park in north Portland and at various softball fields throughout the City. The PMSA is a non-profit organization whose mission is to promote softball activities in the Portland area. The PMSA is an affiliate of the Amateur Softball Association (ASA), one of the four nationally recognized governing bodies of softball. According to Parks Bureau managers, the PMSA has been a partner in Portland softball for over 65 years.

One contract is for general management services at the softball complex, primarily organizing city softball leagues. The PMSA also organizes weekend tournaments - some with regional and national teams. The City receives a portion of league registration fees. A second contract is for the delivery of concessions at the softball complex. PMSA subcontracts concessions to a third party, from which the City receives five percent of gross sales. The terms of these contracts have expired and are now being renegotiated.

We were asked by the Parks Bureau to review the contract arrangement for reasonableness and financial viability, and to determine whether concession revenue payments to the City appear to be in compliance with contract terms.

Audit objectives and methodology

The primary objectives of our audit were to examine the reasonableness of the City's contract with PMSA and to determine if the third party concessionaire at the softball complex appeared to be making payments as required by the contract. This is not an audit of the PMSA's financial statements or operational effectiveness.

In order to determine the reasonableness of the City's contract with PMSA, we interviewed numerous Bureau staff both in management and in the maintenance division of the Bureau. We interviewed PMSA operational staff as well as officials. We also spoke with representatives of other softball associations. PMSA representatives submitted financial records including profit and loss statements, detailed revenue and expense reports, and five years of income tax returns.

While we made an effort to gather information on operating costs for the softball program, we did not attempt to conduct a full analysis as costs are spread throughout the Bureau and difficult to obtain. A more complete analysis should be done by the Bureau as part of a larger cost of service effort. We did, however, receive Bureau comments on our general cost methodology.

In addition, we contacted managers of seven other softball complexes similar to Portland's facility to obtain information on comparative operational models. We collected information on registration fees, the degree to which the facilities are self-supporting, relationships with governing bodies, and the relationship between owners, operators and contractors. These complexes are located in Hillsboro, Salem, and Tualatin Hills Park and Recreation District in Oregon, in Sacramento and Sunnyvale, California, and in Panama City and Osceola County, Florida. We toured the Hillsboro and Tualatin Hills facilities.

In order to determine the reasonableness of concessionaire contractor payments, we conducted random observations (unknown to the contractor) and recorded sales from certain hourly periods. From these observations, we constructed general estimates as to overall revenue potential, and also compared our record of observed sales to cash register receipts later supplied by the contractor.

We conducted our work in accordance with generally accepted government auditing standards.

Background

In 1998, the City completed construction on the William V. Owens softball complex and other sports fields at East Delta Park as part of the Parks Bureau General Obligation Bond program. According to Bureau records the prior fields were poorly designed, had badly located concession stands, and widely scattered fields requiring driving between fields for some players and fans. The upgrades centralized most softball fields into a radial pattern and a new concession area was constructed. The current sports complex consists of five centralized softball fields, two other softball fields, a central concession building, eight natural turf soccer fields, and one artificial turf soccer field.



William V. Owens Softball Complex at East Delta Park

Funding for the complex appears to have been problematic from the beginning. The original estimated construction budget for the complex was set at about \$2.3 million. The actual construction contract was \$2.6 million, with \$466,000 coming from the PMSA. Bureau records from the project show final expenditures of about \$3.0 million.

In addition, the original proposal was for the complex to be entirely self-supporting. That was not immediately the case. In FY1998-99 the Bureau proposed a three year, \$185,000 per year "bridge funding" while the PMSA developed advertising and sponsorship income. The Bureau budget stated that it was also necessary to give the PMSA time to pay the capital costs it committed to the project.

Prior to completion of the complex, the Parks Bureau scheduled softball games and tournaments using City employees in the Athletic Office. As the complex was completed the Bureau realized an opportunity to reduce its programming staff by allowing the PMSA to take responsibility for organizing leagues and bringing in tournaments.

The current management model

Under the terms of the City's contract with the PMSA, the responsibilities of the PMSA primarily center on organizing City softball leagues and supervising Bureau staff assigned to East Delta Park. The PMSA also schedules weekend tournaments for which the City receives no registration payment, although the PMSA does reimburse the City for overtime spent preparing fields for exceptionally heavy use and the high demands of upper level tournament play. PMSA is also responsible for setting the registration fees for City leagues.

The City is primarily responsible for providing maintenance for the softball complex. Maintenance consists of mowing fields, installing and repairing irrigation lines, litter pickup, garbage disposal, structural repairs, and paying for utilities. The City also provides an employee who works about three-quarter time scheduling activities. In addition, the City pays certain administrative expenses, and makes partial payment (\$40,000) of the PMSA's complex manager's salary.

The City receives a portion of each City league team's registration fee (known as the "surcharge"). For example, during spring 2005, the City received \$275 from each team's full registration (regardless of full registration amount of \$605, \$700, or \$870). The PMSA keeps all money raised from weekend tournaments. The City does not receive a share of team registrations from these events.

In general, this partnership has worked very well. The complex is professionally run and is maintained at a very high level, capable of hosting regional and national softball tournaments that demand high standards. Although no official economic impact studies have been done to date, we estimate that during the current year, tournaments brought into the complex may generate as much as \$350,000 for the local economy, mainly in local hotels and eating establishments. Bureau managers report they are currently conducting an economic impact study.

In addition, the City leagues give the opportunity for thousands of residents to participate in recreational softball games. Each spring and summer season, more than 400 teams register for the city leagues, playing thousands of games.

In return, the PMSA has a virtual lock on scheduling softball fields around the city. Each year PMSA is given a block of reservation

dates which they later fill with City league games and weekend tournaments. According to a complex staff member, competing associations, such as the National Softball Association (NSA), the Independent Softball Association (ISA), and the United States Sports Specialty Association (USSSA), must obtain permission from the local ASA board to host tournaments on these reserved fields. One problem with this system, according to the Bureau's Permit Center Manager, is that some of the fields go unused when PMSA is unable to schedule games, or when games are canceled or postponed. This limits the use of fields by other organizations.

Audit Results **Portland's management model differs considerably from other public softball operations we contacted**

We contacted seven other organizations around the area and the country that have softball facilities similar to the Owens Complex. We found that no other park has a public-private partnership like Portland and the PMSA (i.e., where one entity provides the maintenance and one does the programming). The typical operational model seems to be where the facility owner (usually a city or county) maintains the facility and programs league play. Fields are open for rentals to associations, private individuals, and companies for tournaments on weekends and for games and practices at other times. Fields are usually rented on a per-game or per-day basis. While the government opens the gates and prepares and waters the field a number of times during a tournament day, the tournament host is responsible for providing umpires, scorekeepers, game balls, awards, team communication, scheduling, and other tournament expenses.

Two cities (Salem, Oregon and Sunnyvale, California) have complete turnkey operations where a contractor is responsible for maintaining and programming the facility. The cities do not make any financial contribution to the facilities. Sacramento was the only facility programmed and operated by the local government that was also entirely self-supporting.

We also found that Portland's registration fees are among the highest, although Portland is closer to being self-supporting than the four cities and counties with significantly lower registration fees. The three programs that are self-supporting have about the same fees as Portland.

Figure 1 Comparison of league registration fees and operating models

City/County	Fee per game	Amount Self-supporting	Models and comments
Sunnyvale	\$61	100%	Contractor built facility, leases city land
Portland	\$60	<100%	City owns, maintains, Contractor programs
Salem	\$58	100%	City owns, Contractor operates and programs
Sacramento	\$54	100%	City owns, operates, programs
Osceola County	\$38	Unknown	Co. owns, operates, programs Supported by sales tax
Hillsboro	\$29	50%	City owns, operates, programs
Panama City	\$25	Unknown	City owns, operates, programs
Tualatin Hills	\$23	Unknown	District owns, operates, programs

Source: Audit Services survey of other facilities.

Like Portland, five of the seven other operations contract out concessions. Charges vary a great deal, ranging from five percent to 17 percent, with most in the five percent to seven percent range. Portland, by contrast totals about 15 percent when the flat \$20,000 fee to PMSA is converted to a percent of gross sales ($\$20,000 / \$200,000 \text{ est. sales} = 10 \text{ percent}$ plus the City's five percent share).

It is not clear, however, why the PMSA is given concession rights when they only subcontract those rights to a third party. No other operation we contacted relies on a contractor to subcontract concessions to a third party. This arrangement adds a "middle man" to the process without clear value to the City.

The City continues to lend general fund support despite the fact that the softball program as a whole appears to be close to self-supporting

In terms of generating enough revenue in total to support its operation, the current arrangement could be viewed as a successful operation and a successful partnership with PMSA. Our review of the financial condition of the PMSA and the City expenses and

Financial summary:

Four year avg. PMSA surplus: \$70,000

Avg. annual City subsidy: \$100,000

PMSA accum. surplus: \$600,000

revenues from softball operations at the complex shows that the program is close to being self-supporting. According to publicly available tax return information, in four of the past five years, the PMSA has had operational revenues in excess of expenses of between \$30,000 and \$90,000 each year (an average of about \$70,000 per year). In addition, the PMSA carries a fund balance (surplus) of over \$600,000. According to our estimate, however, the City contributes about \$250,000 per year to the Softball Program and receives about \$150,000 in revenue from team registrations and concessions. This \$100,000 difference represents a general fund subsidy from other Park Bureau programs.

Contract responsibilities and the flow of money between entities is unclear and unnecessarily complex, and the draft contract does not increase clarity

Our review of the responsibilities and the flow of money between the City and PMSA illustrates that relationships are not clearly defined and some money transfers may add unnecessary complexity.

Responsibilities: It is critical in all contracts that responsibilities and relationships be explicitly defined. Clear definitions are necessary to protect the City's investment in the park facility and ensure the contractor performs as expected. Our review shows that obvious elements of a traditional contractual relationship are missing and dividing lines between the two parties are not clearly stated. For example:

- The City's share of registration fees (the surcharge) is not part of the written agreement. Apparently the agreed-upon amount is part of a long-standing verbal agreement, but Bureau managers could not produce documentation and did not know the exact amount of the verbal agreement. We obtained surcharge information from the PMSA.
- The City pays for management services the PMSA should provide. For example, even though the PMSA is obligated to provide a daily manager at the complex, the City actually pays \$40,000 for management salary and certain administrative expenses including some office supplies and fleet costs. In addition, the City provides staff assistance to the PMSA for scheduling games and coordinating tournaments.

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- Substantial resources are contributed by the Bureau for maintenance, reservations processing, and utilities that are not captured in the East Delta Park budget. We found it necessary to collect financial information from several different Bureau divisions to estimate the total annual resources put into the softball complex. Therefore, when maintenance requests are made by the PMSA's complex manager, it is unlikely that Bureau managers can make informed decisions about what services the Bureau can afford to perform.
 - Contract performance measures could be improved. While the contract does require workload statistics such as games played and attendance, results measures such as field usage percentage and customer satisfaction would significantly improve City oversight of the program.

Money and resource flow: The City's arrangements with the PMSA has many places where money and resources flow between the two parties. This introduces the chance of error and makes it more difficult for the City to provide financial oversight of the contractors. For example:

- The City actually collects registration fees at the Permit Center, then transfers them to the PMSA, before the PMSA makes a final transfer back to the City for its share of the fees.
- The PMSA collects the City's five percent share of concessions from the third party concessionaire and then forwards it to the City. We found the FY'02-03 payment was misclassified in the City accounting system. We also found one other payment misclassified during our review.
- The budget service level between the two parties varies, and resources flow back and forth between the two parties. When the City does not fund the operation of the complex at a level satisfactory to meet PMSA needs, PMSA makes "donations" of needed maintenance supplies and labor.

Far from addressing the above problems in a meaningful way, the current draft contract we reviewed as of July 8, 2005 introduces new issues. For example:

- The City commits to maintaining the complex at a tournament play level, meaning that it needs to meet the demands of tournament players in terms of field condition, scoreboard operation, etc. While this does clarify City responsibilities, it may not be in the best interest of the City to make such a commitment. The City may not wish to continue such a level of responsibility on its part while the PMSA runs an annual revenue surplus.
- Although the surcharge amount is now stipulated in the written agreement, we found there is no rationale for a proposed amount.
- As in the last contract, the City continues to pay for PMSA staff salaries, even though the purpose of the contract is to have PMSA provide management services.
- The City commits to provide staff assistance (when available) for long range planning for PMSA management of Delta Park. Rather than expanding options for future contract operation (or City operation) of the facility, this further enhances the PMSA's hold on the complex.

Concession payments appear consistent with requirements

We found that the sales reports by the concessionaire and resulting payments to the City appear to be consistent with contract requirements. As stated earlier, the contractor is obligated to pay the City five percent of gross sales annually. Based on our observations and the reported schedule of tournament and league games, we expect total gross concession sales to be in the range of \$150,000 to \$200,000 per year. This compares favorably to concessionaire payments (between \$7,000 and \$12,000) to the City which, at a five percent rate, indicates sales of between \$140,000 and \$240,000.

In addition, based on our observations and comparison to actual sales receipts, we believe the concessionaire is fairly reporting

individual sales. We compared our observations of purchases to actual cash register receipts and found the concessionaire actually reported more sales than our observations identified.

Conclusions

We believe that the operation of the softball program and the Bureau's partnership with the PMSA should be considered a qualified success. The complex is maintained at a high level that meets the demands of tournament and city league players. The PMSA and the facility attracts regional and national tournaments that have a positive economic impact on the community, while providing thousands of local softball players the opportunity to play in a first class facility.

In addition, our observations and estimates lead us to conclude that the concessionaire is paying the appropriate amount required by contract to the City in compensation for concession rights.

Importantly, the overall softball program appears to be operating at a near self-supporting capacity, which few of the other softball operations we contacted could claim. This was one of the original goals of the Bureau when the complex was constructed. It should be noted that not all operators we contacted desire to be self-supporting. Some chose lower registration fees and higher subsidy in return for more affordable participation. As we noted earlier, PMSA registration fees are among the highest of any facility we surveyed.

However, while it is clear that PMSA's commitment to area softball is firm (as evidenced by its almost one-half million dollars of funding toward the initial facility construction), we do not believe it is in the best interest of the City to continue general fund support of the program while the PMSA runs an operating surplus each year.

The Bureau and the softball program are at an important juncture. Based on the revenue it is currently generating, thanks to the City's maintenance and the PMSA's programming, the program as a whole is nearly self-supporting. One option for the future operation is for the Parks Bureau to discontinue the contract with PMSA, take over operations and programming for the entire adult softball program, and adopt a model closer to other operations we contacted. This has

the benefit of allowing the City to choose the fee structure, to choose how to spend any excess revenue (perhaps on park programs unrelated to softball), and to open up facilities for competitive bidding from potential users. This does involve some risk, however, because the present relationship appears to be working well for all parties. New City staff would need to be hired and trained and operations could suffer, at least in the short term, until the Bureau becomes accustomed to programming softball events.

A second option is to lease the softball complex (programming and maintenance) to a contractor as a turnkey operation. Based on our conversations with other complex managers, however, we suggest the Bureau take a cautious approach. Mismanagement, or just the financial uncertainties of operating an outdoor sports complex in the Northwest, could result in damage to the complex, a valuable City asset.

Recommendation **If the Bureau decides to continue a contract for programming softball events, we recommend the contract be improved to clarify responsibilities and simplify financial arrangements. We believe this can be done without harming operation of the softball complex.**

We recommend the Bureau consider the following contract design principles:

- The City should not subsidize the operation of the softball program while the PMSA runs an operational surplus. Language in the draft contract requiring the PMSA to reinvest profits in the softball program is not adequate to ensure fairness to other general fund programs. Excess revenue should not “belong” to the PMSA.
- The City should not reimburse for management services rendered by PMSA. That is what PMSA is contracting to provide. Their proportion of the fees should take this into account.

-
- Money should move between the two entities as few times as possible to minimize error and increase financial accountability. There are several possible ways to accomplish this. For example, the City could continue to collect registration fees at the Permit Center, but only forward the PMSA's share, instead of the entire amount.
 - Fees should be set with a goal in mind, and the Bureau should be more involved in the fee setting process. For example, the Bureau should consider the trade-offs between being self-supporting and keeping registration fees affordable. Also, the split in registration fees should reflect the actual cost borne by each party for operation of the program.
 - Long range planning for the facility should remain solely the responsibility of the City, not the contractor. It should not include any plans that would restrict the City's future operational choices in any way. There does not appear to be a good reason why long range planning should be included in the contract with PMSA.

We think it is possible to achieve several operational goals simultaneously by changing parts of the contract. For example, the City could substantially reduce its general fund subsidy by not paying for the PMSA complex manager's salary (\$42,000 in the draft contract). This not only reduces the City's subsidy, but it clarifies the contract responsibility of PMSA to provide management services. At the same time, this reduces the flow of money between the two parties. This should not have a substantial impact on PMSA's financial position. There may be other provisions in the contract requiring the City to pay for smaller administrative costs that could be borne by PMSA.

Likewise, the City should consider eliminating the PMSA as "middle man" for concessions. The City could collect some appropriate amount to further reduce its subsidy (PMSA now collects about \$20,000 per year from the concessionaire). This reduces and clarifies the PMSA's role as the programmer of softball events, and reduces the flow of money between the two parties. Again, the PMSA should be able to absorb this lost revenue without much impact to its operation.

These, and other actions which clarify the role of the PMSA as the provider of services, will enhance the City's oversight of the softball program, provide a basis for more rational fee setting, and reduce the general fund subsidy to the program.

RESPONSE TO THE AUDIT



PORTLAND PARKS & RECREATION

Healthy Parks, Healthy Portland

August 18, 2005

TO: Drummond Kahn, Director of Audit Services

FROM: Dan Saltzman, Commissioner *Don*
Zari Santner, Director *ZS*

RE: **Response to Working Draft of Audit Report #323 – Portland Parks and Recreation contracts with Portland Metropolitan Softball Association**

Thank you for the opportunity to comment on the Working Draft of audit report #323. This is an excellent piece of work done in a very timely fashion. We really appreciate your timely response to our request for this audit and your important look at a key component of our sports recreation program.

The various recommendations you made in the audit as to how we can further improve upon what you found to be a successful partnership will be discussed with our partners. The implementation of these recommendations will strengthen various financial and operational provisions of this important partnership. Our goal is an agreement that will carry our partnership well into the future.

We look forward to working with you on future audit projects. Thank you again for a job well done.

Administration

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Zari Santner, Director
Dan Saltzman, Commissioner



Sustaining a healthy park and recreation system to make Portland a great place to live, work and play.

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Parks Bureau Softball: Operating agreement for the softball program should be revised as it nears self-sufficiency

Report #323, August 2005

Audit Team: Ken Gavette

This report is intended to promote the best possible management of public resources. This and other audit reports produced by the Audit Services Division are available on the web at: www.portlandonline.com/auditor/auditservices. Printed copies can be obtained by contacting the Audit Services Division.

Gary Blackmer, City Auditor
Drummond Kahn, Director of Audit Services

Other recent audit reports:

Percent for Art Program: Financial allocation process is informal, inconsistent, and may not fulfill requirements for public art (#317, August 2005)

Development Review Process: Bureau commitments to improve timeliness and efficiency have not been fully accomplished (#318, August 2005)

2004 Citizen Survey: Results from six targeted neighborhoods (#316, August 2005)

