

Attachment - 1**Queen Elizabeth Park Celebration Pavilion Business Case*****Proposal*****Background**

The GVRD has recently rebuilt, expanded and seismically protected the principal reservoir at Queen Elizabeth Park. In the context of this project the Park Board capital program includes the redevelopment of the top of the reservoir with a plaza, fountain, sculpture settings, pavilion (Celebration Pavilion) and parking lot. As is the case with a number of projects, cost escalation has affected the QE reservoir project negatively.

Discussion

The Celebration Pavilion is intended to be a new venue for weddings and other celebrations at the highest point in Vancouver. While Queen Elizabeth Park is already a popular location for weddings and wedding photography, this facility will focus that interest and create significant revenues for the Park Board. The pavilion, which has been designed by Richard Henriquez, will offer seating for 100 people indoors and have an associated lawn area for outdoor ceremonies and receptions.

Through a tendering process for the entire Queen Elizabeth reservoir project, the Board has determined the cost of the pavilion, washroom, related infrastructure, soft costs and contingency to be \$1.4 million. Originally, the Celebration Pavilion was to be funded from a donation or corporate sponsorship. However, as a search for donors has not yielded a sponsor, alternate funding is required to complete construction of this component of the reservoir refit project.

Market Research**Survey of Market**

The market for the facility is weddings, memorial services, award ceremonies and commemorative events. Queen Elizabeth Park is already a popular location for weddings and wedding photography.

The pavilion will function in a similar way to the Church at the Burnaby's Village Museum and the Chapel in Richmond's Minoru Park, both of which have proven to be popular revenue generators for these two municipalities. Below is a summary of the 2004 rates, annual facility usage and approximate revenue for these two facilities.

	City of Burnaby Burnaby Village Museum	City of Richmond Minoru Chapel
2004 Rates per session		
Winter (Jan – Apr, Sep – Nov)	\$280	\$350
Summer (May – Aug, Dec)	\$375	\$350
Number of session per day	Winter5 Summer7	Weekdays5 Weekends8

	City of Burnaby Burnaby Village Museum	City of Richmond Minoru Chapel
Facility Usage	Winter 10%	Winter (Oct - Apr) Weekdays 10% Weekends 25%
	Summer 75%	Summer (May - Sep) Weekdays 40% Weekends 90%
Annual number of sessions	850 - 900	750 - 800
Annual Revenue	\$310,000 - \$333,000	\$256,600 - 277,000

Financial Implications

Proposed Fee Structure and Revenues

Given the current pricing structures in place at other facilities the following fee structure is proposed:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Jan - Apr	\$250	\$250	\$300	\$325	\$350	\$360	\$370	\$380	\$390	\$400
May - Sept *	\$350	\$400	\$450	\$500	\$525	\$535	\$545	\$560	\$575	\$590
Oct - Nov	\$275	\$300	\$300	\$325	\$350	\$360	\$370	\$380	\$390	\$400
Dec *	\$350	\$375	\$400	\$450	\$475	\$485	\$495	\$505	\$515	\$525

* Annual fee increases to 2010 range from 5-10%; thereafter adjusted for inflation at an estimated 2% per year.

The fee structure has been set lower in the early years to generate additional bookings. The rate increases of 5-10% per year are to recognize the central location of the facility and the extensive attractive floral displays in Queen Elizabeth Park.

As well, it is assumed that the facility will offer seven sessions per day from May to September and five sessions per day during the remainder of the year. This is similar to the experience in Burnaby and Richmond. Projected actual usage is 10% for January to April and October to November, and 15% for December. For May to September, in the first year usage is projected to be 50%, rising to 65% in the second year and leveling off at 75% in subsequent years.

Given the above assumptions, the facility is projected to generate revenues as outlined below:

Year	Annual Sessions	Revenues*
2006	559	\$188,331
2007	810	\$305,224
2008	917	\$382,461
2009	917	\$416,035
2010 & Beyond	917	\$429,057

* all projections are in 2006 dollars

Please see Appendix 1 for detailed calculation of estimated revenues, expenses, and contribution to the Park Board.

Facility Expenses

Operating Expenses

The facility will require booking support, event supervision, janitorial services and set-up support. There will also be expenses associated with advertising and promotion, administration, utilities and facility maintenance. The table below summarizes the estimated costs of running the facility.

	Ongoing Annual cost*
Booking Support & Event Supervision: 2 hours per booking @ CUPE 15 pay grade 20, plus fringe benefits for Auxiliary staff	\$61,046
Janitorial & Set-up Support: 1.5 hours per booking @ CUPE 15 pay grade 13, plus fringe benefits for Auxiliary staff	\$34,456
Advertising & Promotion	\$10,000
Administrative Costs	\$4,000
Maintenance & Utilities (2% of building costs)	<u>\$18,000</u>
Total Operating Costs	\$127,502

* all projections are in 2006 dollars

Scenarios

Below are a number of scenarios that incorporate an analysis of the projected revenues, expenses and loan repayment and the required contribution sharing. The Global Budget arrangement with the City allows the Park Board to pursue opportunities to generate new revenues, with the stipulation that net surplus from these new contributions are shared 1/3 to the City, 2/3 to the Board. Net revenues are usually shared after any loan has been fully repaid.

Each scenario assumes no inflation - that is, all amounts are in 2006 dollars. In each case the loan can be paid back within a ten-year period, and the net annual revenues to the Park Board after the loan is repaid range from the \$156,000 to \$201,000. Please see Appendix 2 for the detailed calculations for each Scenario below.

Scenario 1

In this scenario, revenues are projected based on the current experience of Burnaby and Richmond. Annual expenses include maintenance budget based on 2% of the \$900,000 building cost, staffing costs that increase with the number of bookings, and fixed costs for administration, advertising and promotion. The cost of borrowing has been set at 6% and 1/3 of net revenues have been shared with the City, beginning once the loan is paid off.

In this case the loan will be paid off in 2013 (7 years), net annual revenues to the Park Board will be \$201,000 (in 2006 dollars) and total interest charges would be \$428,000. The total contribution to the Park Board Operating Budget over 10 years is \$541,200. The cumulative contribution to City of Vancouver (COV) over 10 years is \$270,600.

Scenario 2

In this scenario, revenues are projected based on the current experience of Burnaby and Richmond. Annual expenses and revenue sharing with the City are the same as Scenario 1. The cost of borrowing has been reduced to 0%

In this case the loan will be paid off in 2011 (5 years), net annual revenues to the Park Board will be \$201,000 (in 2006 dollars), and total interest charges would be zero. The total contribution to the Park Board Operating Budget over 10 years is \$826,500. The cumulative contribution to COV over 10 years is \$413,300.

Scenario 3

In the absence of an extensive analysis of the market potential, in this scenario the projected revenues are based on a drop of 20% in usage from the current experience of the Burnaby and Richmond facilities. Annual expenses, the cost of borrowing and revenue sharing with the City are the same as Scenario 1.

In this case the loan will be paid off in 2015 (9 years), net annual revenues to the Park Board will be \$156,600 (in 2006 dollars), and total interest charges would be \$548,800. The total net contribution to the Park Board Operating Budget over 10 years is \$66,280. The cumulative contribution to COV over the 10 years is \$33,140.

Scenario 4

In the absence of an extensive analysis of the market potential, in this scenario the projected revenues are based on a drop of 20% in usage from the current experience of the Burnaby and Richmond facilities. Annual expenses and revenue sharing with the City are the same as Scenario 1. As in Scenario 3, there is no cost associated with borrowing the money.

In this case the loan will be paid off in 2013 (7 years), net annual revenues to the Park Board will be \$156,600 (in 2006 dollars), and total interest charges would be zero. The total contribution to the Park Board Operating Budget over 10 years is \$432,200. The cumulative contribution to COV over 10 years is \$216,100.

Discussion of Scenarios

The main differences between the various scenarios are the number of bookings per year and the rate of interest charged.

In Scenarios 3 & 4, it is assumed that the Celebration Pavilion will achieve only 80% of the bookings that facilities in Richmond and Burnaby currently have, while in Scenarios 1 & 2, the pavilion is assumed to enjoy the same success as the other facilities. The impact of a 20% drop in usage results in an annual drop from \$201,000 per year to \$156,600 in net revenues to the Board, a drop of \$44,400. However the Board would still have a minimum of \$156,600 for other programs every year.

In Scenarios 1 & 3, borrowing costs of 6% are assumed, while in Scenarios 2 & 4, no cost is attached to funds borrowed. These changes don't impact the eventual profitability of the pavilion, but they do have an impact on the time until the loan is paid off. If no interest is charged, the loan can be paid back 2 years sooner than if the Board incurs an interest charge. However the no interest option is only available if the money is borrowed from the Park Board Reserve funds.

Major Findings

There are two main criteria that must be met for a business case to be considered sound.

- There must be sufficient revenues to cover the projects operating costs and to pay back the capital investment within a reasonable timeframe. The industry standard would assume a time frame of 7-10 years as reasonable, depending on the amount of risk involved.
- There must be a reasonable profit in order to cover the risk associated with the project (otherwise a prudent investor should simply put the funds in the bank and ensure a safe return on their investment). While the Board does not earn interest income from reserves funds kept by COV, any return from capital investment (at this case an average of 5-6% return appears very attractive).

Base on these criteria, the Celebration Pavilion is a sound business case.

Capital Expenses and Debt Servicing

In addition to ongoing operating expenses for the celebration pavilion, there are also expenses to build the facility and to finance it. As previously stated, the cost of the pavilion, washroom, related infrastructure, soft costs and contingency are \$1.4 million, as determined by the tendering process for the entire Queen Elizabeth reservoir project. It is also anticipated that the capital cost of adding on a pavilion in future will be significantly higher.

It was originally hoped that the pavilion could be financed via a donation or a sponsorship; however, despite searching no sponsor has been found. Therefore, an alternate arrangement must be made to provide funds to construct the pavilion. The cost of borrowing has been estimated at 6%, regardless of the source of funds. The annual interest on \$1.4 million is \$84,000. The total amount of interest paid, assuming 6% over the life of the loan, would vary between \$428,000 and \$548,800, depending on the time to pay back the loan.

The Board could borrow the funds from the City, which has provided similar loans in the past. Interest on this loan would be payable to the City. If the funds are borrowed from the City, the City would determine the rate of interest, which may or may not be 6%. Higher rates would imply a longer payback period and higher total interest payments.

Alternatively, the Board has a number of reserves totaling \$2.8 million. The table below outlines the reserves of the Board.

Account Description	August 2004 Amount	Anticipated Changes for 2004	2005 balance	Committed, Restricted or Reserved Funds	Remainder Available for Use
Artificial Turf Replacement	\$122,000	\$78,000	\$200,000	\$200,000	\$0
Bench Donations	\$159,000	\$61,000	\$220,000	\$20,000	\$200,000
Corporate Sponsorship	\$816,000	\$401,000	\$1,217,000	\$0	\$1,217,000
Donation	\$50,000	\$0	\$50,000	\$0	\$50,000
Golf Capital Reserve	\$152,000	\$0	\$152,000	\$152,000	\$0
Revenue Stabilization Fund	\$500,000	\$0	\$500,000	\$500,000	\$0
CF Moore Donation	\$350,000	\$100,000	\$450,000	\$250,000	\$200,000
Total	\$2,149,000	\$640,000	\$2,789,000	\$1,122,000	\$1,667,000

These reserve balances do not currently earn interest for the Park Board. Some of the reserves can only be used for designated purposes, and some funds are already committed for other projects or purposes, as shown in the table. However, the Board has approximately \$1.7 million in reserves that are not committed or restricted. \$1.4 million of these funds could be used to pay for the construction and would be paid back from the revenues generated by the pavilion.

By borrowing the money from the Park Board Reserve funds, the Board could choose not to charge interest on the loan, which would mean a savings in interest payments to the City of between \$428,000 and \$548,000.

Alternatively, the Board could borrow from its Reserve funds, charge interest to the project, and add the interest to its Reserve funds. Currently, there is only one corporate sponsorship payment remaining until 2006. The use of the Board's reserves to finance the Celebration Pavilion project could provide a means to replenish the reserve funds, which currently are not earning a return and, as no further sponsorship opportunities have been found, currently have no means of increasing.

By borrowing from its own Reserve funds, the Board can also increase its control over the loan, since it can choose the rate of interest to charge and can be certain of the rate over the life of the loan. The only risk to the Board is if it were to need more than \$400,000 from its reserves in the first year. However, past history indicates that the Board is unlikely to need significant funds from the reserves in any year. For example, since 1997 the Board has spent less than \$80,000 per year from the Corporate Sponsorship fund, with the highest amount spent in any one year being \$126,000.

The balance available in the reserve would increase every year, as interest was paid on the balance outstanding and as the loan was paid back. The value in any year would vary, depending

on the rate of interest charged, the time taken to pay back the loan, and whether the Board authorized additional expenditures from the Reserve funds. Please see Appendix 3 for details.

The Board could also explore options such as borrowing a portion (e.g. 50%) of the funds from the City and the remainder from its own reserves. This would reduce the interest payable to the City, maintain a higher balance in the reserves during the loan payback period, and generate additional funds for the Park Board reserves.

Recommendations

It is recommended that the Board approve financing for the QE Park Celebration Pavilion from its reserve funds, charge interest to the project while the loan is being paid back, and add the interest charged to the reserves. This option allows the Board to control its interest costs, with increases to the reserves each year for both interest and loan repayment, and an eventual increase to the reserves of between \$428,000 and \$548,800. Net contribution to subsidize other program can range from \$156,000 (commencing 10th year) to \$201,000 (commencing 8th year).