



September 29, 2004

**TO: Board Members - Parks and Recreation**  
**FROM: General Manager - Parks and Recreation**  
**SUBJECT: Queen Elizabeth Park Celebration Pavilion Project Funding**

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## RECOMMENDATIONS

*That the Board:*

- A. Approve a loan of \$1,400,000 from its reserve funds (\$200,000 from Bench Donation, \$200,000 from C.F. Moore Donation, \$50,000 from A. E. Mathers Donation and \$950,000 from Corporate Sponsorship) for the Queen Elizabeth Park Celebration Pavilion at an interest rate of 6% and that the loan be repaid from the revenues generated by the project.*
- B. For the Queen Elizabeth Park Celebration Pavilion project only, make an exception to Item A of the Corporate Sponsorship Guidelines.*

## POLICY

The following policies, guidelines and precedents are applicable to the recommendation.

- I. On March 2, 1998, the Board approved the use of Corporate Sponsorship Funds according to the following guidelines:
  - A. To fund one-time expenditures, to a limit of \$50,000, that will support revenue generating activities where the money can be repaid to the Corporate Sponsorship account from the increased revenues within a period of three years;
  - B. To fund initiatives with one-time expenditures, to a limit of \$50,000, that will result in improved efficiencies;
  - C. To fund one time expenditures over the existing funding level in the operating budget which are beneficial to the overall Parks and Recreation system.
- II. In the past, Council has approved internal loans for capital projects with revenue generating potential.

## **BACKGROUND**

The Greater Vancouver Regional District (GVRD) has recently rebuilt, expanded and seismically protected the principal reservoir at Queen Elizabeth Park (QE Park). The Park Board capital program includes the redevelopment of the new top of the reservoir with a plaza, fountain, sculpture settings, pavilion and parking lot. As determined by the tendering process for the entire Queen Elizabeth reservoir project, the cost of the Celebration Pavilion, washroom, related infrastructure, soft costs and contingency are \$1.4 million. Originally, the Celebration Pavilion was to be funded from a donation or corporate sponsor. 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. It is anticipated that the capital cost of constructing the pavilion in future will be significantly higher.

## **DISCUSSION**

The Celebration Pavilion is intended to be a new venue for weddings and other celebrations at the highest point in Vancouver. While QE 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 indoor seating for 100 people and have an associated lawn area for outdoor ceremonies and photography.

The planned facility function is similar to the Church at 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. The market for the facility is weddings, memorial services, award ceremonies and commemorative events.

Staff have conducted an analysis to determine if the Celebration Pavilion is a sound business case. 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 project operating costs and to pay back the capital investment within a reasonable time frame.
- There must be a reasonable profit in order to cover the risk associated with the project. In this case, the major risk to the Park Board is the decline in usage.

Staff have conducted sensitivity analysis on different levels of usage and operating costs to determine whether the project will generate sufficient revenues within a reasonable time frame. The analysis has also provided a range of pay back periods for recovering the capital costs. Please see Attachment 1 - Queen Elizabeth Park Celebration Pavilion Business Case for the analysis.

The main differences between the various scenarios (Appendix 2) are the number of bookings per year (usage) and the cost of financing the capital investment (interest). In all cases the capital costs can be recovered within a ten-year period and the net annual revenues to the Park Board range from \$156,000 to \$201,000. Based on the above criteria, the Celebration Pavilion is a sound business case.

As stated previously, 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 Board could borrow the funds from the City, which has provided similar loans in the past at various interest rates.

Alternatively, the Board has a number of reserves totaling \$2.8 million. These reserves do not currently earn interest for the Park Board. Some reserves can only be used for designated purposes, and some funds are already committed for other projects, as shown in the table. However, the Board has approximately \$1.7 million in reserves that are not committed or restricted. These funds are from donations and corporate sponsors and their use is subject to the Board's approval. The \$1.4 million required for the pavilion construction could be loaned to the project from the Board's reserves and would be paid back from the revenues generated by the pavilion.

There are a number of advantages of borrowing the money from the Board's own reserves:

- 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 \$548,800 (assuming a loan from the City at 6%).
- Alternatively, the Board could charge interest to the project and add the interest to its Reserve funds. By borrowing against the Board's own reserves and charging interest on the borrowed funds, the Board's reserves, which currently aren't earning any return, could be replenished for future uses. Also, currently there is only one corporate sponsorship payment remaining until 2006 and none beyond that. As no further sponsorship opportunities have been found, the Board has no current means of increasing the reserve funds for future projects.
- The Board can also increase its control over the loan, as the Board can choose the rate of interest to charge and can be certain of the rate over the life of the loan.

The balance available in the reserve would increase every year, as interest was paid on the balance outstanding and as the loan principle was paid back. The balance 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 the Queen Elizabeth Park Celebration Pavilion Business Case Attachment - Appendix 3 for details.

The only risk to the Board is if it were to need more than \$300,000 from its reserves in 2005. 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 on average less than \$80,000 per year from the Corporate Sponsorship fund, with the highest amount spent in any one year being \$126,000.

The Board could also explore options such as borrowing a portion (e.g. 25% or 50%) of the funds from the City and the remainder from its own reserves. This would reduce the interest payable to the City and maintain a higher balance in the reserves during the loan payback period, while still generating additional funds for the Park Board reserves. These options are also shown in detail in Appendix 3 of the Business Case.

On March 2, 1998, the Board approved guidelines for the use of the Corporate Sponsorship Fund, as noted above. One guideline recommends the Board fund one-time expenditures to a limit of \$50,000 that will support revenue generating activities if the money is repaid into the Corporate Sponsorship account from the increased revenues within a period of three years. While borrowing the money from Board reserves (including from the Corporate Sponsorship Fund) to finance the Celebration Pavilion would exceed the guideline for the use of the Corporate Sponsorship Fund, staff recommend that an exception be granted to this project, in view of the savings in interest payments to the City, and the project potential to generate financial contributions which will repay the loan within a reasonable period.

## **RECOMMENDATION**

The QE Park Celebration Pavilion is a sound business case. The facility is expected to generate sufficient net revenue to repay the loan within 7-10 years. After the loan is repaid, it will provide a net annual contribution to the operating budget ranging from \$156,000 to \$201,000 to subsidize other programs.

It is recommended that the Board use its reserve funds to finance the QE Park Celebration Pavilion. In order to replenish and sustain balances in the reserves, the Board is recommended to charge interest to the project while the loan is being paid back, and add the interest charged to the reserves. This allows the Board to control its interest costs and provides increases to the reserves each year for interest and loan repayment with an eventual increase to the reserves of between \$428,000 and \$548,800.

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