

CITY OF VANCOUVER

ADMINISTRATIVE REPORT



Report Date: January 15, 2007  
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Meeting Date: February 1, 2006

TO: Standing Committee on City Services and Budgets

FROM: General Manager of Corporate Services

SUBJECT: Vancouver Economic Development Commission ("the VEDC") 2006  
Operating & Financial Results (un-audited), 2007-2009 Business Plan, 2007  
Operating Budget, and By-law Resolution

**RECOMMENDATIONS**

- A. THAT Council receive for INFORMATION the VEDC 2006 operating and financial results (un-audited), and the 2007-2009 Business Plan. (Limited Distribution, on file in City Clerk's Office)
- B. THAT Council defer final approval and funding of recommendations C, D, and consideration F to the 2007 Interim Operating Budget.
- C. THAT Council APPROVE the Operating Budget request of \$731,250 to maintain the existing service level. Funding of \$715,600 already provided for in the 2007 Operating Budget with the incremental \$15,650 to be provided without offset (\$10,000 of the \$15,650 is a one-time increase for communications and intranet development).
- D. THAT Council APPROVE funding of the implementation of the Business Climate Strategy for \$50,000: These funds ensure VEDC can take action on the Economic Development (Business Climate) Strategy Phase I currently being developed; release of funds subject to Council approval of project plan.
- E. THAT Council APPROVE the amendment of the VEDC by-law section 29 so that the number of directors shall be not more than 15 nor less than 9 as determined by the Honorary Members.

## CONSIDERATION

- F. THAT Council consider approving the following 2007 new program funding requests by the VEDC based on the 2007-2009 economic development priorities determined by Council, by choosing one or more of the following options:
- i Fund 2010 marketing planning activities at a total cost of \$280,000 with \$80,000 in funding to be released in 2007, and the remaining \$200,000 to be released in 2008 and 2009 subject to Council approval of scope of work and budget approval in 2008 and 2009.
  - ii Fund enhanced research and policy support at \$67,500 for 2007 by adding a permanent position to the VEDC baseline budget at an annual cost of \$90,000 prorated to \$67,500 for 2007.
  - iii Fund the Economic Development (Business Climate) Strategy Phase 2 Industry Cluster Development at a total cost of \$250,000 with \$125,000 of the funding to be released in 2007 and the balance in 2008; release of funds subject to Council approval of the terms of reference.

**Approval and funding to be deferred to the 2007 Interim Operating Budget.**

## CITY MANAGER'S COMMENTS

Council has identified economic development as a top priority for Vancouver. The economic development activities described in the report are intended to positively impact Vancouver's economy; to enhance the current tax base; to sustain the quality of life; and to ensure that Vancouver develops the competitive edge to compete in the global economy. These activities are consistent with those carried out by other cities which generally invest substantially more per capita in economic development than Vancouver.

The VEDC's ability to provide proactive and effective economic development services depends heavily upon the availability of financial resources, strong leadership at both Council and VEDC Board levels, and expertise at the VEDC staff level. Council must determine the City's economic development priorities, and provide the level of financial support that is appropriate for the activities desired.

In 2006, the VEDC had either completed or achieved significant progress on the majority of the planned activities. Overall, the VEDC ended the year with excess City funding over expenses of \$35,797. In addition to funding provided by the City, the VEDC raised \$59,131 in external monies to fund various special projects, including Sector Targeting, and BIA profiles.

The VEDC views 2007-2009 as the foundation years to plan for mid to long-term strategies that attract, retain and expand businesses; seize opportunity to capitalize on the 2010 Games; and enhance the City's current tax base. To achieve these, the VEDC Board is seeking Council approval of and funding for four program initiatives. Recognizing the budget constraint faced by the City, rather than requesting the City to fund all four initiatives, the VEDC has provided Council with options ranging from approval of all the initiatives to approval

of specific initiatives, with implementation of the Economic Development (Business Climate) Strategy of highest priority.

While new program initiatives brought forward by the VEDC Board fall within the VEDC's mandate and scope of activities approved by Council, the City is currently faced with budget challenges. However, to ensure Vancouver remains the dominant city within the Greater Vancouver Regional District (the "GVRD"), it would be appropriate for the City to provide funding to enable the VEDC to effectively fulfill its mandate in accordance with the economic development priorities determined by Council.

Depending on Council's expectation of VEDC's role in the City's economic development, Council may consider approving any or all of the proposed economic development program initiatives. City Staff recommend approval of funding to maintain the existing service level, and fund the implementation of the Business Climate Strategy, which will ensure VEDC can act on Phase I of the strategy which is currently being developed. To reflect the timing of budget approval by Council, the 2007 funding requirements for the program initiatives have been adjusted by City staff accordingly.

## COUNCIL POLICY

Council has a policy of contracting with the VEDC for the provision of economic development services through a service contract. The contract is renewable every 3 years at the discretion of Council; provided that any obligation of the City to provide funding for each year of the 3-year contract will be subject to an annual review of the operating and financial results; and Council approval of the operating budget for the upcoming year. Current agreement allows the City to terminate the service contract on 90-day notice.

## PURPOSE

The purpose of this report is to:

- Present the VEDC 2006 operating and financial results, and 2007-2009 business plan to Council for information.
- Present the 2007 budget requests to Council for approval.
- Request that Council determine the 2007-2009 economic development priorities for Vancouver, consider the new program initiatives proposed by the VEDC, and provide appropriate funding to reflect such priorities.
- Request that Council approve an amendment to the VEDC By-Law.

## BACKGROUND

The VEDC is an arm's length, non-profit organization established by Council as a result of the recommendations brought forward by the City's Economic Development Task Force. It was incorporated in 1996.

As stipulated in the 2006 service contract, the VEDC's mandate is:

- To provide leadership with respect to economic development in Vancouver.

- To promote Vancouver as a vibrant and diversified destination for business and investment.
- To assess and report on performance indicators for Vancouver and the VEDC.
- To provide policy advice and recommendations as requested by Council as a whole or as directed by the VEDC Board.

Services encompass, but are not limited to, the following:

- Economic development leadership.
- Attract, retain and expand businesses.
- Act as a conduit between government and business/expeditor.
- Trade delegations/missions.
- Research and provide economic information.
- Performance measurement.

The VEDC has five staff members, and is governed by a fifteen-member Board appointed by Council through the application process for appointment to advisory bodies. Alongside the Board are three ex-officio representatives from the provincial and federal governments and Tourism Vancouver, and two designated Council liaisons. Collectively, the Board brings an array of knowledge and contacts in the areas of communications, economics, international finance, technology, transportation, and urban development. In 2006, the term of the VEDC Board members was amended by Council from two to three years.

## DISCUSSION

### 2006 Operating and Financial Results

#### *2006 Operating Results:*

Overall, the VEDC has met or exceeded the majority of its planned or targeted activities. In 2006, the VEDC's top three accomplishments were:

<b>1. Business Climate Strategy:</b>
<ul style="list-style-type: none"> <li>- Workplan and strategy framework developed.</li> <li>- Terms of reference prepared.</li> <li>- Completed more than 50 key stakeholder interviews.</li> <li>- Benchmarked Vancouver's economic performance and factors that affect Vancouver's business climate.</li> </ul>
<b>2. VEDC Board Engagement in Policy Advice:</b>
<ul style="list-style-type: none"> <li>- Report on the economic opportunities of the Pacific Gateway prepared.</li> <li>- Worked to advance important economic development issues such as:                             <ul style="list-style-type: none"> <li>- Property tax equity.</li> <li>- Once stop business registration.</li> <li>- Inter-municipal licensing.</li> </ul> </li> </ul>
<b>3. BizMapBC Profiles for Vancouver's Business Improvement Areas:</b>
<ul style="list-style-type: none"> <li>- Completed the project in 2006, creating 18 market and commercial area profiles for 9 BIAs in Vancouver.</li> <li>- Project also created a website, resource manual, and sustainment plan to ensure the profiles are updated in the future.</li> <li>- Project recognized as the "Community Project of the Year" by the Economic Development Association of BC's Awards, and received Honorable Mention in the "Best of the West Awards" by BIABC.</li> </ul>

Staff turnover impacted results in the area of business attraction as a vacant sales position reduced the number of leads generated. Using the vacant sales position, the VEDC shifted focus to policy advice analysis, and recommendations to Council in response to Council's desire to receive increased emphasis on policy advice.

The three operating goals identified in the 2006 Business Plan were to drive client programs and services, plan for the long-term, and build a strong organization and strategic relationships. The VEDC has prepared a detailed Performance Report outlining its 2006 operating results in relation to these three goals, which is found in tab 4 of the supplementary item '2007-2009 VEDC Business Plan.' This report provides a comprehensive description of VEDC's targets, and accomplishments.

#### *2006 Financial Results (un-audited):*

In 2006, the City provided VEDC with a total of \$778,000, which included \$672,000 for operating expenses, and \$106,000 for the Economic Development (Business Climate) Strategy Phase I. At year end, actual operating expenses were \$636,203, and actual expenses for the Economic Development (Business Climate) Strategy were \$106,000, creating a \$35,797 (5%) favourable variance.

- Key drivers:
  - Office Rent: Credit received for over payment of 2005 operating expenses on previous office premises resulting in a favorable variance of \$4,491 (7%).
  - Core Activities: Staff turnover in 2006 reduced conferences/events, promotion/sponsorship, and research/data activities creating a favorable variance of \$32,560 (34%).
  - Professional Fees: Technical support was contracted out due to multi-skilled staff turnover in 2006, which increased professional fees expenses creating an unfavorable variance of \$5,887 (57%).

During the year, the VEDC successfully raised \$59,131 in external funding for special projects, and spent \$10,949 on capital expenditures.

Details of the 2006 financial results are found in Appendix A.

#### **2007-2009 Business Plan**

The VEDC's 2007-2009 business plan continues to focus on three goals:

Goal#1 - Drive client programs and services for business retention, expansion and investment attraction:

- Support retention and expansion of Vancouver's existing business base.
- Attract new business investment to Vancouver by responding to location inquiries and by leveraging economic opportunities presented by 2010.
- Influence policies that impact Vancouver's business climate and competitiveness by building understanding of underlying issues and developing solutions.
- Maintain a comprehensive research program to support VEDC strategies for business retention, expansion, attraction, and policy development.

- Communicate information to client audiences.
- Support regional economic development efforts.

Goal#2 - Plan for the long-term economic prosperity of Vancouver:

- Develop a Business Climate Strategy for the City of Vancouver - Council approved the development of an Economic Development Strategy for the City in 2006, with an allocation of \$212,000, half paid in 2006 and half paid in 2007. The strategy focuses on one of Council's six guiding principles for economic development, Business Climate. Work commenced on the strategy in August 2006 and is to be completed by July 2007.

Goal#3 - Build a strong and effective organization capable of delivering on the City's economic goals:

- Build VEDC profile and credibility with client groups.
- Build VEDC capacity through staff and Board development.
- Build strategic relationships to leverage funds and coordinate strategies and activities.

### New Programs/Funding Requests for 2007

The VEDC Board is seeking Council approval of four programs/funding requests to augment its 2007 core activities. These four economic development programs are within the VEDC's mandate and scope of activities as approved by Council.

- I. Economic development strategy: Implement the Business Climate Strategy (in support of Goal #2) - \$50,000:
  - The outcomes of the Business Climate Strategy will not be known until July 2007. The requested funding is an estimated amount to seed implementation activity; it is expected that these funds would lever additional investment from other organizations and partners. Release of program funds subject to Council approval of specific action/project plan.
- II. Develop the first stage of a marketing strategy to lever business investment from the 2010 Games (in support of Goal #1) - \$80,000 in 2007 (\$280,000 total 2007 - 2009). Release of funding in 2008 and 2009 subject to Council approval of the scope of work and budget approval in 2008 and 2009.

In 2007, the \$80,000 will be used for:

- Complete baseline market research to establish market awareness and perceptions of Vancouver as a place to do business in order to understand and build an effective marketing strategy and credible brand - \$25,000.
- Prepare a marketing program for the 2008 Beijing Games that positions Vancouver as a location of choice for business. Work with the Provincial Ministry and other municipalities to organize a presence at Beijing Games in 2008. Develop city specific, multi-lingual materials and collaterals - \$30,000.
- Prepare media "success stories," which will be provided to the provincial Olympic Secretariat, highlighting Vancouver companies that represent Vancouver's brand and create credibility and recognition - \$10,000.

- Coordinate communications/marketing activities with the City's communication department - \$15,000.
- III. Enhance research and policy support: Create a new FTE position to support economic policy analysis, advice and recommendations on an ongoing basis (in support of Goal #1) - \$90,000:
- Council has stated interest in obtaining input from the VEDC Board on issues affecting Vancouver's economy. VEDC input on policy issues can come from a variety of different sources such as topics brought forward by VEDC Board Members, outside organizations requesting VEDC comment, direct referrals from Council, and City Staff. The new FTE position is necessary for VEDC to focus on developing substantive policy content (depth) resulting from a variety of the sources of requests outlined above (breadth).
- IV. Economic Development Strategy, Phase 2: Initiate an Industry Cluster Development Strategy (in support of Goal #2) - \$125,000:
- In 2006, VEDC presented Council with the option to develop an Industry Cluster Development Strategy once the Business Climate work was completed. Total costs are estimated to be \$250,000 with half this amount proposed for 2007 and the balance in 2008. Release of funds subject to Council approval of the terms of reference (funds for implementation are not included in the \$250,000).

Among the four economic development initiatives, the VEDC Board considers the implementation of the Business Climate Strategy of highest priority.

### 2007 Budget Requests

The total 2007 budget request is \$1,182,250, made up of \$731,250 to maintain the current service level, \$106,000 for the Economic Development (Business Climate) Strategy Phase 1 which is already approved by Council, and \$345,000 for 4 new initiatives.

The budget required to maintain the current service level has increased by \$59,250 or 9%. This is mainly due to the following:

- Salaries and benefits - Includes inflationary increase of 2.5% and the annualized cost of compensation adjustment approved in 2006 of \$30,000.
- Professional Fees - Increase of \$2,340 to \$12,700 in 2007 as a result of external Auditor's revised scope of work.
- Core activities - One time cost of \$10,000 to ensure increased communications with stakeholders via intranet development have been included. This investment will add value in that it will allow VEDC's staff and VEDC's Volunteer Board to communicate in a more efficient, effective and timely manner, reducing the paper burden on the VEDC volunteers.
- Capital Expenditures - Capital expenditures are to be funded from VEDC's accumulated surplus, and therefore will have no impact to the operating budget

request. These funds are to be used for the replacement & upgrade of equipment, computers, software, servers, phones, and furniture.

Funding of \$821,600 has been provided for in the 2007 Operating Budget and this report is requesting an additional \$15,650 in order to maintain the existing service level. Of the \$15,650 additional funding, \$10,000 is a one-time funding increase for communications and intranet development and will be removed from the baseline operating budget in subsequent years.

Details of the 2007 budget are as follows:

### 2007 VEDC BUDGET SUMMARY

Table 1: 2007 Budget Request	Budget 2006	Budget 2007	Change (\$)	Change (%)
<b>Operating Expenses &amp; Overhead</b>				
Salaries and benefits	473,040	515,000	41,960	9%
Office rent	63,000	65,000	2,000	3%
Professional fees	10,360	12,700	2,340	23%
Office expenses	30,500	31,200	700	2%
Core activities	95,100	107,350	12,250	13%
<b>Total Operating Expenses &amp; Overhead</b>	<b>\$672,000</b>	<b>\$731,250</b>	<b>\$59,250</b>	<b>9%</b>
Initiative: Business Climate Strategy	106,000	106,000	-	0%
<b>BUDGET REQUEST BEFORE NEW INITIATIVES</b>	<b>\$778,000</b>	<b>\$837,250</b>	<b>\$59,250</b>	<b>8%</b>
<b>New Initiatives</b>				
I. Implementation: Business climate strategy		50,000		
II. Marketing & business development (2010)		80,000		
III. Policy advice & development		90,000		
IV. ED Strategy Phase 2: Industry cluster development		125,000		
New program / funding request		\$345,000		
<b>BUDGET REQUEST AFTER NEW INITIATIVES</b>	<b>\$778,000</b>	<b>\$1,182,250</b>	<b>\$404,250</b>	<b>52%</b>
<i>Capital Expenditures</i>	<i>10,000</i>	<i>14,000</i>	<i>4,000</i>	<i>40%</i>

\* GST of 6% to be added

### FINANCIAL IMPLICATIONS

As approval and funding for the VEDC 2007 business plan and operating budget will not take place until the end of February as part of the 2007 Interim Budget process, City Staff have adjusted the VEDC funding requests for the new program initiatives by one quarter year where appropriate.

The VEDC Board has brought forward the following adjusted funding options for Council's consideration:



OPTIONS: Core Services & New Initiatives	2007 - 9 Budget: New Initiatives	2007 Budget	OPTION A	OPTION B	OPTION C
Operating Expenses & Overhead		731,250			
Initiative: Business Climate Strategy		106,000			
<b>Budget Request BEFORE New Initiatives</b>		<b>\$837,250</b>	<b>X</b>	<b>X</b>	<b>X</b>
New Initiatives:					
I. Implement Business Climate Strategy <sup>1</sup>	150,000	50,000	X	X	X
II. Marketing & Business Development 2010 <sup>2</sup>	280,000	80,000	X	X	X
III. Policy Advice & Development <sup>3</sup>	254,300	67,500	X	X	-
IV. ED Strategy Phase 2: Industry cluster development <sup>4</sup>	300,000	125,000	X	-	-
<b>Budget Request AFTER New Initiatives</b>			<b>\$1,159,750</b>	<b>\$1,034,750</b>	<b>\$967,250</b>
2006 Budget			778,000	778,000	778,000
Net Increase from 2006 Budget (\$)			\$381,750	\$256,750	\$189,250
Net Increase from 2006 Budget (%)			49%	33%	24%

Notes:

1. \$50,000 in 2007, and a high level estimate of 1 project per year at \$50,000 each in 2008, and 2009.
2. \$80,000 in 2007, and \$100,000 for each of the following two years to allow for execution of activities and partnerships with other levels of government and local organizations.
3. \$90,000 adjusted by ¼ to \$67,500 in 2007 to reflect timing of budget approval, \$92,250 in 2008, and \$94,550 in 2009.
4. \$125,000 in 2007, \$125,000 in 2008, and \$50,000 high level estimate for implementation in 2009.

Each of the options presented below include funding of VEDC's Core Services in the amount of \$731,250; this funding ensures VEDC is able to provide its basic services such as providing information products, partnering on strategic initiatives, engaging in policy discussions, and undertaking economic planning and analysis. In addition, the options include the 2007 portion of the Economic Development (Business Climate) Strategy Phase I in the amount of \$106,000, which is already approved by Council.

Option A - At a total cost of \$1,159,750, the VEDC will provide the City with a marketing strategy to lever business investment from the 2010 games; enhance research and policy support for economic policy analysis, advice and recommendations to City Council on an ongoing basis; implement the outcomes of Phase I of the Economic Development (Business Climate) strategy; and initiate an Industry Cluster Development Strategy (Phase 2 of the Business Climate Strategy). This represents an increase of \$381,750 (49%) over the 2006 budget, or .08% property tax increase.

Option B - At a total cost of \$1,034,750, the VEDC will provide the City with a marketing strategy to lever business investment from the 2010 games; enhance research and policy support for economic policy analysis, advice and recommendations to City Council on an ongoing basis; and implement the outcomes of Phase I of the Economic Development (Business Climate) strategy. This represents an increase of \$256,750 (33%) over the 2006 budget, or .05% property tax increase.

Option C - At a total cost of \$967,250, the VEDC will provide the City with a marketing strategy to lever business investment from the 2010 games; and implement the outcomes of

Phase I of the Economic Development (Business Climate) strategy. This represents an increase of \$189,250 (24%) over the 2006 budget, or .04% property tax increase.

### VEDC By-Law Resolution

In the City Staff report dated March 7th 2006 entitled "Vancouver Economic Development Commission ("VEDC") Changes to Term of service contract, Board size, and term of appointment for Board members." The following was a recommendation was made:

- C. That Council APPROVE an amendment of the VEDC by-laws to reduce the size of the VEDC Board from a maximum of fifteen members to a maximum of nine members over three years, subject to the approval by the Director of Legal Services of the language of the amendments prepared by the VEDC's legal counsel.

At that time and given the workload of VEDC, it was deemed appropriate to reduce the Board size to 9. Since then, much more activity has taken place, the caliber and interest of the Board Members has gone up. VEDC wants the flexibility to have between 9 and 15 Board Members.

VEDC is therefore requesting that Council approve the amendment of the VEDC by-laws so that section 29 is amended by deleting the lead in paragraph and subsection (1) and substituting the following:

29. The number of Directors shall be not more than 15 nor less than 9 as determined by the Honorary Members.

- (1) At the first annual general meeting after this By-law comes into force all of the Directors shall be appointed, with one-half (1/2) of them being appointed for a one (1) year term and a one-half for a two (2) year term. In 2007 all Directors shall be elected for a term of one year more or less. Thereafter, Directors shall be appointed, elected or re-appointed for three (3) year terms more or less so that approximately one-third (1/3) of the directors are appointed at each annual general meeting to serve until the annual general meeting in the third year after their appointment at which time they shall retire from office. The Honorary Members shall make appropriate amendments to the terms of the newly appointed and incumbent directors so that there is an orderly transition into the three year appointment cycle.

The City's Legal department has approved the wording and has requested that VEDC obtain Council approval. City Staff recommend Council approve the amendment.

### **CONCLUSION**

In 2006, the VEDC benefited from over 2,000 volunteer hours and in-kind support from Board members and the business community. Board members bring to the VEDC an array of business

knowledge and experience, and are committed to advancing the economic development interests of the City.

VEDC has just completed year one of a three year services contract with the City of Vancouver. The VEDC has submitted the 2006 operating and financial results, and 2007-2009 business plan for Council information. The 2007 operating budget has been presented for Council approval.

Staff recommend that Council determine the 2007-2009 economic development priorities for Vancouver, consider the new program initiatives proposed by the VEDC, and provide appropriate funding to reflect such priorities. In addition, Staff recommend Council approval of the amendment to the VEDC by-law.

Approval and funding for the VEDC 2007 business plan, and budget requests to be deferred to the 2007 Interim Operating Budget.

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## Appendix A - 2006 Financial Results (Un-audited): Management Reporting

	2006 Budget	2006 Actual	Favourable / (Unfavourable)		Notes
<b>Service Contract Revenue (City):</b>	<b>778,000</b>	<b>778,000</b>	-	-	
<b>Expenses:</b>					
Salaries & Benefits	473,040	467,830	5,210	1%	
Office Rent	63,000	58,509	4,491	7%	1
Professional Fees	10,360	16,247	(5,887)	-57%	2
Office Expenses / Administration	30,500	31,077	(577)	-2%	
Core Activities	95,100	62,540	32,560	34%	3
<b>Total Operating Expenses</b>	<b>672,000</b>	<b>636,203</b>	<b>35,797</b>	<b>5%</b>	
ED (Business Climate) Strategy: Phase 1	106,000	106,000	-	0%	
<b>Total Expenses</b>	<b>778,000</b>	<b>742,203</b>	<b>35,797</b>	<b>5%</b>	
Excess Funding over Operating Expenses	0	35,797	35,797	100%	
<b>Other Sources of Funding:</b>					
External Funding	76,667	59,131	(17,536)	-23%	4
Interest Income	0	5,904	5,904	100%	
Draw from Accumulated Surplus	10,000	10,949	949	9%	
<b>Total Other Sources of Funding</b>	<b>86,667</b>	<b>75,984</b>	<b>(10,683)</b>	<b>-12%</b>	
<b>Funding for Special Projects &amp; Capital Expenditures</b>	<b>86,667</b>	<b>111,781</b>	<b>25,114</b>	<b>29%</b>	
Special Projects	76,667	66,911	9,756	13%	5
Capital Expenditures	10,000	10,949	(949)	-9%	
<b>Total Special Projects &amp; Capital Expenditures</b>	<b>86,667</b>	<b>77,860</b>	<b>8,807</b>	<b>10%</b>	
<b>Excess Funding over Expenses</b>	<b>0</b>	<b>33,921</b>	<b>33,921</b>	<b>100%</b>	

\* Excludes amortization adjustments and expense.

### Notes:

1. Office Rent: Positive variance due to credit received for 2005 operating expense over-payment on previous office premises.
2. Professional Fees: Positive variance due to multi-skilled staff turnover.
3. Core Activities: Positive variance due to staff turnover (less conferences, promotions, and events), and research & data/project deferral to early 2007 to coincide with the Business Climate findings.
4. External Funding: Negative variance due to cancellation of some external funding (Western Economic Diversification).
5. Special Projects: Positive variance due to \$8,500 of 2006 BIA budget expensed in 2005 as instructed by external auditors.