



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date: May 29, 2007
Author: Christina Medland
Phone No.: 604.871.6844
RTS No.: 6629
VanRIMS No.: 05-5000-10
Meeting Date: June 14, 2007

TO: Standing Committee on City Services and Budgets

FROM: Managing Director, Cultural Services, in consultation with the Director of Financial Planning, Director of Facilities Design and Management and Director of Legal Services

SUBJECT: Vancouver East Cultural Centre Capital Allocations

RECOMMENDATION

- A. THAT Council approve the reallocation of a second \$750,000 "challenge" capital grant from Phase 2 to Phase 1A of the capital expansion project of the Vancouver East Cultural Centre (the "Society") at 1885-1895 Venables Street as outlined in this report; subject to the Society securing the balance of funds necessary to complete Phase 1A to the satisfaction of the Managing Director of Cultural Services and the Director of Facilities Design and Management; source of funds to be 2007 Capital Budget.
- B. THAT Council approve a modification of the terms of the agreement between the City and the Society previously approved by Council to modify the terms relating to repair and reconstruction in the event of damage or destruction, insurance, and environmental liability; to include recent Council policy regarding naming and sponsorship rights; and to clarify construction obligation (including construction insurance) provisions relating to the proposed redevelopment of the Premises; and such other modifications as are satisfactory to the Directors of Legal Services, Real Estate and Managing Director of Cultural Services.

- C. THAT no rights or obligations hereby arise or take effect pursuant to any terms hereby approved by Council until the lease is signed by both the Society and the City.
- D. THAT the Director of Legal Services be authorized to sign the lease referred to herein on behalf of the City.

CITY MANAGER'S COMMENTS

The City Manager notes that the re-development of this City-owned facility will provide much needed improvements to this important cultural venue. The project, however has been in planning and development for several years and has been challenged in meeting its original fund raising targets and with the rising cost of construction. The Society is now seeking Council's approval to advance City funding towards Phase 1 from funding previously approved in principle for Phase 2 in order to move forward with their project. The revised funding request and the modification to the lease agreement terms outlined in this report represent a significant additional level of City support. Approval will enable the Society to demonstrate its ability to complete their first phase of construction and to raise the balance of the funds necessary to complete this project.

COUNCIL POLICY

On September 11, 2003, Council approved general lease terms for all non-profit tenants in city owned facilities.

On March 17, 2005 Council approved a Capital Allocation of \$750,000 to the Vancouver East Cultural Centre (the Society) for Phase 1 of the redevelopment of the city owned buildings at 1885-1895 Venables Street subject to terms and conditions as outlined in this report. Council also indicated support for a further capital grant of \$1.75 million for Phases 2 (\$750,000) and 3 (\$1 million) of its capital expansion project after a detailed report to Council on the appropriate funding sources and subject to terms and conditions outlined in the report. In this report, Council also approved a modification of the lease terms approved by Council in 2003 by modifying the term from five years renewable for two further five-year terms to ten years renewable for two further ten year terms.

Eight affirmative votes of Council are required for approval of grants.

PURPOSE

This report presents for Council's recommendation a revised funding request from the Vancouver East Cultural Centre to apply the capital allocation of \$750,000 already approved in principle for Phase 2 and apply it to an earlier phase (Phase I). The report also outlines a series of modifications to the general lease terms which Council has previously approved for all non-profit tenants.

BACKGROUND

The Vancouver East Cultural Centre is a neighbourhood-based cultural facility, but city-wide in scope and reach.

On March 17, 2005 (RTS 4826), Council approved a capital expansion project for the Society: it endorsed the Society's application to the Canada/B.C. Infrastructure Works Program, and approved a "challenge" capital grant in the amount of \$750,000 for Phase 1 of the project. In addition, Council indicated support for a further capital grant of \$1.75 million for Phase 2 (\$750,000) and Phase 3 (\$1.0 million). The City's financial participation in the expansion project was subject to confirmation that the Society had secured the funds necessary to complete each phase of the project to the satisfaction of the Directors of the Office of Cultural Affairs and the Director of Facilities Design and Management.

Since Council approved the January 15, 2005 report, construction cost increases have risen beyond the Society's original budgets. While the Society has secured a \$2.4 million dollar federal grant for their project, the organization has faced significant funding challenges. To date:

- the Society has not yet secured funding from the Provincial Government, and
- the Society has secured commitments of \$1.16 million (which includes the \$1 million VanCity Award) towards their private sector goal of \$6 million;

In response to these challenges, the Society has revised and condensed its project into two phases - Phase 1 (A & B) and Phase 2 - and is now seeking approval from the City to apply funds previously approved in principle for Phase 2 to Phase 1A. Subject to Council approval, with the resources in hand, the Society will be able to begin construction in 2007, and continue to fundraise for the project's later stages, Phases 1B and 2.

DISCUSSION

Revised Project Phasing

When the Society's capital expansion project was initially approved by Council in 2005, its construction and fundraising strategy comprised of three phases plus an operating endowment:

Phase 1	New Office and Rehearsal Facility	\$5.25 Million
Phase 2	Studio Theatre, Gallery & Foyer	\$4.75 Million
Phase 3	Upgrade of Existing Theatre Building	\$2.00 Million
Operating Endowment		\$1.50 Million
Total		\$13.50 Million

The Society's current construction and fundraising plan has been revised, and now includes two phases plus an operating endowment:

Phase 1A	New Office and Rehearsal Facility	\$5.06 Million
Phase 1B	Renovations to Existing Structure	\$5.24 Million
Phase 2	New Studio Theatre addition, Underground Parking	\$8.20 Million
Operating Endowment		\$1.50 Million
Total		\$20.00 Million

The Society's project architects have planned for each phase to stand alone in the event that the expansion plans cannot continue after the completion of any stage. Phase 1A, 1B and 2 are independent of each other, have separate budgets and different construction start dates, yet Phases 1A and 1B have been grouped together as 'Phase 1' for the fundraising and permit process. Accordingly, the Society has recently submitted a Building Permit Application, and is seeking approval for Phase 1 in its entirety; Phase 1A and 1B will be tendered at the same time, but with separate pricing in order to enable the Society to postpone construction for the latter stage if sufficient funds are not raised. Please see Appendix A for a more detailed scoping of each phase.

The project's revised phasing is necessary for this project to move forward. The Society wishes to re-allocate a \$750,000 capital grant, intended for the original Phase 2, to Phase 1A. Subject to Council approval, the City's contribution to Phase 1A would then be \$1.5 million towards the \$5.06 million cost of Phase 1A.

Funding and Cash flow

The following table provides an overview of the project's most recent construction cost estimates, and total confirmed funding to date (including funds requested in this report):

<i>In millions 2007 dollars</i>	Phase 1A	Phase 1B	Phase 1 Total	Phase 2	Endowment	Project Total
Estimated Costs	5.06	5.24	10.30	8.20	1.50	20.00
Total Confirmed Revenue						
Private Sector	1.16	0	1.16	0	0.00	1.16
Public Sector:						
Federal	2.40	--	2.40	-	0.00	2.40
City of Vancouver	1.50	-	1.50	1.0*	0.00	2.50
Funding Gap	(0.00)	(5.24)	(5.24)	(7.20)	(1.50)	(13.94)
Funded by:						
Private Sector	-	2.50	2.50	7.20	1.50	11.20
Province of BC	-	2.74	2.74	-	-	2.74
Balance	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)

* Approved by Council in principle

If Council were to approve Recommendation A, the Society would have committed funding for a total of \$5,060,000, or 100% of Phase 1A. However, it has not yet secured the requisite funding for Phases 1B or 2.

While the Society's project is a vital addition to the City's cultural community and community-at-large, the approval of this capital grant without its "challenge" grant status would involve substantial risk: funding has not yet been secured for each phase

of construction, making it possible that later phases might not occur, or might lead to additional requests for City monies to fill in funding gaps, or to underwrite the project.

In its January 15, 2005 report to Council, staff recommended that the City's grant be a "Challenge grant" in order to assist in leveraging support from other funders. Once again, in order to provide an incentive to potential donors, and to ensure that each phase of the project is completed within available funding, staff are recommending that should Council approve the revised capital grant outlined in this report, that the grant be a "challenge grant", conditional on the Society securing the balance of funding necessary to complete the designated phase prior to the release of City funding.

Requested additional modifications to the standard City non-profit lease

During the lease negotiations, certain issues have arisen that require Council authority as they are new to or outside of the Council-approved standard non-profit lease terms and are in addition to those previously approved by Council in connection with the lease of the Premises by the Society. Specifically, the new issues deal with: repair and reconstruction in the event of damage or destruction; insurance; environmental liability; naming and sponsorship rights; and construction obligations (including construction insurance) relating to the proposed redevelopment of the Premises.

Environmental

City staff have completed a Phase 1 - Environmental Site Assessment and additional on-site testing that have not produced any evidence to suggest any significant sub-surface contamination on this site. Based on this, staff have assessed the potential risk to be low and support a proposal to cap the tenant's responsibility for any contamination remediation to \$15,000. In the unlikely event that additional remediation is encountered, the City would assume the balance of the remediation cost.

Insurance and Commitment to Repair and Rebuild

Due to the need to accommodate any potential changes to the City's future planning for capital projects, the City typically reserves to itself a right to not commit to rebuild or repair if an insured building is destroyed or significantly damaged. In light of the planned sizable investment by the Society in the buildings on this site, however, the Society has requested and staff are recommending that the City deviate from its general practice by committing to direct all eligible insurance proceeds in the event of loss or damage to the buildings, towards repair or replacement of the buildings unless the damage or destruction is caused by a catastrophic event affecting a significant portion of all the lands, properties, buildings and improvements above and below ground, including but not limited to, all underground infrastructures owned by the Landlord in the City of Vancouver. (Note: In the event of a catastrophic event such as an earthquake, the City's deductible is equivalent to 10% of the Total Insured Value. This is a common practice in the insurance industry. For example, if a City building is insured at \$10 million, the earthquake deductible would be \$1 million for that particular building. Depending on the number of

buildings that are damaged or destroyed in the earthquake, the total of all applicable deductibles could result in a significant shortfall necessitating decisions by Council on priorities for repair or reconstruction to ensure continuous provision of critical services.

The Society is required to obtain and maintain adequate construction insurance to protect the financial interests of both the Society and the City.

The City will obtain and maintain the appropriate insurance for the existing buildings and capital improvements upon completion at the Vancouver East Cultural site. In the event of an insured property damage claim, the City would pay the applicable policy deductible.

Naming Rights

Subsequent to approving the initial lease term, City Council has adopted policies related to Naming City owned or controlled Non-profit Facilities and Commemorative Naming. Inclusion of the standard wording into the new lease would be consistent with the policy and all new City lease agreements.

FINANCIAL IMPLICATIONS

The previous “challenge” grant to the Society in the amount of \$750,000 was provided for as an allocation from the 2003-05 Capital Plan. Council indicated support for two additional capital grants, and approved staff’s recommendation that those grants be subject to future reports once the Society has secured the balance of the funds necessary to complete the project.

The City’s current funding commitment and approval in principle for the next phase currently remains unchanged at \$2.5 million. However, Council is “buying” different things for its money. For instance, instead of investing in two phases of construction with two \$750,000 grants, for a total contribution of \$1.5 million, the City is now being asked to invest its full \$1.5 million into Phase 1A, new office and rehearsal space. Therefore, the completion of the subsequent phases will require additional private and/or provincial funding and/or it is also possible that the upgrades to the existing theatre (Phase 1B) and the construction of the new Studio Theatre, scheduled for Phase 2, might not be built. However, the release of the City’s final \$1 million capital grant which Council approved in principle would be contingent on the Society securing the balance of funds for the project.

Environmental Costs - While not possible to be definitive, based on the City’s due diligence investigations, staff believe that the City’s exposure for remediation costs will be limited. Should the unlikely event happen that would result in significant remediation efforts, Facilities Design and Management will report back on the costs and funding source should this be necessary.

Risk Management - The City pays the premiums and the deductible relating to the insurance of City-owned buildings.

CONCLUSION

Staff agree that re-investment in these buildings will ensure that they can continue to serve as an important centre for the cultural community, providing much needed performance, rehearsal and administrative facilities for the City. The revitalization and expansion of this important and valuable city-owned asset will make a significant contribution to the local and City wide community.

However, the Society's project is ambitious, and its success in concluding the full phased program will rely on capital support from all levels of government and on fundraising from Vancouver's community as a whole. Thus, while staff strongly support the project, it is also recommended that phased "challenge grants" and regular reporting precautions be put in place to safeguard the City's capital investments.

* * * * *



VANCOUVER EAST CULTURAL CENTRE PROJECT SCOPE MAY 29, 2007

PHASE 1A:

- New 3-storey 8,100 sq.ft. addition on the east side to include:
 - Cultural lab/rehearsal studio
 - Artist change rooms
 - Green room
 - Administrative offices
 - Boardroom
 - Elevator access to all levels
 - Public washrooms
 - Loading area
 - Roof decks
 - New sound and lighting systems
- Basement level renovations to the existing VECC building to accommodate new electrical, heating and plumbing services, bicycle and recycling rooms.
- Ground level renovations to the existing VECC building to accommodate structural connections and access to the new east addition.
- Sitework including landscaping and ongrade parking.

PHASE 1B:

- Extensive renovation to the existing VECC building not completed in Phase 1A including:
 - Seismic and structural upgrading
 - Building code upgrading
 - Building envelope upgrading to roof and exterior walls
 - Heritage restoration of specific elements
 - Complete interior renovations to the audience chamber, performance platform, lobby, lounge areas, upper balcony and basement areas
 - New mechanical and electrical systems
 - New sound and lighting systems
 - Acoustic upgrading
 - Completion of sitework including landscaping

PHASE 2:

- New 2 ½ storey 8,800 sq.ft. west side addition to include:
 - Studio theatre
 - Shared lobby and concession space

- Servery/concession facilities
- Underground parking
- Second elevator
- Public washrooms