



CITY OF VANCOUVER

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ADMINISTRATIVE REPORT

Report Date: May 22, 2008
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Meeting Date: July 24, 2008

TO: Standing Committee on Planning and Environment

FROM: General Manager of Community Services in consultation with the Directors of Planning, Real Estate Services, Legal Services, and Risk and Emergency Management

SUBJECT: Downtown Eastside Commercial Revitalization

RECOMMENDATION

THAT Council direct staff to report back within 12 months on the following:

1. Effectiveness of the Downtown Eastside commercial revitalization initiatives of the Building Opportunities with Business Inner City Society as outlined in Administrative Report *Downtown Eastside Commercial Revitalization*, dated May 22, 2008; and
2. Based on (1),
 - a. whether the City should contribute up to \$1 million over three years to Building Opportunities with Business Inner City Society in the form of a grant to support the Downtown Eastside commercial revitalization initiatives;
 - b. the criteria, terms and conditions relating to the grant; and
 - c. an implementation plan and a funding strategy for the revitalization initiatives.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services recommends approval of the foregoing.

COUNCIL POLICY

In July 1998, Council confirmed principles to provide general guidance to actions and planning in the Downtown Eastside, Chinatown, Gastown, Strathcona and Victory Square which included encouraging legitimate commercial activity, improving conditions at the street level, facilitating the reoccupation of vacant store fronts, reducing crime, and helping community people to find allies and seek a common future.

In November 1998, Council approved "*A Program of Strategic Actions for the Downtown Eastside*". One objective of the Program was to bring legitimate businesses back to the storefronts of Hastings Street between Gore Avenue and Cambie Street.

In March 2000, Council approved the Lease Subsidy and Tenant-Improvements Assistance Pilot Programs to encourage locally-based businesses to commence operations in the Downtown Eastside. The sum of \$150,000 was allocated from the 2000-2002 Capital Plan for each of these Programs.

SUMMARY AND PURPOSE

In May 2007, Council considered a report concerning a revised Lease Subsidy Program. In this report, staff recommends Council endorse the consideration of a proposal to help stimulate the commercial revitalization of the Downtown Eastside that is different from that proposed in the earlier report. Instead of merely making some relatively minor changes to the pilot Lease Subsidy Program, this report recommends that Council pass a resolution directing staff to report back concerning the possibility of the City making a grant to the Building Opportunities with Business Inner City Society ("BOB") to develop and expand BOB's initiatives and activities aimed at the commercial revitalization of the Downtown Eastside.

BACKGROUND DISCUSSION

In March 2000, Council approved the Lease Subsidy Pilot Program to determine whether it could assist in the commercial revitalization of the Downtown Eastside. The Program was administered by the Vancouver Economic Development Commission (VEDC) in partnership with Partners for Economic and Community Help (PEACH). Council allocated \$150,000 from the 2000 - 2002 Capital Plan for this Program. This Pilot Program provided a grant to pay half the rent of an approved social enterprise (a revenue generating business owned by a charity or a non-profit society) over a three year period. An additional \$150,000 was allocated for a Tenant Improvement Pilot Program through which the City could renovate and sublease space to private businesses as well as social enterprises.

On May 17, 2007, the Standing Committee on Planning and Environment considered a report to approve a revised Lease Subsidy Program. It was proposed that the revised Program would operate for at least three years, be administered by BOB, and would target new or expanding social enterprises in the Downtown Eastside.

While considering this report, a number of significant concerns about the Lease Subsidy Program were raised by Committee members including the following:

1. Subsidies could only be granted to social enterprises owned by charities or non-profit societies.
2. Assistance was limited to leased commercial space.
3. It had an overly complicated approval and reporting process that could be very time-consuming and put an unnecessary burden on limited BOB and City staff resources.
4. Further input was required from business people and organizations to ensure a stronger business orientation in the program design and to secure more business expertise in its delivery.
5. There was uncertainty and concern about BOB's capacity to manage the Program.

Following the consideration and discussion of Council, the Vancouver Board of Trade requested that the Report be deferred so that further work could be done to address the concerns raised by Council and to find a way to restructure the Lease Subsidy Program to better meet the needs of the Downtown Eastside community.

Beginning in the autumn of 2007, City staff consulted with the Vancouver Board of Trade, BOB, Vancity Credit Union, local BIAs and other community stakeholders about the City's Lease Subsidy Program. Some of the issues raised during this consultation process reflected the concerns already identified by Council. For instance, concern was expressed about the fact that participation in the Lease Subsidy Program was limited to social enterprises owned by charities or non-profit societies and also the relatively slow and cumbersome Lease Subsidy Program approval process. The consultation process also identified and focused on the importance of engaging private sector partners and financial institutions, both to benefit from their expertise and to leverage resources to stimulate the commercial revitalization of the Downtown Eastside.

The consultation process has resulted in staff recommending that Council consider taking a different approach to contributing to the commercial revitalization of the Downtown Eastside than that provided for in the former Lease Subsidy Program. This new approach would involve the City contributing to some of the Downtown Eastside commercial revitalization initiatives and activities already being administered and delivered by BOB. These initiatives and activities could be further developed and expanded by way of a grant from the City to BOB.

BOB and Downtown Eastside Commercial Revitalization

BOB is a business and community-led non-profit society established by the Vancouver Agreement (VA) in 2005 to help coordinate implementation of the VA Economic Revitalization Plan and Employment Strategy and to help meet the Inner-City Olympic commitments. BOB endorses a development and revitalization model that is inclusive of existing residents and businesses and supports economic development initiatives that support “revitalization without displacement” in the Downtown Eastside. BOB works to connect inner-city business suppliers with buyers, employers with residents and businesses with investors to facilitate increased employment opportunities for residents, growth in Downtown Eastside businesses and investment in the Downtown Eastside.

BOB currently manages several VA funded programs including the Social Purchasing Portal, Industry Clusters, and job-to-job training links. In addition, it also manages, on behalf of the City, Community Benefits Agreements to secure jobs and business spin-offs from major developments including the development of the Olympic Village in Southeast False Creek and the operation of the Edgewater Casino.

BOB also administers a commercial revitalization initiative which offers professional expertise and mentoring to both charitable/non-profit social enterprises and private businesses that provide community benefits to the Downtown Eastside. Another important element of this initiative is a loans program, to increase the availability of loans for establishing, expanding and improving both social enterprises and private businesses that provide benefits to the Downtown Eastside community.

At the present time, BOB has approximately \$430,000 from Western Economic Diversification Canada (under the VA) which it will begin to use as loan, and loan guarantee, funds. BOB will seek to leverage these funds for the benefit of social enterprises and small businesses in the Downtown Eastside. BOB is also partnering with Vancity Credit Union, Vancity Capital Corporation, and Ecotrust Canada in the administration and delivery of this revitalization loans program. Vancity and BOB have agreed to partner together with the intention of increasing the capital available to social enterprises and businesses in and/or serving the Downtown Eastside. BOB will also approach foundations and other partners to expand the pool of funds available to support high risk lending in the Downtown Eastside. As well as Vancity and Ecotrust Canada, BMO Financial Group, the Caring Capital Corporation, and Renewal Partners have expressed interest in participating.

In addition to providing loans, the financial institutions will assess the viability of the business plans of the social enterprises and businesses involved in the initiative. BOB will use its array of programs--including the Social Purchasing Portal, Community Benefit Agreements, Industry Clusters, employment training and on the job supports, and professional mentoring--to help improve the viability of these business plans. This, coupled with the business development expertise of BOB's lending partners, will help lower the risk, and thus the interest rate, that would normally be charged by the financial institutions in the Downtown Eastside. The loan format will also better assure that participants act in a business-like manner because they will be accountable for repaying the funds advanced by the financial institutions.

City Contribution to BOB's Downtown Eastside Commercial Revitalization Initiatives

Because the proposal discussed in this report represents a change from the former Lease Subsidy Program, in this report staff merely seeks a direction from Council to evaluate BOB's commercial revitalization initiatives over the next 12 months and to report back, at which time Council could make a decision about contributing to these initiatives by making a grant to BOB.

It is anticipated that the amount of the grant would be in the order of \$1,000,000 over three years (plus the time to finish administering outstanding loans). These funds would be used by BOB to provide professional expertise and mentoring (e.g., business plan development, legal advice, real estate advice) to both social enterprises and private businesses seeking to establish, or expand, their operations in the Downtown Eastside; to contribute to BOB's loans program; and to contribute to BOB's administrative costs in relation to these commercial revitalization activities.

If Council decides to contribute to these commercial revitalization initiatives, it is anticipated that the following criteria would apply to the social enterprises and businesses who would participate:

1. *Type of Enterprise or Business:* The commercial revitalization initiatives could assist both social enterprises owned by charities or non-profit societies and private businesses. Participation could be limited to social enterprises or businesses that are new or expanding their operations in the Downtown Eastside and that have a maximum of 50 employees. Priority could be given to applicants who have demonstrated leadership in environmentally, socially or culturally sustainable endeavours.
2. *Location:* Participation could generally be limited to social enterprises and businesses located in the Downtown Eastside, with a focus on the Hastings Corridor. Consideration could also be given to enterprises and businesses located in other parts of the inner-city, but which provide tangible benefits to the Downtown Eastside.
3. *Community Benefits:* Participation could be limited to social enterprises and businesses that directly support the Downtown Eastside community through initiatives that provide environmentally, socially and economically sustainable business generation, employment and training opportunities, support for local entrepreneurship or by providing affordable commercial goods and services for Downtown Eastside residents.
4. *Premises:* Participation could generally be limited to storefront street-level commercial space. Consideration could also be given to proposals for non-storefront locations which demonstrate significant job creation potential for residents of the Downtown Eastside or for office or production space that supports storefront operations.
5. *Lease Rates and Terms:* Social enterprises or businesses receiving assistance would be located in premises which are at or below market rents or price for the location and condition of the premises. The Vancouver Board of Trade and other partners will work with property owners to encourage the negotiation of long term leases at affordable rates. This will help prevent the artificial inflation of commercial rents in the area.

In the view of staff, this new approach to the commercial revitalization of the Downtown Eastside would overcome many of the issues and concerns about the former Lease Subsidy Program identified by Council and by community stakeholders during the consultation process. For instance:

1. Participation would not be limited to leased commercial space.
2. Participation would not be limited only to social enterprises owned by charities or non-profit societies.
3. There would be a close partnership between BOB and the business community and its partnering financial institutions to evaluate the viability of the business plans of applicants, thereby encouraging greater business planning and accountability.
4. There could be a more streamlined approval process than under the former Lease Subsidy Program.
5. Council would be able to evaluate BOB's capacity to manage these commercial revitalization initiatives when staff reports back, before making a decision about making a grant to BOB.

FINANCIAL IMPLICATIONS

The purpose of this report is to seek Council direction for staff to evaluate the effectiveness of BOB's commercial revitalization initiatives and to report back within 12 months with a recommendation on whether or not the City should contribute up to \$1 million to BOB over three years to support those initiatives. This report would include the criteria, terms and conditions governing the grant, and an implementation plan and a funding strategy for the commercial revitalization initiatives.

If Council ultimately approves this new direction and decides to make a grant to BOB to support its DTES commercial revitalization initiatives, City funding would be used in combination with BOB's existing funding for these initiatives from Western Economic Diversification Canada (\$430,000). It is anticipated that this will be considerably leveraged by investments, loans and donations from private financial institutions, foundations and private businesses. It is also anticipated that loans from financial institutions will be structured so the repaid capital and interest received can be reinvested in BOB's loans program.

The Downtown Eastside Revitalization Program within the 2006-2008 Capital Plan has set aside \$500,000 for this initiative:

- \$186,000 remaining from the previous pilot Lease Subsidy and Tenant Improvement Programs
- \$100,000 from the 2006 DTES Revitalization Capital Budget
- \$214,000 from the 2008 DTES Revitalization Capital Budget

The remaining \$500,000 will be subject to funding availability in the 2009-2011 Capital Plan.

SOCIAL IMPLICATIONS

A grant to BOB with respect to its Downtown Eastside commercial revitalization initiatives would help stimulate the economic recovery of the Downtown Eastside and provide jobs for local residents. By focusing on commercial ground floor uses, it would help improve the perception of public safety and attract more customers and employees to the area. By supporting social enterprise and business development and expansion, it will also help ensure the provision of affordable commercial services for the area's low income population which will become increasingly more important as the economy of the area recovers and market rents increase.

RISK MANAGEMENT

Should Council direct staff to pursue the new approach proposed in this report, the report back will include recommendations concerning the terms and conditions that would govern the grant. These will include the role and responsibilities of BOB as well as appropriate reporting, insurance, indemnity and release of liability provisions that will be put in place prior to any funding to BOB. These terms and conditions will be developed to the satisfaction of the City of Vancouver as represented by Legal Services, Community Services, Corporate Services and Risk Management.

CONCLUSION

The economic climate in the Downtown Eastside is improving, but there are still many vacant commercial spaces and storefronts and buildings continue to deteriorate. The need to attract new and expanding businesses to occupy this space will remain for the foreseeable future. As rents continue to rise, there is also a need to ensure the provision of affordable commercial products and suitable job opportunities for inner-city residents in the future.

Council's concerns about the Lease Subsidy Program, and the consultation process initiated by staff, have resulted in the proposal discussed in this report. It represents a strong partnership between the City, BOB and private financial institutions, with support from the Vancouver Board of Trade and other business and community organizations. Because it represents a departure from the former Lease Subsidy Program, in this report staff seeks direction from Council about whether to pursue this new approach and to provide a report back to Council within 12 months.

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