

# **REPORT**

## **OFFICE OF THE CHIEF ADMINISTRATIVE OFFICER**

**To:** Mayor Johnstone and Members of Council  
**Date:** May 8, 2023

**From:** Lisa Spitale  
Chief Administrative Officer  
**File:**

Harji Varn  
CFO/Director of Finance

**Item #:** 2023-321

**Subject: Anvil Centre Operations Overview**

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### **RECOMMENDATION**

*THAT Council receive this report for information.*

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### **PURPOSE**

To provide City Council with the 2023 Approved Operating Budget projections for Anvil Centre. In recent meetings, Council has asked for clarification regarding the revenue and cost figures for Anvil Centre. This report is written in response.

### **BACKGROUND**

Anvil Centre is a vibrant cultural hub and conference centre, located in the Downtown. The venue is designed to accommodate a wide variety of events, community programs, workshops and cultural experiences. Similar to other community centers and civic venues, Anvil Centre is a civic amenity, and operational revenues and expenditures take into account the long-term asset management and life cycle planning needs of the facility. Anvil Centre benefits and supports our community by providing an 84,000 square foot, multi-use building, housing the civic portfolio of Cultural Services, a rich selection of Arts and Culture activities, a conference centre, as well as flexible spaces for meetings, special events, exhibitions, conferences and programs.

By way of background, included with this covering report are the following two Attachments:

- A – Anvil Centre – A Year in Review Council Report March 9, 2020
- B – Council Onboarding Presentation – Anvil Centre February 6, 2023

Due to the multi-use nature of the facility - with both civic and conference events - the funding sources come from multiple sources as well: either through user/event fees, third party contributions, property taxes, parking & other general funds.

Construction of Anvil Centre was completed in the fall of 2014 and was fully operational by late 2014. By 2019, the facility was reaching its operating plan potential. Operational activities were significantly impacted by the Pandemic as the majority of the Arts, Culture & Heritage programs, exhibitions, services and conference events provided at Anvil Centre are in-person. Where feasible, programs and events were quickly pivoted to a virtual format during the Pandemic.

**ANALYSIS**

In this report, staff will discuss the 2023 Operating Budget, focusing on user pay/fee funded programs (participant paid) vs City funded and other third party contributions (grants and donations). This discussion will help provide clarification regarding perceived operational deficit vs community benefit uses while working within the City approved budget.

The **2023 Approved Operating Expenditure Budget** is \$5.3M plus \$2.7M in Amortization, for a total of **\$8.0M**. The major breakdown by Division and by Expenditure type is as follows:

Operations Budget Breakdown by Departmental Division is as follows:

- \$2.90M Anvil Centre Administration (including \*amortization of \$2.7M)
- \$2.40M Conference Services
- \$1.20M Community Arts & Theatre
- \$0.90M Museums & Heritage
- \$0.60M Art + Technology

Anvil Centre Overall Budget Breakdown by Comprehensive Expenditures:

- \$3.20M Salary/Benefits/Training
- \$2.70M Capital Contribution/Amortization
- \$1.40M Cost of Sales (Recoverable payment for services)
- \$0.40M Contracted Services
- \$0.30M Supplies & Materials

\*Amortization is the process of gradually writing off the initial cost of an asset and is essential for long-range asset management & life cycle planning. As a best practice, it is important to set aside a similar value into a general fund, facility or equipment reserve to support the replacement and major upgrade needs of the asset when the asset is beyond its useful life

Cost Accounting/Analysis:

The cost accounting for Anvil Centre activities can be described as follows:

1. **Community based arts and heritage** programs operate through a City funded community services delivery which is no different than other City funded civic assets, through the annual budgeted general funds/taxes.
2. **Anvil Theatre operates** through both a User Pay/Fee and City funded community service delivery model.
3. **Exhibitions** are non-revenue generating, attracting many visitors to the city and enjoyed by the community and therefore are funded from the general funds/taxes. Exhibitions provide economic benefit and work to ensure equitable, accessible community cultural services. Collection care costs are a civic responsibility.
4. **Conference Services** costs are fully recuperated (excluding contribution to capital/reserve planning). This division is market-driven and revenue generating. The majority of conferences are corporate, government and labour related, and regionally based. Conferences provide economic benefit by creating spin-off activity for local businesses (such as restaurants and accommodations).

Overall, the concept of partial vs full cost recovery on events is complex as Anvil Centre is both a Civic Use Facility and a Conference Centre. For civic uses, the reference is normally tax or general funded vs deficit. A true form of deficit is if the facility were solely intended for private sector type business and could gross up to grow a profit. To date, government work is not for profit and therefore, the financial models focus on user fees for cost recovery and taxes/general funds to support the community with civic uses.

2023 Operating Revenue Budget – Anvil Centre - User Pay Programs “Only”

The **2023 Approved Operating Revenue Budget** specific to user funded programs is **\$2.55M** and largely driven by Conference Services. Major breakdown by Program & Events Revenue is as follows:

- \$2.20M Conference Services
- \$0.30M Community Arts & Theatre
- \$0.04M Museums & Heritage

- \$0.01M Art + Technology

See Attachment B

2023 Approved Net Operating Budget – Anvil Centre without City Funded Portion

The **2023 Approved Net Operating Budget for Anvil Centre** before City Funded portion is **\$5.45M** of which **\$2.7M** is for amortization/contribution to capital.

- \$2.55M User Fees (Revenue)
- \$8.00M Operating Expenditures (including \$2.7M Amortization)
- \$5.45M City Funded – General Funds

Anvil Centre is funded from direct user pay programs of \$2.55M and with the balance coming from other City funds, property taxes, parking, gaming or other City-wide revenues.

The **2023 Approved Operating Revenue Budget for the City** is largely from Property Taxes and Utility Fees. In 2023, Council approved over **\$300M** of projected revenue to support the delivery of City-wide services.

2023 City’s Operating Revenue Budget of \$301.5M, which incorporates:

- \$105.1M (6.4% Property Tax Revenue Rate Increase)
- \$59.9M (2.8% Electrical Rate Increase)
- \$45.6M (7.0% Water & Sewer Rate Increase)
- \$5.0M (14.0% Solid Waste Rate Increase)
- \$15.85M Growing Communities Provincial Grant
- \$3.1M Sewer Separation Grant (\$10.5M over four years)
- \$0.6M Building Safer Communities Funding (\$1.74M over four years)
- \$0.5M Strengthening Communities Funding
- \$3.6M Sale of Carbon Credits\*
- Plus Other Revenues like Gaming, Parking etc.

**Table 1-1 – 2022 Year End Results - Anvil Centre without City Funded Portion**

When referring to **Table 1-1: Net Operating Budget for Anvil Centre**, the following observations are made:

- When reviewing Fiscal 2022 figures, note that Anvil Centre was in COVID recovery mode - the conference and cultural industries were significantly impacted by COVID regulations. Regular scheduling of events and activities did not commence until late February/early March 2022.

- Anvil Centre is often presented as a separate and singular business unit. In reality the facility houses many different divisions, each operating as part of the civic group of Culture Services together with a city run Conference Centre: Museum, Heritage & Archives Services, Exhibitions, Programs and Collections, Arts Services and Anvil Theatre & Programs, New Media Gallery Services, Exhibitions, Programs, Conference Centre & Services.
- When presented as a singular entity, the costs are grouped together and misinterpreted as a single business unit with costs of over \$5M, instead of numerous divisions, each operating with their own unique civic budget.

**Table 1-1**

	<b>2022 Budget</b>	<b>2022 Actuals (Proj.)</b>	<b>Variance</b>
Revenue	\$1.80M	\$2.20M	\$0.40M
Expenses	\$7.60M	\$7.20M	\$0.40M
<b>Net</b>	<b>\$5.80M</b>	<b>\$5.00M</b>	<b>\$0.80M</b>

As mentioned above, the 2023 Approved Operating Budget plans for over \$5M in City Funded expenditures includes amortization as this draws down the asset from its original value. The entry is a “non-cash” entry and is based on estimated useful life of assets to reduce the asset value. When the asset is fully amortized to \$0 net book value, it will either need to be replaced or have significant service needs due to failing infrastructure such as leaks or breaks etc .

Similar to all Civic Facilities including the Police station, City Hall, TACC, Fire Halls, Library, etc, the Asset Management is a priority from the concept of safety, level of service, life cycle planning, asset upkeep and overall fiscal prudence.

To date, the amortization is a non-cash entry of approximately \$2.7M and Finance can confirm there is no funding contributing to a reserve for asset upkeep and long-term planning.

The current capital budget needs or upgrades are being funded from existing reserves and the City’s budgeted surplus/contribution to capital is diminishing and therefore, drawing down on the City’s General Funded Reserve, Equipment and Facility Reserves when capital work is required.

Managers and staff continue to find and develop operating efficiencies and revenue-generating opportunities from project to project and through annual reviews. An

example would include an annual price for services review for Conference Services. Factors such as cost of service are reviewed and all items that will impact the pricing are reviewed:

- What impacts in the market will effect pricing? (weather related, fuel costs, product shortages, labour increases, etc.)
- Notification of price increases from contractors
- Industry price comparisons
- Confirm the total cost of service including product and labour

Other revenue generating opportunities include research on new services and products to offer.

From a financial position, revenue generating and operational efficiencies across the city will help support the ongoing capital needs of all civic assets and set funding aside in a Facility/Equipment reserves.

### **NEXT STEPS**

Staff are working to retain a consultant to prepare an economic impact model to be used across the organization as an additional tool to inform policy and program decision-making. Future analysis of City financial models will include a long range plan around sustainable reserves, tax rates and competitive user fees, equity and community benefits.

### **OPTIONS**

There are two options for Council's consideration; they are:

1. To receive this report for information; and
2. To provide staff with further direction.

*Staff recommend Option 1*

### **ATTACHMENTS**

- A – Anvil Centre – A Year in Review Council Report March 9, 2020
- B – Council Onboarding Presentation – Anvil Centre February 6, 2023

**APPROVALS**

This report was prepared by:

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