1.7 Implementation Plan


Concept Rendering

If Brock University and the City of St. Catharines agree that the project as described is both feasible and desirable, it will be necessary to move quickly on a number of fronts to make the project a reality.

1.7.1 Partnership Understanding

Under the auspices of the existing MOU process, a clear written statement must be developed of the rights and responsibilities of each partner and the allocation of capital and start-up operating cost obligations between them.

1.7.2 Organizational Development

With the advice of legal counsel of both parties, and subject to any constraints imposed by major capital funding sources, work must begin on the creation of the entity that will operate the Centre. While we have recommended that NCFA have an independent board of directors, we have also recommended that the board fully represent the interests of both Brock and the City. In its nascent form, we expect that the two partners together will control the board, but members with other portfolios must be added as soon as practical, in part to support fundraising efforts.

The board may originally be the outgrowth of the MOU group, but it will rapidly assume responsibility for governance of the project through its fundraising and design stages.

1.7.3 Fundraising Strategy

Capital funding strategy will focus on sources of both public and private funding, and coordination of efforts between the partners will be vital to avoid inadvertent competition. We assume that Brock and perhaps the City will cultivate individual donors on their own, and that is entirely reasonable. However, once the legal organization has been established, the board should consider engaging fundraising counsel to assist in presenting a united public front for capital fundraising, particularly as the fundraising phase begins to focus on multiple small and mid-size gifts.

Naming opportunities may be attractive stimulants to giving, whether for large capital gifts (typically from individual sources and named in perpetuity) or for periodic naming sponsorships (typically from corporate sources, given for specified periods, and usually credited to operating rather than capital funds). Pursuit of such opportunities must also be coordinated carefully throughout the project to avoid overlap in naming rights and sponsorships.

1.7.4 Physical Development and Design

The first step in the physical development process is to assemble required parcels for the site, a procedure which will need to account for negotiations regarding mixed-use development components of the project as well as simple acquisition negotiations. Where appropriation of property is necessary, the timetable for site assembly may be determined by the schedule for legal procedures.

Once it is clear that site control is secure, the board will need to engage the design team for the project and begin work to develop the concepts presented here into a fully-realized design.

At the same time, work must proceed on design of associated infrastructure improvements that must be in place when the Centre opens: parking development and other transportation planning, streetscape improvements, and any associated public utility infrastructure.

1.7.5 Operation Implementation

Although we propose the creation of the governing board for the project as soon as feasible, we do not forecast engaging new staff to operate the Centre until approximately two years prior to opening, when the Executive Director must be hired. Assuming that a period of 18 months to 2 years is necessary from start of construction to building occupancy, this means that the design of the project will be complete and construction ready to begin at the point the new Executive Director comes on board.

Therefore a group representing the board must be in place prior to engagement of the Executive Director to provide necessary oversight during the design process. We envision that group to be the outgrowth of the current Project Management Team. That group will continue to need consultant support until the Executive Director is on the job, and perhaps staff time from both the City and from Brock in addition to the contribution of both entities of staff who make up the PMT now.

Unlike projects for new entities that are created from scratch, NCFA will incorporate the existing CFA, and therefore CFA staff will have a presence throughout the development period as a resource during the design process and then to work beside the gradually developing NCFA staff in planning, programming, and marketing activities for the new Centre. Because CFA will continue to operate as it does now at Brock until the new Centre is ready for occupancy, we forecast that CFA will be absorbed into NCFA approximately one to two months prior to the opening of the first season downtown (which for planning purposes we assume will be in September).

The recommended Advisory Board representing the local arts community will also need to be established during this period as a conduit for communication and to represent the interests of the arts community, some of whose members will have to begin their own plans for working at or with the Centre at least two years before the doors open. The structure of Advisory Board membership will require local input and advice.

1.7.6 Start-up Costs

Schedules E and F of the operating pro forma detail estimate start-up operating costs from the time the new Executive Director is hired (including associated search costs). Approximately $1.3 million in start-up cost is included, of which about $275,000 would be expended in the second year prior to opening (including search costs that may be incurred in the third year), and about $1.025 million in the year prior to opening.

These estimates do not include moving and installation costs for SFPA furniture and equipment not included in the Concept Design budget, and they obviously do not include operating expenses incurred by the board prior to two years before opening. Most such costs are not operating in nature – design fees and any fundraising costs will be charged to the capital budget – but some allowance should be made for legal and accounting fees, travel by board members and Brock or City personnel associated with the project, costs associated with public consultations and informational website and marketing materials, and miscellaneous administrative costs. We suggest that approximately $100,000 be allocated for this purpose, and each partner may need to allocate additional funds to cover their own staff time associated with project development.

In addition, some expenditures will have to be made that are properly chargeable to the budget of the Centre's first operating year in order to make advance payments for artists fees and some locals costs, as well as to fund regular first season marketing (one-time extraordinary marketing costs related to the opening are included in Schedule E). We assume that such costs will be incurred by CFA during its last year of operation, as it would normally be incurring similar costs on behalf of its own programming for the upcoming year. Therefore the normal annual programming costs Brock bears should cover most or all of such expenditures until CFA is absorbed into NCFA. However, it is possible that additional cash will be needed to cover these expenditures if they exceed normal CFA budget allowances. Centre fundraising prior to the opening may be able to provide such cash. If not, the partners will need to establish a cash reserve fund for this purpose, to be repaid from first-season operating income.

Finally, we should note that the operating pro forma details our forecasts for operating costs and revenues, but does not reflect balance sheet items. In particular, a sufficient working capital reserve fund will need to be established to cover cash flow needs and insulate the Centre against short-term financial volatility, and this fund should be in place at the beginning of the first year of operations. Although it is too early to forecast pro forma cash flow schedules, we suggest that approximately $250,000 be allocated for this purpose, and that if after start up a smaller fund is judged adequate, the balance be re-assigned as a long-term capital reserve fund, operating in much the same way as an endowment fund.

1.7.7 Timetable

It is necessary to allow 43 to 44 months from confirmation of site control to opening night of the new Centre. This assumes the following:

- Authorization to proceed is given to the design team upon confirmation of site control and 18 months are required from notice to proceed through 100% completion of Construction Documents.

- Upon completion of Construction Documents, 24 months are required for project bidding and construction to turnover of the completed project.

- One month is required for occupancy and shake-out of the new complex, and public opening is scheduled at some point during the following month.

In order to allow for project opening at the most desirable point of the season, to permit SFPA to occupy its space at the start of the academic year, and to coordinate scheduling with ongoing CFA activities in the prior year, we assume that the 44th month of this process will be September. Thus if sufficient funding can be secured and site control can be confirmed by the end of January 2009, opening can be assumed to be in September 2012.

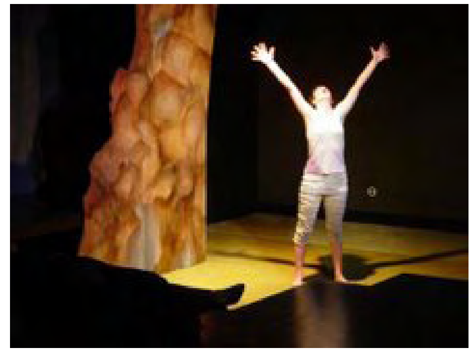
It is possible to adjust performance scheduling to reflect project needs. For example, it is possible to open the Centre in February instead of September, after CFA completes its Fall season at Brock, construction is complete at the end of December, and NCFA occupies its new space during January. This timetable would allow Brock to coordinate its own class schedule to occupy vacated CFA spaces and to move SFPA at the start of a new semester.

So while it is possible to adjust the schedule to later dates, the earliest the new Centre might open would be September 2012.

Note that once bidding for the construction project is complete and the board authorizes the project to proceed, there can be no slippage in the construction schedule. This is because program dates will be guaranteed as much as two years out for the first season, and the Centre will assume major financial liabilities in association with any cancellations. Therefore construction contracts for arts projects often include substantial penalties for failure to meet timetables and financial incentives for early successful completion.

We have discussed the possibility of moving SFPA to its quarters earlier than other portions of the project are complete, or to phase its occupancy due to planned disruption of existing DART and Music spaces by other construction at Brock. Those possibilities can be studied further once site acquisition schedules are clearer.

1.8 Economic Impact Analysis



Suitcase in Point's Groundwater

Overview

The economic impact of arts activities in general and arts-related development projects in particular have been the subject of an enormous amount of discussion in recent decades. Understanding economic impacts is of importance to arts managers in order to harness revenue streams created by their own activities for their own ongoing benefit. But modeling economic impact has also become an important part of the process of justifying government support for the arts and for arts development projects.

We should begin by noting that quantification of actual economic impacts of existing arts activities is extremely difficult. It depends on a detailed understanding of the movement of money through arts organizations and on reliable estimation of the indirect influence that those organizations and their activities have on economic activity in the community that surrounds them. Furthermore, it depends on careful definition of the locus of the impact being studied. At the simplest level, this is a matter of where money is spent. Broadway or West End productions have been carefully studied (with varying results) to gauge their economic benefits on New York and London respectively. But rarely do economists study their economic impact on the small outlying towns where their scenery is built in commercial scene shops. It is even more complicated to consider benefits within different government jurisdictions. Arts organizations in Canada generate both Federal and Provincial tax revenues which have impacts with respect to government at each of those levels, but those net new tax revenues are not necessarily redirected to the municipalities where the activity is generated.

In addition, a municipality that attracts substantial numbers of ticket buyers from the region in which it is located but from beyond city limits will enjoy substantial direct economic benefits as a result, while for the larger region the act of buying a ticket likely represents merely a discretionary spending choice within the region and not net new revenue generation. Direct economic impact results, but it is not necessarily better for the region than another spending choice that the ticket buyer might have made.

So impacts must be sorted out in a way that reflects the geographic field of impact. Doing so accurately requires data on who attends, where they live, whether and where they spend the night when they come to town, and how much they spend on other things while visiting. Some arts organizations collect such data while others do not.

Techniques for modeling the catalytic economic impact of arts activities, which is usually far greater than direct impact, are still more difficult. They require accurate baseline data on real estate values, retail spending, hotel occupancy, and other economic indicators in order to permit comparison over time. Such data, sorted to pinpoint the area being studied, can be very hard to come by. Therefore accurate quantification of the economic impact of existing arts activity is difficult at best. Studies that try to measure these impacts frequently stress the importance of good data and the detailed nature of any meaningful analysis.

Of course this means that precisely forecasting the future economic impact of an arts project that does not yet exist, and for which there is little or no baseline data, is impossible. What follows then are broad estimates, orders of magnitude, and in particular our attempt to explain how and where substantial economic impacts can be generated.

Tax Planning

We observe at several points in the analysis that the nature of taxes that flow from the Centre project is uncertain. Potential rebate of construction-related GST may depend on ownership structure. Liability for sales taxes may vary according to event type and the business form of the presenter. Therefore we strongly advise project leadership to seek professional advice regarding the tax implications of planning decisions before proceeding with decisions regarding project structure, and later with respect to details of operating policy.

Conservative Forecasts

Because of the extreme difficulty of predicting economic impacts in advance, we have tried to use very conservative models wherever there has been any doubt. In particular, the multiplier used to model indirect impacts is very conservative relative to those used in most similar studies. Estimates of personal spending by patrons, staff, and SFPA faculty and students are modest, and catalytic impacts are discussed but not included in quantitative modeling.

Management Consistent with Economic Goals

It is important to emphasize that the economic impacts forecast here depend on Centre policy and management practice consistent with underlying economic impact goals. Centre policy at times will likely be at odds with the individual objectives of one or both of the partners in the project. Economic impact goals are certainly inconsistent with a management strategy of minimizing operating risk. Because ongoing economic impact is a function of activity – of both the quality and quantity of public programming – and of careful cultivation of real-estate assets, achieving the project's economic goals depends on an active, risk-taking Centre Operating Entity with the required resources and skills in programming, service, and real-estate development and management functions.

A passive, risk-averse operating entity will not engender substantial economic impact. Economic benefits must be aggressively pursued as an integral goal of the organization if the impacts described here are to be realized.

Summary of Forecasts

We estimate the following:

- Substantial one-time economic impacts related to the construction of a $75 million project and start-up costs related to the

Centre. We forecast direct one-time tax benefits of roughly $10 million to the Federal government and $5.8 million to the Province, and total indirect economic impact of approximately $178 million.

- Ongoing direct economic impact of nearly $7.4 million per year, including a minimum of $1.6 million from outside the Region), and total direct and indirect economic impact of $17.3 million per year.

- Catalytic economic impacts resulting from the project that cannot be quantified in advance but which are likely to fundamentally change day-to-day life in downtown St. Catharines and will likely be valued in the hundreds of millions of dollars.

These estimates are summarized in the tables and described in detail in the narrative sections that follow.

A. Summary of One-Time Impacts

Tax Impacts	Net New Direct Federal Tax Revenues	Net New Direct Provincial Tax Revenues
Construction-related Sales and Employment Taxes	9,375,000	5,600,000
Ancillary direct taxes	28,500	45,600
Centre-start up direct taxes	190,000	83,700
Centre retail space fit-out direct taxes	302,000	111,500
Sub-total direct tax benefits	9,895,500	5,840,800

Total One-Time Impacts	Direct	Indirect	Total
Federal Taxes	9,895,500	13,358,500	23,254,000
Provincial Taxes	5,840,800	7,885,200	13,726,000
Non-Tax Construction Impacts	60,000,000	81,000,000	141,000,000
Total One-Time Impacts	75,736,300	102,243,700	177,980,000

B. Summary of Annual Ongoing Impacts – Direct and Indirect

	Direct	Indirect	Total
Federal Employment Taxes	335,000	452,250	787,250
Provincial Employment Taxes	95,000	128,250	223,250
Sales Taxes related to Centre Spending (GST and PST)	55,900	75,465	131,365
Net Direct Spending by Centre Patrons (including taxes)	2,250,000	3,037,500	5,287,500
Net Ancillary Spending by Centre Patrons (including taxes)	900,000	1,215,000	2,115,000
Net Direct Spending by Centre	2,750,000	3,712,500	6,462,500
Net Spending by Centre Renters (not including retail space tenants)	220,000	297,000	517,000
Net Downtown Spending by Centre and SFPA employees and students	530,000	715,500	1,245,500
Net Spending by Patrons and Renters on Hotels and Meals	225,000	303,750	528,750
Total Ongoing Direct and Indirect Impacts	7,360,900	9,937,215	17,298,115

One-Time Impacts

Any arts development project will generate both one-time and ongoing economic impacts. One-time direct impacts tend to be of two kinds:

- Tax-related, a function of the development of the project itself or of associated development projects linked to or catalyzed by the arts project. Examining tax-related impacts provides a way to consider the short-term return of capital funding provided by public sources.

- Construction and related spending, which creates short-term employment and supports a wide range of related businesses and industries.

For the purpose of our modeling, we assume total project costs for the Centre project of approximately $75 million in current dollars, including construction costs, contingencies, design and construction management fees, and miscellaneous costs, before GST and PST. These costs are exclusive of associated infrastructure development (parking, streetscape improvements) which are not necessarily dependent on the Centre project. Models are in current (2008) dollars.

A. Project-Related Federal Tax Benefits

1. <u>Project Construction Direct Employment-Related Taxes and Levies</u>

The nature of tax revenues flowing to the Federal government from the project depends on its structure. Municipalities may claim a rebate of 100% of GST they pay, while universities may claim a rebate for only 67% of GST. We therefore assume that prudent governance of the project will ensure that development costs are paid in a fashion that allows full rebate of GST, and we do not forecast net GST benefits to the Federal government.

However, the labour portion of project cost is subject to Federal income taxes (assumed to average approximately 16% net after exemptions) and employment tax levies on both employers and employees (Canada Pension and Employment Insurance, assumed, given maximum limits on payroll to which some levies apply, to average approximately 9% overall).

We assume, very generally, that 50% of the $75m project cost consists of taxable labor (including both design and project management services and construction labor), which at 25% overall for income taxes and payroll tax levies produces $9.375m in tax benefits to the Federal government during the design and construction period.

2. <u>Related Direct GST</u>

We assume that contractors will spend money on miscellaneous items not charged to the project and passed on to an exempt owner, and therefore subject to GST. Such miscellaneous costs are loosely covered by "General Conditions" of the project. We conservatively estimate non-exempt general costs to amount to $200,000 for each of two years, generating GST of $20,000.

In addition, an average of approximately 45 workers of all kinds are expected to be on the job site an average of 20 days per month for two years, for a total of 21,600 total person/days. For each of those person/days, we assume that $8 will be spent in the immediate vicinity of the job site for retail expenses (coffee, lunch, beer, etc.), for a total of approximately $170,000 in direct spending, generating GST of $8,500.

3. <u>Centre Start-up Employment Taxes and Levies and Incidental GST</u>

In addition to construction-related tax benefits, the new arts centre itself will incur payroll during its start-up period of approximately $665,000, generating Federal income taxes and payroll levies of approximately $166,000 over about two years.

Those staff members will work in downtown St. Catharines for a total of approximately 2,450 days during the start-up period. Assuming average incidental expenses of $10 per day, they will spend roughly $25,000 during the start up period, generating $1,250 in GST.

The new Centre operating entity will spend roughly $440,000 in non-personnel start-up expenses subject to GST, generating $22,000 in GST revenue.

In total, approximately $9.65m in one-time revenue will be realized by the Federal government through GST and employment-related taxes and levies.

B. Project Related Provincial Tax Benefits

1. <u>PST on Construction Goods</u>

There is no rebate of Ontario PST for municipalities or universities, except to the extent that some capital cost items may be considered university research equipment and so exempt from PST. We assume that this exemption may apply to up to $5 million worth of equipment installed in the building.

Therefore the estimated $35m in taxable construction materials will generate $2.8m in PST to the Provincial government over approximately two years.

2. <u>Project Construction Direct Employment-Related Taxes and Levies</u>

In addition, the labour portion of project cost is subject to Provincial income taxes (assumed to average approximately 5.5%) and to the Provincial Employer Health Tax (1.95%), for an average of approximately 7.5% total. We assume for the purpose of this calculation that all contractors are Ontario firms liable for Provincial payroll taxes and levies, and that employees are also subject to Ontario income taxes, so based on our allowance of $37.5m of project costs for taxable labour, income taxes and payroll tax levies will produce $2.8m.

We do not forecast net tax benefits resulting from Workers Compensation levies, because we assume that payments offset net new compensation claims resulting from the project.

3. Related Direct PST

James Street Night of Art, 2008, photo by Dario Ayala

Miscellaneous contractor costs, previously forecast at $200,000 for each of two years, will generate $32,000 in PST.

The 45 workers expected to be on the job site for a total of 21,600 total person/days, generating approximately $170,000 in direct spending, will produce PST of $13,600.

4. Centre Start-up Employment Taxes and Levies and Incidental PST

Start-up period arts centre payroll of approximately $665,000 will generate (at 7% overall) $46,500 in payroll taxes and levies for the Province.

Those staff members during the 2,450 days person/days of the start-up period, incurring incidental expenses of $10 per day, will spend roughly $25,000 during the start up period and generate $2,000 in PST revenue.

The new Centre operating entity will spend roughly $440,000 in non-personnel start-up expenses subject to GST, generating $35,200 in PST revenue.

In total, approximately $5.73m in one-time revenue would be realized by the Provincial government through PST and employment-related taxes and levies.

C. Related Development Activities

1. Fit-out of Retail Shell Space built by the Centre project.

Retail spaces proposed for Centre-owned space on St. Paul Street would be constructed by the project but finished by tenants. Allowing fit-out costs of $75 per gross square foot for a 13,900 gsf of shell space as shown in the Concept Design, and assuming that costs are fully taxable, fit out will generate approximately $52,000 in GST for goods and services and $41,500 in PST revenue for construction materials and goods only.

Using the conservative assumption that 50% of fit-out costs are for labour subject to employment taxes and levies, we estimate that Federal employment-related taxes and levies will total roughly $250,000, and Provincial employment taxes and levies will total roughly $70,000.

2. Associated Commercial Development

We do not yet know the extent of any associated commercial development that would be leveraged by the Centre project. Net new economic impacts credited to the Centre would result from any development that would not be built except for the catalytic effect of the Centre, or of any expansion of development projects beyond the scope otherwise intended for them.

We have suggested that some leveraging of associated commercial development be undertaken by the City in connection with the project in order to create ongoing revenue streams for the Center. This might take the form of grants of enhanced development rights or other zoning incentives.

Any direct economic impacts that result will depend on the scale of such net new development. However as a general guideline, allowing for PST, GST, employment-related taxes and levies, and taxes on local spending by construction personnel, we estimate that for every 50,000 gsf of net new development, direct impacts to the Federal government will total approximately $220,000, and direct impacts to the Province will total approximately $145,000.

3. <u>Associated infrastructure development: roads, parking, streetscape</u>

We do not attempt to quantify net new direct impacts resulting from the project based on associated infrastructure development. Although the project will likely speed up the timetable for such work, may increase the scale of infrastructure developments such as parking structures, and will almost certainly make revenue-producing infrastructure like parking more viable, the scale of any impacts is impossible to determine at this point.

Total One-Time Direct Impacts to Federal and Provincial Government

Therefore, we forecast total one-time direct tax-related impacts associated with the project to the Federal government of at least $9.95 million, and to the Provincial government of at least $5.84 million.

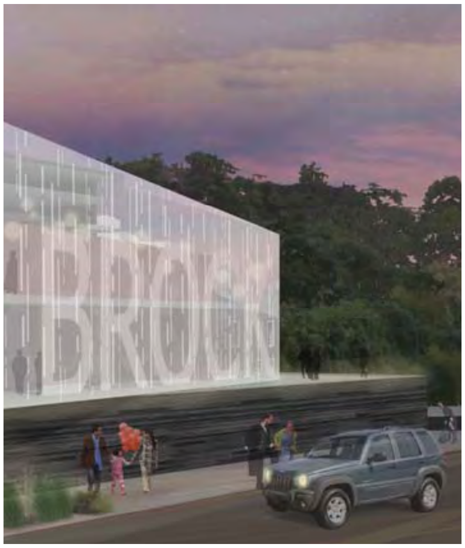
D. Indirect One-Time Impacts and the Use of Multipliers to Forecast Indirect Impacts

The total economic effect of the direct impacts noted above depend on the extent to which net new revenue streams circulate through the economy. To model this indirect effect, economists apply multipliers to direct revenue streams that describe the additive impact as each original dollar of spending is circulated. The amount of such a "multiplier" as a factor of the original spending depends on the industry in which the original spending occurs. Nearly all models use multipliers somewhere between 2.0 and 3.0, and arts organizations tend to be assigned relative high multipliers.

Most of the direct one-time impacts we forecast are tax-related, and so the question is how government spending will impact the overall economy. The forecasting problem is compounded by the uncertainty of whether net new tax revenue will be spent by government agencies, or whether the revenue will be used to reduce tax levies in other areas. In the latter case, the impact of the net new tax revenue would in effect be to leave more money in taxpayers' pockets. So it is impossible to accurately predict the right multiplier factor to apply, and we therefore have attempted to err on the side of conservatism. We therefore use a conservative multiplier of 2.35 to describe total direct and indirect impacts (1.0 direct impact + 1.35 indirect impact) that flow from tax-related benefits. The result is a total one-time impact flowing from project tax revenues of over $37.1 million, of which roughly $18.4 million would remain in Ontario (assuming that roughly 20% of the resulting federal tax impacts would be allocated to

Ontario).

However, in considering indirect economic impacts, it is not merely tax revenues to government agencies that have positive effects. The entire value of all spending associated with the development project, including both construction-related costs and start-up costs of the Centre Operating Entity, represents net new economic impact and have a multiplier effect as they are introduced into the economy. Thus total direct project costs of about $75m (less the direct employer-paid taxes already modeled above – roughly one-third of the total tax benefits), plus the value of spending by construction personnel that is not attributed to project budgets, is part of the overall economic impact of the project.



Concept Rendering

This produces total direct one-time economic impact, in addition to the tax impacts modeled above, of approximately $70m related to the project. In order to determine the approximate impact to Canadian economies, we discount the figure to allow for payments made for imported materials (primarily metals and foreign-manufactured equipment) and services. We thus discount the value of the one-time direct project-related impact to $60m.

Applying our conservative multiplier of 2.35, total one-time non-tax-related economic flowing from the project will be approximately $141 million.

Total One-Time Impacts

When added to tax-related impacts, this produces estimated total one-time direct and indirect economic impacts related to the project of approximately $178 million.

Ongoing Impacts

Ongoing economic impacts are related to the operation of the Centre itself and spending by its patrons and visitors, to the stimulative effects the Centre is likely to have on businesses downtown, and to its catalytic effects on new development and economic improvements in the city and the Region.

All forecasts are modeled in current (2008) dollars.

Estimated direct economic impact related to the Centre project varies depending on what exactly is being measured. For example, if we are concerned with the overall importance in the region of the arts centre project and the activities that take place there, then (in addition to Centre programs) we would have to consider the value to the economy of the Brock's Marilyn I. Walker School of Fine and Performing Arts in its entirety. That is an enormous number, one that must account for the SFPA's entire employment profile, production and program spending, and ultimately the real value of an SFPA education to its students.

Similarly, we would have to account for the economic value of the existing Centre for the Arts at Brock, an entity which we have proposed that the new Centre will absorb.

And finally, we would have to account for the economic value of all of the existing arts activity in St. Catharines that will be affected by the Centre in one way or another.

But the result would be a review of the overall economic impact of the arts in St. Catharines, and that is not the purpose of this analysis. Rather, it is to understand the incremental impact that the proposed project will have, so that the project's partners and potential funders can assess whether the project itself makes financial sense or not. Therefore we concentrate on modeling those incremental changes that the project will produce. SFPA exists now and will presumably exist whether the Centre is developed or not. So with respect to SFPA we are concerned primarily about the particular economic benefits flowing from ancillary spending that a downtown location would encourage.

With respect to Centre programming, we are concerned with both the net increase in programming beyond that of the existing CFA, and with the impact that a downtown location will likely have as the venue for those programs, new and existing.

It is particularly difficult to model the impacts of rental programming, whether by commercial presenters or local arts organizations. But estimates of related spending are forecast as well.

Finally, it is necessary to consider the extent to which the Centre in its downtown location will produce tourism-related impacts, particularly related to hotel stays and spending related to hotels, meals, and related tourism.

1. Net new employment

We assume that SFPA employment will remain roughly equal in any scenario that forecasts its relocation, whether on campus or downtown. Therefore we do not forecast net new employment-related financial impacts. We made the point earlier that a prominent downtown location will likely help SFPA to recruit and retain higher quality faculty, staff, and students than would likely be the case on campus, but we cannot quantify any economic benefit that would result, such as higher SFPA salaries or additional tuition or fee revenue.

However, there will be substantial growth on the NCFA side of the project as compared to existing CFA employment. While we estimate current direct CFA employment costs, including employment taxes and levies, at approximately $750,000, our forecasts for first-year total personnel costs (fixed and variable) at the Centre total roughly $2.1 million, an incremental growth of $1.35 million.

2. Net new taxes

Annual payroll-related taxes on net new payroll can be expected to provide roughly $335,000 per year in Federal income taxes and employer and employee payroll levies, and roughly $95,000 in Provincial income taxes and payroll levies.

We assume for the purpose of our analysis that the Centre is a non-profit organization exempt from income taxes. Calculation of GST and PST obligations is difficult to model however. It is possible but not certain that the Centre will qualify for rebate of 50% of GST paid based on the percentage of its total funding that comes from government sources. However, a relatively small percentage of incremental spending by the Centre is for goods and services subject to GST or PST. For the purpose of our analysis, we assume that approximately $250,000 of spending is for retail goods to which GST and PST apply, producing annual GST of $12,500 and PST of $20,000. In addition, Centre programming that includes payments for food and beverage sales may be subject to GST and PST, potentially producing GST on concessions sales of $9,000 and $14,400 respectively. If the 50% GST rebate applies, total GST will be reduced by about $10,750.

We assume that all Centre performances are exempt from Ontario Retail Sales Tax under exceptions for theatres and for performances in which 90% of performers are Canadian. It is possible that some rental uses of the Centre may be subject to RST, but we do not forecast any such tax revenue.

Therefore total annual direct net new tax revenues are forecast at roughly $356,000 in Federal revenues and $129,000 in Provincial revenues.

3. Economic Impacts Flowing from Public Programs: Export vs. Import economic factors

Arts organizations that attract high percentages of visitors from outside the region but generate their productions locally function as export businesses. That is, they in effect produce goods locally that are sold abroad, producing an infusion of new revenue from outside the area. Such businesses produce substantial net economic impact. In the arts, because the buyers of their goods tend to come to the region to buy, those buyers also tend to spend money on hotels, meals, car rentals, and a host of other goods and services. There are many economic studies that have been done on arts organizations and projects that function in this way, and there are many classic examples. The first well known economic impact study was conducted in the 1970s in New York City, not by the Department of Cultural Affairs or an arts-friendly foundation, but by the Port Authority of New York and New Jersey, the organization responsible for running the region's airports, tunnels, bridges, and other gateway infrastructure. The study emphasized the extent to which the arts drove the tourist economy of the city.

Similar studies have been done on Bilbao, Spain (linking economic growth to the tourist dollars generated by the Guggenheim Museum) and a host of other "destination" museums. In Canada, economic impact studies of the Stratford Festival and on arts activity in Toronto and Montreal have focused on related tourism as a key economic driver. In the Niagara Region, the Shaw Festival best fills this role, producing work locally (albeit using many actors who live outside the region) but attracting high numbers of tourists from Europe, Japan, the U.S., and elsewhere in Canada.

By contrast, the arts organization that presents high-cost touring events that are attended primarily by local audiences (typical of regional market presenting houses presenting popular theatre) often acts as an import organization, buying goods produced elsewhere for consumption by local residents. When a Broadway tour of Phantom of the Opera plays in Syracuse, roughly three-quarters of its ticket sale revenue goes to the visiting company, whose producers are based in London and New York. Because few ticket buyers come from outside the region (as the show has also played Buffalo, Schenectady, and Pittsburgh, not to mention long-running companies that were based in Toronto and New York), there is relatively little money brought into the region. So even allowing for local spending on ancillary services and for the indirect impact of the portion of spending that remains in the area, such a show often has little net positive economic impact on the region. Many commercial movie theatres are in this category – exhibitors pay such a high percentage of the ticket price to the studios distributing films that there is virtually no net economic impact associated with the movies. Such economic impact as is generated locally is the result of concessions sales. But commercial cinemas which are not locally owned and which create only a limited number of low paying jobs are very poor generators of economic impact.


Squid Precision Drumming: The Evolution, Centre for the Arts

The proposed Centre is at neither extreme. Of the Centre's roughly $4.5 million annual budget, less than $1.0 million will be paid in artists fees that leave the area. Renters will bring new money into the region. So the Centre will not act primarily as an import business.

However, neither will it act primarily as an export business. We do not expect the Centre to draw large numbers of ticket buyers from outside the region. As we note in our market analysis, many current CFA events already play multiple venues in Southern Ontario, and the efficiencies of this touring system help to keep artist fees for the Centre under control. So patrons who live more than half an hour from St. Catharines will often have a choice of venues at which to see an artist.

A well-designed, well-run downtown Centre will undoubtedly draw patrons from a wider territory than does current CFA programming, and many who now choose to go to Hamilton or Niagara Falls for performing arts events will likely come to St. Catharines instead. While existing CFA programming draws less than 5% of its audience from outside the Niagara Region, we conservatively assume that the figure will more than double at NCFA for Centre-presented events as well as for commercial rental programming in the Concert Hall (which will tend to have broader market appeal).

This effect may not produce any net economic gain for Southern Ontario, but it will produce a major impact for St. Catharines, and particularly for downtown St. Catharines. In addition, the analysis emphasizes the local nature of the project's non-economic goals: NCFA is a service to and a resource for the people of St. Catharines and of the Niagara Region.

4. <u>Spending on goods and services by NCFA patrons</u>

Total spending by patrons on tickets and concessions will account for, on average, $2.7 million of annual NCFA revenue. Of the more than 100,000 paying patrons who come to the Centre each year, we assume (based on forecast increases in attendance for relatively commercial presenting and rental performances) that at least 12,000 will come to the Centre from beyond the borders of the Niagara Region, and so of this amount roughly $325,000 will be brought into the Centre from outside the Region. A higher percentage of revenue originates outside the St. Catharines

Metropolitan Area, and a majority of all patron spending originates from outside the City of St. Catharines – at least $1.5 million.

We discount these impacts to the extent that they represent spending on ticket sales for Centre-presented events that is allocated for artist fees that leave the region. However, we do not discount for ticket sale revenue flowing from rental programming, as the ticket sale revenue is represented entirely as rental fees. Further, we take a conservative position with respect to the origin of revenues attributable to spending by Brock University students (who are likely to patronize the film theatre in particular in significant numbers). Based on the increasing percentage of the Brock population that is from locations outside the region, much of their direct spending can be considered "export" revenue. However we cannot model those revenues with any accuracy and so we do not include them in figuring export spending.

Therefore the total annual direct impact in the community will be approximately $2.25 million, of which $270,000 comes from outside the Region and roughly $1.4 million from outside the City of St. Catharines.

In addition, based on the experiences of other arts centres in small to mid-size markets, we conservatively expect patrons on average to spend an average of $8.00 each in the community on parking, food and drink before and after shows, and other retail purchases, a total of about $900,000 in direct impact annually. Patrons from outside the Region will tend to spend more in local retail establishments than those from nearby, largely for food. Therefore about $120,000 of total spending will be in export revenue.

There are no direct tax benefits assumed for ticket-related spending (although some commercial presenters will likely be liable for sales taxes on tickets). However, spending in local establishments is estimated to generate GST of $45,000 per year and PST of $72,000.

In addition, the indirect impact of this spending, once multipliers are added, totals more than $7.4 million annually, of which nearly $900,000 is export revenue from outside the region.

While ticket sale-related revenue at CFA currently has a positive impact on the regional economy, primarily as it is expended on salaries for CFA personnel, ancillary revenue spending (except for parking fees paid to Brock) is slight and certainly has almost no impact downtown. We expect the ticket-sale based impacts of the new Centre to be roughly triple those of the existing CFA, and the ancillary impacts are at least eight times those of CFA, isolated as it is on the Brock campus.

5. Impact of Other NCFA Revenues

The impacts described above flow from ticket sale-related revenue from Centre-presented and rental events. In addition, the Centre receives revenue from various other sources.

Approximately $225,000 comes from rental fees related to retail space controlled by the Centre. This is presumed to come from local sources. To the extent that Centre-controlled retail space displaces existing leased floor area, impacts related to this revenue would be discounted by the impacts of displaced revenue, at least to the extent that those revenues flow to owners in the area who spend that money locally. The amount of such discount obviously depends on the siting of the Centre and the extent to which is displaces active, rented floor area. But we assume for the purpose of the calculation an allowance of 10,000 sf of floor area at $10 per sf and discount the net new impact of Centre rental fee revenue by $100,000 for the displacement, assuming further that the entire value of the discount is currently expended locally.

Roughly $150,000 annually comes from sponsorships, presumably from local businesses or national businesses with a presence in St. Catharines. Such revenue is associated with corporate marketing budgets and so is counted on to have a positive economic effect not only on the community but on the business that spends the sponsorship money.

Finally, the Centre will require approximately $1.4 to $1.6 million annually in contributed revenue. This will come from a variety of sources, including Brock University, the City of St. Catharines, perhaps other government sources, grants from foundations, and contributions from individuals. It is impossible to predict the source of all these funds, and we assume that on balance government contributions to operating costs are offset by local tax revenues. Nevertheless, it is fair to assume that at least $200,000 annually will come from sources outside the Niagara Region.

The total of these non-ticket-sale-related revenues is roughly $1.8 million. All of the spending in this category is assumed to be spent locally for operating costs and so will impact the local economy at least by the conservative factor assumed throughout these models. Note that we assume spending for utilities is essentially local, although controlled by large regional entities.

Therefore only about $1 million of the Centre's total operating budget is expected to be spent annually for goods and services outside the region. The remaining $3.5 million will remain in the region, spent for payroll and other operating costs. After discounting for displaced existing retail revenue, for the portion of payroll costs that will be expended in employee tax levies and income taxes, and for various spending on goods and services from outside the region, approximately $2.75 million total is assumed to be spent by the Centre or its employees annually in the area and will circulate through the Region's economy. Using the 2.35 multiplier, this spending will generate total direct and indirect impact of approximately $6.5 million, of which approximately $500,000 will be funneled to the Province in PST and, very roughly, $300,000 will go the Federal government in GST. Additional government revenues will accrue as a result of payroll taxes generated by the indirect impact of the spending.

6. <u>Spending on goods and services by NCFA renters</u>

While spending by the Centre on such items as hotel rooms for visiting artists is included in the analysis of operating budgets above, similar spending by renters (whether commercial presenters or local arts groups) is not. We have no way of clearly predicting the level of such spending except to model costs for typical entities of this kind.

For commercial renters, we assume that presenting at the Centre is entirely net new activity, as there is no comparable venue in the immediate area. But with respect to local users, most activity and associated spending is already taking place, so we consider the economic impact of the Centre in this regard to be limited to increases in program levels as a result of the availability of Centre facilities.

- For commercial presenters, we estimate that local spending will total an average of $2,500 (primarily advertising) for each of 24 forecast performances, a total of $60,000.

- For commercial and non-profit renters of space for conferences, meetings, and other non-performance functions, we estimate that local spending will total an average of $1,200 for each of about 54 rental uses of the theatres or lobbies, for a total of $65,000.

- For dance school and other miscellaneous rentals, we estimate that local spending will total an average of $500 for each of 10 users, for a total of $5,000.

- For local non-profit performing arts groups, we assume that net new spending will be driven by increases in ticket sale and related revenue. As the driver of growth for those organizations, increases in earned revenue will stimulate additional contributed revenue as well, but we cannot predict the extent of any such impact. Conservatively, we assume that ticket sales for local non-profit performance companies will increase by 1,500 annually in the small theatre (50 additional tickets sold on average for each of 30 performance weeks) at an average of $18 per ticket and by 2,500 annually for the 16 performances in the Concert Hall at an average of $25 per ticket. This will generate an annual increase in earned revenue for local companies of approximately $90,000, nearly all spent locally.

Total net new spending associated with these events is forecast to be $220,000, producing a total impact (direct and indirect) of about $517,000.

7. <u>Retail and ancillary spending by employees and students</u>

The Centre will employ a permanent staff of roughly 32 full-time equivalents, plus a number of part-time staff and ushers and other volunteers. Groups renting administrative space at the Centre will likely account for 20 additional staff on site, and companies rehearsal at the Centre will likely bring an average of at least 12 more persons per day to the site (many more at times). All together, we expect at least 80 people to be working at the Centre on any given day during the week, and perhaps 50 on an average weekend day. That produces 500 person/days worked per week. If those staff members spend $10 each per day on average, they will generate $5,000 per week and $230,000 per year in local spending (assuming that each works an average of 46 weeks per year), generating total economic impact of about $540,000 annually.

That figure pales in comparison with the number of people associated with SFPA who will be at the site. At least 40 full and part-time faculty and staff will be at the site on a daily basis. But hundreds of SFPA majors and eventually graduate students will be on the site on a daily basis, and perhaps 500 more non-majors will be at the building for at least a few hours each week. While many of the non-majors can be expected to be hurrying to and from classes at the main campus, the majors will spend extended time on the site and will undoubtedly spend money downtown. If we assume that an average of 200 majors are on the site each of five days per week for 32 weeks, and spend an average of $5.00 each per day downtown, they alone will spend $5,000 per week, and the actual figure could be much higher. If 40 faculty and staff each spend an average of $10 per day in the city, they will account for another $2,000 in weekly spending. If 500 non-majors spend only $1.00 each per day on average in the city, they will generate another $2,500 per week, a conservative total for SFPA of $9,500 per week and over $300,000 during a 32-week academic year, producing total economic impact of approximately $715,000. This calculation assumes no activity for 20 weeks of the year, so the actual impact could easily exceed $1 million annually simply in ancillary spending. As the SFPA calendar expands beyond 32 weeks annually, which the University expects will happen once SFPA is in its new home, the impacts will grow further.


Niagara Artists' Centre exhibit of Flora: Fragile Habitats, Declining Ecosystems, photo by Sandy Fairburn

8. Related tourism

We have noted above that we do not expect the Centre to be a significant draw for tourists or overnight visitors. Centre programming (presenting and rental events) will likely generate 400-600 nights of annual hotel stays for artists and touring personnel, but this spending is already accounted for in estimates above.

Even the 12% of ticket buyers expected to come from outside Niagara are not generally expected to stay overnight in hotels. Many of that total will return home following performances and others will stay will friends, and so we anticipate that fewer than 1% of all ticket buyers will stay in hotel rooms, accounting for somewhere between 1,000 and 2,000 hotel nights annually. The total is not insignificant – 1,500 annual hotel nights at a modest average of $125 plus $25 in meals (other expenditure is accounted for in ancillary ticket buyer spending above) generates $225,000 in gross revenue per year, and over $525,000 in total economic impact. And of course this entire amount is by definition assumed to be export revenue. But an average of just over four hotel rooms per night does not represent a demand that can by itself support a downtown hotel.

The Centre may extend stays for other visitors to Niagara, whether those coming for the Shaw Festival or those following the Wine Route. But there is little evidence to support a contention that the programming of an arts centre of the scale of NCFA would appeal to visitors coming to the area for other purposes, even to those interested in theatre who attend the Shaw Festival.

This situation could change should the Centre prove to be a work of truly inspiring architectural design – there is some evidence that compelling architecture in a market of this size can attract destination visitors. But such visits would more likely generate a lunch and perhaps a walk around town than an overnight stay or the sale of a ticket to a performance.

Therefore we are comfortable forecasting the modest level of hotel use included above, but we do not at this point anticipate substantial economic benefit from the Centre related to tourism. We are prepared to be pleasantly surprised, but a conservative forecast cannot predict more.

Total Direct and Indirect Annual Economic Impacts are therefore estimated as follows:

- Direct Economic Impact: $7.36 million per year (including a minimum of $1.6 million from outside the Region).

- Total Direct and Indirect Economic Impact: $17.3 million per year.

Catalytic Impacts

While the estimated direct and indirect impacts cited above are significant, they represent only a small portion of the potential impact of a project of this type. The real payoff comes not by measuring impacts the way we might for any conventional business, but rather by considering the induced, or catalytic impacts of the proposed Centre.

Most often, catalytic impacts of the arts are made based on the artistic activity of an entire city or district. It is difficult to isolate impacts of this type to a single project. Where this has been done, as for the Guggenheim Museum, Bilbao, the project has been of very substantial scale, and researchers like Graeme Evans have noted that placing expectations for long-term economic impact on a single brand like the Guggenheim is a dangerous strategy.

So it makes sense to think of the Centre as the focal point for the development of a cultural district downtown, but not to think of the Centre as synonymous with downtown cultural development. This makes it difficult to isolate the economic impacts of the Centre, but that is the nature of the problem.

There have been a variety of studies done that have tried to measure the catalytic impacts of arts centres, some better and some worse. But the valuable ones are all studies of projects that are complete, or at least long-term development efforts that are underway. None have successfully modeled such impacts before the fact, and it would be impossible to do so in the case of St. Catharines.

<u>Lessons from Other Cities</u>

Nevertheless, we can learn something from studies of similar situations elsewhere. We have noted the great number of studies done that focus on tourism or broad impacts in large cities, including many across Canada (Toronto, Montreal, Halifax, Edmonton, etc.). However, few try to deal with catalytic development impacts. The Creative City Network of Canada in 2005 published its report “Making the Case for Culture: Urban Renewal and Revitalization,” which is best for its reference bibliography (including a citation of St. Catharines’ own 2003 study of the Niagara Wine Festival). The Institute of Urban Studies at the University of Winnipeg’s 2005 report “Enhancing Cultural Capital: The arts and community development in Winnipeg” provides general support for concepts raised here.

Most recently, the Project on Regional and Industrial Economics at the University of Minnesota published in 2006 a detailed study of the neighbourhood and development impacts of artist residential and live/work spaces in Minneapolis, modeling impacts on rents, retail development, and property values.

But it was the first study that tried to measure catalytic development impacts which has become a model for the methodology employed in most rigorous studies since. That was the 1984 study of the economic impact of the Playhouse Square arts centre in Cleveland, led by economist Michael Fogarty of the Regional Economic Issues program at Case Western Reserve University. The study received a great deal of attention both because it was the first study of its kind and because the REI program at the time was part of the Federal Reserve Bank of Cleveland, and the study therefore had an exalted imprimatur. It was significant in its time because the Playhouse Square arts centre was then very new (it consisted of a single 1,000-seat theatre open for two years and a new 2,800-seat venue that had just come on line) and because Cleveland was a particularly depressed city, then just a few years from its defining moment during the 1970s when the Cuyahoga River that meanders through the city caught fire because it was so polluted with oil and flammable solvents.

The REI study pioneered the technique of examining revenue sources to determine export characteristics (thus gaining the support of city officials but losing the support of various suburban ones who realized that their citizens were spending their money in Cleveland rather than in their suburban homes). It applied multipliers as high as nearly 3.0 to model indirect economic impacts in the arts.

But above all, it proposed the idea that the real economic impact of Playhouse Square would be felt not in retail spending but in real estate valuation. This had never been studied before in the arts, although there was plenty of evidence for the effect in Soho and elsewhere. In order to calculate the impact of the Playhouse Square Centre on real estate values, it was necessary both to establish base line data on commercial occupancy rates in the neighborhood and to establish controls based on similar neighborhoods elsewhere in downtown Cleveland. The results of the study were compelling: a clearly discernible increase of $1 per sf in market lease rates (from $9 to $10 per sf) and a 10% increase in occupancy rates of commercial space in the immediate area as compared to control neighborhoods. Though apparently modest, the impacts figured over one million square feet of space were in the millions of dollars annually.

The effects of the study on policy were dramatic. Not only did both public and foundation money begin to flow to the Centre (which now includes five theatres and a fascinating high-tech rehearsal and education centre), but Centre management determined that if they were the catalyst for such a growth in real estate value, they wanted a piece of the revenue generated. Playhouse Square created its own real estate development subsidiary which developed a parking garage, hotel, and several buildings worth of retail and office space. Playhouse Square is now the arts centre in the U.S. that earns the highest percentage of its total revenue – well over 90%. The REI study has been updated several times in the past 25 years.

Playhouse int the Square Theatre, Cleveland Ohio

In Canada, the best effort to date to develop this type of methodology has been the 2003 study "Beyond Anecdotal Evidence: The Spillover Effect of Investments in Cultural Facilities," written by two scholars from the Centre for the Study of Commercial Activity of Ryerson University, in conjunction with staff from Toronto Artscape, Inc. and the City of Vancouver. The study focuses on two Artscape projects in Toronto (one a mixed-use and the other an artist live/work space project) and the Stanley Theatre in Vancouver, which is far more interesting for our purposes. In both cases, the study attempts to measure a series of factors related to urban development as they relate to the arts development projects. These include the same factors studied by REI in Cleveland 25 years ago but also include indicators such as crime rates, building permits issued, demographic changes and retail spending.

Although the Stanley is a single theatre of 650 seats, the study attributes the project with catalyzing remarkable growth as compared to control areas elsewhere in Vancouver. Retail spending in the immediate area more than doubled in the few years since the theatre opened (an increase of $100 million), with one-third of all retail businesses reporting increased trade on performance nights against only 3% reporting increased trade on non-performance nights. The percentage of residents with college degrees grew by 25% following the opening of the theatre, average income shot up, and new business investment grew dramatically. The district has now gained some maturity and growth slowed with the economic downturn earlier this decade, but economic indicators remain significantly above those of control areas.

The study also tries to measure "soft" indicators related to the changing demographic "type" of local residents, using categories popularized by Richard Florida. This analysis is much less convincing. But the point is well taken. The catalytic role of a single theatre in this case impacted not only directly related business development but the entire cultural milieu of the neighborhood.

That is what successful arts centre development projects can do, given the right ingredients: an area neither so scary that audiences won't give it a chance nor so upscale already that there is no room for significant increases in property values, and both quantity and quality of programming that attracts people on a regular basis. While Vancouver is obviously a larger city than St. Catharines, with 400,000 people in the greater metropolitan area there is plenty of market to support a centre of the size proposed.

As we noted earlier, there is no way to quantify probable impacts in advance for a project of this type. But we can note the types of catalytic effects we expect:

1. Development stimulation. A successful project will encourage private developers to invest in new projects and to rehabilitate existing buildings. This is a certain result of any successful arts centre development, and it is the reason that policy must be implemented at the start to regulate nearby development so that it is symbiotic with the arts centre, provides ongoing revenue streams for the arts centre, preserves other arts facilities in the district, and allows for new ones to be created in mixed-use projects.

2. Job Creation. A successful project will undoubtedly stimulate job creation. Consider the growth in retail spending identified in an area of a few city blocks in Vancouver. $100 million in new retail trade will create at least one hundred new jobs, likely many more.

3. Retail stimulation. We have already noted a variety of direct retail effects likely to flow from the project. The Vancouver study focuses instead on retail development that has no direct relationship to Centre audiences other than that the developers seek to attract an educated, relatively affluent clientele, and arts centres provide it.

4. Population Demographics: population growth and retention and wage growth. The Vancouver study documents dramatic wage growth. Interestingly, the population in the study did not grow in size, but it changed in character, significantly increasing in levels of education and earning power. This is the "Soho" effect, and it typically translates directly to increased property value.

5. Commercial property values: occupancy rates and lease rates. There are millions of square feet of underused retail and commercial space along St. Paul Street. Every dollar increase in value per square foot means millions in annual revenue. Every new development of 50,000 gross square feet, even at current first class rates of $15 per square foot, will generate $750,000 in annual revenue, and if rates rise by $1.00 per year for five years, catalyzed by Centre activity, the increase alone is worth $250,000 in additional revenue. The successful development cycle attracts better educated, higher earning residents, who in turn stimulate new retail investment, which in turn attracts more residents and commercial investment.

6. Underlying property values. All of this translates directly into increased property taxes. Even a modest increase in assessed value along St. Paul Street and in the few blocks east and north of the Centre site would add millions of dollars annually to City revenues.

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There is no way to predict the level of these impacts definitively in St. Catharines, but the ingredients are clearly in place for the impacts to be realized. The density and quality of programming can be delivered if the Centre is operated with these goals in mind. The market can support the level of activity needed to catalyze this impact. The essential thing is to control surrounding development to ensure the long-term viability of the Centre, and to preserve the ability of other arts activity to flourish downtown.