



SUBJECT: Joseph Brant Museum transformation project

TO: Committee of the Whole

FROM: Finance Department

Report Number: F-33-17

Wards Affected: All

File Numbers: 125-01

Date to Committee: September 25, 2017

Date to Council: October 10, 2017

Recommendation:

Direct the Mayor and City Clerk to execute an expansion and interim license agreement between the City of Burlington and the Joseph Brant Hospital, subject to the satisfaction of the City Solicitor; and

Direct the Director of Legal to take ownership of the museum and lands on which it sits, more particularly described as Parts 1, 2, 3, 4 and 5 on R-Plan 20R-11386 (or Parts of them as may be determined appropriate), subject to existing conditions and easements, and subject to final negotiations with the Joseph Brant Hospital, Local Health Integration Network (LHIN) and Minister of Health approval; and

Direct the Mayor and City Clerk to execute any documents necessary to effect the severance and transfer of lands for the museum from the Joseph Brant Hospital to the City of Burlington, subject to the satisfaction of the City Solicitor; and

Approve additional funding of \$1,000,000 from the Tax Rate Stabilization Reserve Fund subject to a response from the Province regarding the additional funding request and \$386,891 from the Capital Purposes Reserve Fund towards the Joseph Brant Museum Transformation project; and

Authorize the Mayor and City Clerk to sign associated agreements for the Joseph Brant Museum Transformation Project and any other related documents, subject to the satisfaction of the City Solicitor and the Executive Director of Capital Works; and

Authorize staff to award Contract CW 17-15 for the Joseph Brant Museum Transformation project as outlined in Appendix A, B, C, subject to the execution of the

expansion and interim license agreement between the City of Burlington and Joseph Brant Hospital, subject to the satisfaction of the City Solicitor.

Purpose:

The purpose of this report is to provide background on the Joseph Brant Museum transformation project as well as report to Council on recent developments regarding land issues, senior government funding applications and forecasted operating budget impacts.

An Engaging City

- Community Building through Arts and Culture via Community Activities
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Background and Discussion:

Over the last number of years there have been many staff reports to Council regarding the expansion of Joseph Brant Museum (JBM). Report CW-23-16 provided a thorough update on the history of this project, a truncated version of key factors in that timeline is provided here, plus additional key events that have occurred since the time of that report.

2001	KNY Architects commissioned to provide a feasibility study
2005	Council approved \$25,000 to fund a fundraising feasibility study based on the concept plan approved in 2005 Business Development Plan Action Plan detailing a framework to proceed with the expansion
2009	Chamberlain Architectural Services Limited (CASL) hired as the design consultant
2010	Joseph Brant Museum expansion be suspended pending receipt of senior government funding
2011	Formal application to the federal government's Canada Cultural Spaces Fund
2013	Feasibility study prepared on the museum proposed capital expansion
2015	Tim Dobbie Consulting provided capital cost and financing as well as operating budget revenue and expenditures from 2015 to 2023
2016	Detailed Design process is underway, total cost of \$550,000 Funding announcement from the provincial government provides for \$500,000 in Trillium funding
2017	Funding announcement from the federal government provides for

	<p>\$4.479 million in Cultural Spaces funding</p> <p>Detailed Design complete</p> <p>Council approval of \$1 million in provisional financing from city funds should provincial funding not materialize</p> <p>Tendered for construction</p>
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Transformation Project

The following provides a summary of facts surrounding the project based on recent information and the 2015 correspondence from the Burlington Museum Board in working with Tim L. Dobbie Consulting Ltd.

- Total project cost updated to \$10.965 million (including detailed design completed at a cost of \$550,000)
- Total square footage of expanded site approximately 17,000 sq. ft.
 - 12,379 sq. ft will be added
 - 1,410 sq. ft. will be renovated
 - 3,000 sq. ft. will remain non-renovated space
- Estimated 18 month construction period, weather dependant
- Financing for the proposed project cost;
 - \$4,979,000 in senior government funding committed
 - \$2,479,109 fundraising from Joseph Brant Museum Foundation committed, not yet fully raised
 - \$2,120,000 City of Burlington committed
 - \$1,000,000 City of Burlington provisional financing (subject to formal response from Province on request)
 - \$386,891, unfunded amount

Strategy/process

Together the recent senior government funding announcements that materialized in 2016 and 2017, as well as the City's commitment to provide provisional financing provided support for the Joseph Brant Museum transformation project to continue moving forward. The aim of this report is to provide Council with further detail regarding matters that surround the project, provide a detailed analysis of the Museums' financial projections and outline any financial impacts to the City.

PROJECT IMPACTS

The following will outline issues regarding the overall project, construction and land ownership issues that provide a greater understanding on issues that effect the overall construction timeline.

Project Cost Estimate

Previous estimates of project cost for the expansion was approximately \$10.419 million, last updated in November 2016. With detailed design complete, a finalized cost is complete and the project is estimated to be approximately \$10.965 million, including 15% contingency. The revised costing estimate includes additional costs for heat for construction during normal winter months. Staff have also increased the contingency in the event there are further upward pressures on the cost as a result of unfavorable weather conditions and the potential risk of closing the tender late in the year. The majority of the concrete forming and pouring will be executed in the winter months. A number of the pre-qualification submissions suggested that these proposed construction activities during winter months will potentially delay the project. Further, if winter conditions were severe enough a complete shutdown may be warranted.

Construction Timing/ Tender Award

As detailed design is complete, the JBM Transformation project had pre-qualified six general contractors and went for tender on August 21, 2017. The tender closed on September 20, 2017. At the time of writing this report the tender process was still open, and further detail regarding the tender process will be provided at a later date in the form of Appendix A, B, and C to this report including an anticipated tender award recommendation. With the uncertainties of winter weather and conditions of senior government funding, Capital Works staff need to be in a position to mobilize and gain access to the site as soon as possible after tender award.

Land Issues

The museum expansion project presents an opportunity for the City and the Joseph Brant Hospital to correct an anomolous situation with respect to the ownership of the Museum and the land on which it currently sits, the following provides a brief history with regards to the land ownership.

1957:

- The Federal government made a grant of land and premises then occupied by the Brant House (predecessor of JBM) and the adjoining land to the Burlington-Nelson Hospital (predecessor of Joseph Brant Hospital).

- Grant of land consisted of the Brant House and approximately 6.9 acres of land in its immediate vicinity.
- Grant is subject to the condition that should the Hospital and its successors fail to retain, preserve and maintain the property as a historical property and museum, in perpetuity, title to the property would revert back to the federal government.
- Hospital is currently the owner of the Museum and the land on which it sits.
- Joseph Brant Hospital (JBH) is restricted by the conditions of the original grant of land and is unable to use the lands on which the Museum currently sits for hospital purposes.

1961:

- Hospital sells the contents of the Brant House (now the JBM) to the Town of Burlington.
- City of Burlington owns the Museum contents only.

1965:

- The Hospital and the City enter into a lease agreement providing the City with exclusive right of occupancy of the Joseph Brant House.
- City is responsible for maintaining the property in good state of repair, and is subject to the condition that it will preserve and maintain the property as a historical property and museum.

1994:

- Hospital, Museum and the City enter into a further agreement for the relocation of the Museum to lands still within the original grant of 6.9 acres to facilitate the future expansion of both the Hospital and Museum buildings, respectively.
- The agreement provided the following:

“That the Hospital will provide an exclusive use area for the Museum containing the parking lot, the existing house as relocated and sufficient space to provide a reasonable expansion. The parties agree that this area is Part 1 of Reference Plan 20R-11386.”

Present Day:

- On-going discussions with the Hospital to permit the Museum expansion to proceed.
- Hospital has proposed to transfer lands, in part, and the Museum to the City for the nominal amount of \$10.00.
- City will assume all costs associated with transfer, including the Hospital's reasonable legal expenses.

- Land to be conveyed to the City includes Parts 1-5 on Reference Plan 20R-11386, subject to existing conditions and easements although the definition of the actual parcel to be transferred is subject to final negotiations with the Hospital.
- Transfer is subject to the Local Health Integration Network (LHIN) and Minister of Health approval.
- The Museum expansion project may proceed in advance of the transfer of land.
- City will enter into an agreement with the Hospital to allow the project to continue to proceed, given that the timing of the transfer is not known. It includes the following relevant provisions; (the specific terms of this agreement are currently being finalized in consultation with the Hospital):
 - An interim license to permit the use of Parts 1-5 on Reference Plan 20R-11386 for museum construction in advance of land transfer.
 - Agreement of intention to pursue the land transfer including any additional agreements required to effect said transfer pending LHIN approval.
 - Provision to enter into a long term lease of the Museum by the City should the transfer of land not be approved.
 - Provisions for insurance and indemnities during the period of Museum construction in advance of land transfer.
- City and the Hospital will work together to have the restrictive covenants that remain on lands that have been dedicated for either Hospital or Museum use be removed if possible, requiring additional work with both the federal and provincial levels of government.

FINANCIAL IMPACTS (RISK)

Finance working closely with Museums' staff have thoroughly reviewed and analyzed the Museums' financial projections of an expanded facility. Below are notable areas that have been changed in the Museums' financial forecasts from the most recent financial projections provided to the City, and are discussed below. All other budget items not discussed are in line and a 2% inflation factor has been applied over the forecast period.

Revenues

Grants: The City of Burlington grant was projected to increase 2.25% annually in the forecast which has since been reduced to 2% annually to bring in line with the City of Burlington operating grants to other local boards. Furthermore, the Province of Ontario CMOG grant is removed from the financial forecast, as currently JBM is no longer eligible. Though the Museum will re-apply when the

Museum re-opens there is no guarantee of this funding of approximately \$30,000 a year.

Earned Revenue: With the expansion of JBM it is expected that the Museum will become a cultural destination, a place to host national exhibitions and the collection of artifacts. The Museum anticipates that the travelling exhibitions will become a contributor to increases in JBM revenues, hosting approximately 2 per year depending upon their duration. Information used to estimate revenue from travelling exhibits was based on information from the City of Kitchener that has had positive experiences.

The financial forecast is positive with respect to revenue growth as revenues have increased at a greater rate relative to changes in expenditures, compared to the historical average. There is potential to experience further increases in revenues as revenue projections appear to be conservative. If the exhibitions are successful the Museum also has the opportunity to offset exhibitions fees through exhibition sponsorship. Sponsorship revenues have not been included in the projections as it is difficult to ascertain, if and how much of the costs can be recovered, since specific exhibitions are not known and the inclination of donations through sponsorships is also unknown. Additionally, a formalized marketing strategy towards the broader community and school groups as well as appropriate pricing of exhibits and general museum admissions can positively impact the revenue outlook in the future.

Expenditures

Salaries, Wages & Benefits: As normal course of business (prior to the closure) the Museums' staffing complement is an average of 12 staff. To support expanded operations the Museums' have projected an increase of 3 staff. The total projected staff complement of 15 includes 8 full time and 7 part time staff which is equivalent to 13.6 FTEs. The changes since the 2013 estimates have resulted in an increase to the salaries budget of approximately 22% to \$881,000. This is a significant change from the salaries budget reported in the feasibility study and later in the June 1, 2015 memo to Council. The staffing projection presented within this report is realistic of the Museums' needs going forward. Though the Museums' have volunteer staff, their role is primarily to support and enhance the museum programs not directly manage or run the exhibits and / or programs. Finance staff in conjunction with the Director of Museums has reviewed the staffing projections and the associated costs put forward within this report.

Insurance: Based on more current information, the insurance cost has been revised up to \$5,200 annually from \$2,200. This cost includes the facility expansion, its contents and fine arts. This does not include the original building.

Based on the land issues noted above, if and when the hospital agrees to the transfer this will increase the insurance premium payable by JBM by an additional \$600 annually, to \$5,800.

Utilities: Based on consultation with the city's Capital Works department, the estimate for utility costs has been revised downwards to approximately \$17,000 annually, a reduction of 35% based on the facility design and its designation as a LEED design.

The above notes the areas of greatest difference from the reported June 1, 2015 memo. Revenue and expenditure projections have been adjusted in the financial forecast to get a clearer picture of the Museums' requirements as an expanded facility.

Asset Management

The 2016 Asset Management Plan (AMP) was brought forward to Committee earlier this year, and as part of the report staff noted pertinent variables that have a direct impact on the financing strategy and long term sustainability of the plan. One of those variables was new assets, that increase our annual replacement requirements.

With the JBM expansion, we are adding to the city's inventory of assets. The average annual capital life cycle costs are estimated to be an additional \$190,000 per year. The average capital need is based on a 1.7% reinvestment rate, similar to other facilities with a specified service target at a Facility Condition Index of 0.08 (Good condition) as recommended in the Facilities and Buildings Asset Management Plan.

The additional annual funding requirement of \$190,000 as a result of the expansion was not included in the Asset Management Funding strategy and will be included in a future update. In addition to the figure noted above, the current JBM structure has an annual life cycle cost as well, however, it is accounted for in the 2016 Asset Management Plan.

Similar to other city facilities there is an option of including a capital surcharge on admission prices, and in working with the Museums, staff will continue to explore this option in order to assist with the future capital renewal of this expanded facility.

Financial Matters:

In order to get a complete picture of the financial projections put forward for the Joseph Brant Museum expansion project it was necessary to review both Joseph Brant Museum projections as well as those of Ireland House, as it is the Museums' practice to attribute certain expenses and revenues 50/50 between both locations, of which the largest expenditure is human resource costs. As per the Museums Director this practice would continue, and as such certain increased expenditures have an impact on

both Museum operations. Since the business model is not being changed at Ireland House and they do not directly benefit from the increased traffic as a result of the expansion their financials are negatively impacted, mostly by the increase in staff, increasing the costs they will have to support.

Capital Budget Impact

Given that the expansion is new, at this time staff do not recommend an increase to the capital amount that the Museums' currently receive roughly in the amount of \$107,400 (2017 Budget). The local boards collectively have an agreement in place that divides the city's allocation of capital funding as per a specified and agreed upon percentage. Any change to the Museums' portion of capital funding would need to be re-evaluated with all local boards, as part of a future capital budget process.

Operating Budget Impact

Chart A below highlights the combined Museums' operating forecast over the next five years taking into account the changes that were noted earlier. Based on this, the net operating budget is forecast to be a net deficit of approximately \$208,000 in the first year of operation. This breaks down into a net operating shortfall of \$126,000 for JBM and \$82,000 shortfall for Ireland House. As mentioned above the shortfall for Ireland House is attributed to increased costs, due to the practice of assigning salary costs 50/50 between the facilities. The below chart assumes the City of Burlington grant is growing at 2% per year (2017 grant budget \$685,000) as is current practice, in order to arrive at a net operating impact.

Chart A: Museums' Financial Forecast

Joseph Brant and Ireland House Museum	Year 1* (000's)	Year 2 (000's)	Year 3 (000's)	Year 4 (000's)	Year 5 (000's)
Expenditures					
Human Resources	881	899	917	935	954
Operating	190	194	198	202	206
General & Admin.	98	100	102	104	106
Maintenance	52	53	54	55	56
Total Expenditures	\$ 1,221	\$ 1,245	\$ 1,270	\$ 1,296	\$ 1,322
Revenues					
City of Burlington Grant	699	713	727	742	757
Province of Ontario Grant	29	29	29	29	29
Operating Revenue	284	290	296	302	308
Total Revenues	\$ 1,013	\$ 1,032	\$ 1,052	\$ 1,073	\$ 1,094
Net Operating Budget Impact	\$ (208)	\$ (213)	\$ (218)	\$ (223)	\$ (228)

* Assumes full year of operation

The above represents a depiction of the anticipated operating costs to the city as a result of the Joseph Brant Museum expansion. This excludes the average annual capital funding requirement of \$190,000. As mentioned above opportunities exist to increase revenues and offset costs which may mitigate the financial impact to the city. The transformation project will be a different operating model than the Museums' have traditionally operated as such marketing strategies, sponsorship opportunities, and operating efficiencies may develop over time.

Over the past four years the city's operating grant to the Museums has funded approximately 76% of their actual expenditure. Keeping the grant increasing at 2% per year as it is in Chart A, given the expanded operations; the COB grant is funding approximately 57% of their annual expenditures. Given that the Museum is growing in size and operating a different business model it is expected that there will be an impact to the city to partially fund this growth. The proceeding section presents some options available to assist in funding the operating budget impact.

OPTIONS

Museums Reserve Fund: As of June, 30, 2017 the combined Museums reserve fund balances are as follows:

Chart B: Reserve Fund Balances

Museums Reserve Funds	As of June 30th 2017 (000's)
General Reserve Fund	\$ 41
Project Reserve Fund	258
Transformation Project Reserve Fund	873
Total Balance	\$ 1,171

As per reserve fund by-laws, the only reserve fund available to assist in supplementing Museum operations are the General reserve funds which currently have a balance of \$41,000. With the JBM closure there is potential for operating savings to be deposited in the reserve fund at year end. However, any funds withdrawn and/ or committed from the reserve funds represents an unsustainable source of funding, and depletes the reserve for future one-time funding type needs, therefore should not be relied on.

City of Burlington Grant Increase: An increase to the grant represents an on-going sustainable funding source for the Museums' to operate. The city would need to increase its grant funding to the museums' in the first year of operations by approximately 30%, equivalent to a change of \$208,000, in order for the

Museums to have a balanced budget going forward. This would result in a tax rate increase of 0.13%.

One-Time Funding: The city has the option to provide one-time funding, under the assumption that as the Museums gets their bearings they are able to take advantage of revenue opportunities discussed above which would offset the operating budget impact going forward. If the Museums' are not able to find efficiencies and/ or an increase in revenue then this option does not represent a sustainable revenue source, as well it depletes the city's reserve funds for costs that are not truly one-time in nature.

Recommendation:

Staff recommends a combination of the above options, in order to minimize the financial impact to the city and maximize incentive for the Museums to go beyond their current revenue projections. A strategy that phases an increase to the Museums' operating grant to a sustainable level with a combination of one-time funding has the advantage of minimizing the annual impact to the tax base as well as giving the Museums opportunity to work in the new operating model and explore marketing strategies, sponsorship opportunities and discover exhibition ideas appealing to the residents of Burlington.

Chart C below, presents a scenario which provides a combination of grant increase and one-time funding, assuming the grant increases from the 2017 budget amount of \$685,000.

Chart C: Recommended Option

	Forecast (000's)				
	Year 1	Year 2	Year 3	Year 4	Year 5
COB Grant	\$ 835	\$ 852	\$ 869	\$ 886	\$ 904
% Increase to COB Grant	21.9%	2.0%	2.0%	2.0%	2.0%
Net Operating Budget Impact	\$ (208)	\$ (213)	\$ (218)	\$ (223)	\$ (228)
COB Grant Increase	\$ 150	\$ 17	\$ 17	\$ 17	\$ 18
Net Cumulative Subtotal	\$ (58)	\$ (46)	\$ (34)	\$ (22)	\$ (9)
COB One-Time Funding	\$ 58	\$ 29	\$ -	\$ -	\$ -
Museum Opportunity*	\$ -	\$ 17	\$ 34	\$ 22	\$ 9
Net Surplus/(Deficit)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

*Opportunity for Museum to generate cost efficiencies and/or increase in revenue

The above represents one of a multitude of scenarios that are possible in apportioning a split between a base increase to grant dollars and one-time funding. The above scenario provides for one-time funding in the first year (\$58,000) and second year

(\$29,000) of operations totaling \$87,000 over two years. Furthermore, it provides an increase to the base grant of \$150,000 in the first year of operations bringing the total grant to approximately \$835,000, after which the base grant to the Museums' will increase by 2% (\$17,000) similar to all other local boards. Lastly, this scenario also assumes that the Museums' take advantage of revenue and/ or cost opportunities in order to mitigate the forecasted net operating deficit in future years to balance their budget. This scenario brings the City of Burlington operating grant to approximately 68% of the Museums' expenditures, compared to a historical average of 76%, increasing the city's tax rate by approximately 0.09% in the first year of operation. The following table provides some context with respect to other local boards and the city grant they receive.

Chart D: Local Boards

	2017 Budget COB Grant (000's)	Grant/ Exp Ratio*
Burlington Economic Development Corporation	\$ 1,315	80%
Art Gallery of Burlington	\$ 934	37%
The Burlington Performing Art Centre	\$ 971	25%

* COB Grant/ Operating Expenditures Ratio

It is important to note that the financial forecast contains subjectivity which is predicated on a number of variables that determines the overall financial performance of the Museums. Such variables include the type and number of travelling exhibits, number of visitors, ticket pricing, effective cost management, and marketing strategies to name a few. The financial impact to the city quantified in the above analysis represents a reasonable approach to forecasting the Museums' performance for the first few years of operations. Should the Museums' not be able to perform as estimated in the above scenario the net financial impact to the city would be greater.

Project Funding

Based on the updated costing, the below chart highlights the sources of funding currently committed towards the project.

Chart B: Project Funding

Federal Government: Cultural Spaces Grant	\$4,479,000
Provincial Government: Trillium Grant	\$500,000
City of Burlington Grant	\$2,120,000
Joseph Brant Museum Foundation	\$2,479,109
Total	\$9,578,109
UPDATED PROJECT COST	\$10,965,000
Unfunded Project Cost	(\$1,386,891)

As per the June 26, 2017 memo, Council approved \$1 million in provisional financing which staff recommend to be funded from the Tax Rate Stabilization reserve fund, until such time a response is received from the Provincial Government for additional project funding. Staff further recommend that the additional project funding shortfall of \$386,891 come from the Capital Purposes reserve fund. This results in a total city funding commitment of \$3,506,891. This will bring the city's share of project funding up to 32% of the total estimated project cost. As mentioned above the project cost includes contingency and additional costs to account for construction over the winter months. However, unforeseen weather conditions could have the potential to delay construction and increase costs, beyond what is presented within this report. As of June 30, 2017 the uncommitted balance in the Tax Rate Stabilization reserve fund and the Capital Purposes reserve fund would be approximately \$3.5 million and \$0.97 million respectively.

Public Engagement Matters:

There have been numerous instances of consultations with the public on the transformation project going back almost a decade. Two public open houses were held at Joseph Brant Museum and architect renderings of the new facility were on display inside Council Chambers and City Hall for a period of time.

The most recent engagement opportunities were during Canada Day festivities on July 1st and Joseph Brant Day on August 7, 2017. Both events, displayed several architect renderings of the proposed new facility and Museum staff were on hand to discuss the proposed transformation project. A sign-up sheet was available for people to provide

their contact information if they wished to receive future updates, and, business cards for both the Museum Director and Curator were readily available.

Furthermore, an exhibition was completed and installed at the Burlington Mall in May 2017. On June 3rd, the Museum participated in the Burlington Masonic Lodge's 300th anniversary of Freemasonry and a portable version of the 3-panel Burlington mall display was present highlighting the future expansion.

Conclusion:

The Joseph Brant Museum expansion supports an engaging city and enhances the cultural fabric of our community. The project has been fortunate to receive approximately \$5 million in senior government funding to date allowing it to continue to move forward. The Museums', like the city's other local board partners, receive annual grants from the city in order to assist in providing services to the community. The expansion of the Museum brings about an increased level of service to the community that comes with increased costs. Staff have recommended a phased strategy that assists the Museums' to reach a level of financial sustainability while also providing the Museums' with incentive to seek revenue opportunities to bridge the gap and balance their budget.

Respectfully submitted,

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Appendices:

- A. CW 17-15 Tender Details
- B. Tender CW 17-15 Joseph Brant Museum Transformation Project Award
- C. Project Financing Details

Note: Above Appendices to be distributed under separate cover following the tender opening on Wednesday, Sept. 20.

Notifications:

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Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.