

AGENDA FOR THE REGULAR  
NANAIMO ECONOMIC DEVELOPMENT COMMISSION MEETING  
TO BE HELD IN THE BOARD ROOM, CITY HALL,  
ON TUESDAY, 2011-MAR-08, COMMENCING AT 3:00 P.M.

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1. **CALL THE REGULAR NANAIMO ECONOMIC DEVELOPMENT COMMISSION MEETING TO ORDER:**
2. **INTRODUCTION OF LATE ITEMS:**
3. **ADOPTION OF AGENDA:**
4. **DELEGATIONS PERTAINING TO AGENDA ITEMS: (10 MINUTES)**
5. **CHAIR'S REPORT:**
6. **STAFF REPORTS:**
  - (a) Investigation of an Arm's Length Economic Development Corporation *Pg. 2-11*  
  
*Staff's Recommendation: That the Nanaimo Economic Development Commission recommends to Council to:*
    1. *direct the commission to proceed with the establishment of an Economic Development Corporation within the constraints of existing City funding levels and appoint the existing commission members as the interim board of directors; and*
    2. *request a staff report on the possible establishment of a progress board to assist Council in ensuring the Economic Development Corporation is fully accountable to the community.*
7. **DELEGATIONS PERTAINING TO ITEMS NOT ON THE AGENDA: (10 MINUTES)**
8. **QUESTION PERIOD: (*Agenda Items Only*)**
9. **ADJOURNMENT:**

# STAFF REPORT

REPORT TO: NANAIMO ECONOMIC DEVELOPMENT COMMISSION

FROM: I. HOWAT, DIRECTOR OF STRATEGIC RELATIONSHIPS

RE: INVESTIGATION OF AN ARM'S LENGTH ECONOMIC DEVELOPMENT CORPORATION

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## STAFF'S RECOMMENDATION:

That the Nanaimo Economic Development Commission recommends to Council to:

1. direct the commission to proceed with the establishment of an Economic Development Corporation within the constraints of existing City funding levels and appoint the existing commission members as the interim board of directors; and
2. request a staff report on the possible establishment of a progress board to assist Council in ensuring the Economic Development Corporation is fully accountable to the community.

## EXECUTIVE SUMMARY:

Considerable feedback was received from sectors of the community and members of Council that the current delivery model was no longer functional. An economic development strategic plan was developed and a stakeholder group for tourism services were both undertaken to address the concerns. It has been identified that we should consider a single delivery model to be more effective and efficient and that the benefits of an independent organization such as flexibility, without losing the important accountability back to Council and the taxpayers, is a likely outcome.

At the Nanaimo Economic Development Commission (NEDC) meeting dated 2011-JAN-20 Mayor Ruttan introduced the opportunity to consider moving towards an arm's length economic development corporation. Following the discussion, the NEDC Board moved to support in principle the new arm's length corporation and directed staff to report back to the Commission on many of the details that arose during the discussion.

## BACKGROUND:

The City's Economic Development department was established in the 1980's. Over the past two decades the department has grown to meet the demands of the changing demographics and economic conditions in Nanaimo. In the past couple of years, a growing sentiment in the community is reflecting a need for change. The Economic Development Commission was established and a new economic development strategy was developed to help us set a new course.

In 2004 a Union of British Columbia Municipalities (UBCM) survey revealed that the members ranked economic development as the number one priority for their communities and in more recent years with the global economic crisis, it's more top of mind than ever. In April 2010, UBCM published, "Evaluating the Economic Development Role of BC Local Governments". In this document, it lists the eight criteria influencing the effectiveness of delivery models, which are:

- amount of staff
- quality of staff
- financial commitment
- contact with stakeholders
- support of Council
- support of community
- evidence of partnerships
- presence of a regional approach

In evaluating our existing model against the eight criteria, we have done satisfactory, but certainly could do better. More specifically, the function has been challenged by a perceived lack of community support (reflected in Council perceptions) and the very real lack of regional support. It is important to try to address these challenges if the function is to be as effective as possible.

#### Support of Council:

The Economic Development department has generally had a low profile in the community. While satisfactorily funded, its specific objectives, strategies and initiative were generally "below the radar" for much of the public. Staff believes that this reality has resulted in a structure where many of the current Council are perceived to not be in support of the function. Mayor Ruttan has championed efforts to turn that negative view around with the creation of the NEDC.

#### Support of Community:

In retrospect, community support for the function was likely weak due to poor communication to the public about what the department is doing. Sectors of the business community were well informed and supportive, but other parts of the community did not understand what the department was doing and why it was spending tax dollars on the function. A component of the business community in recent years has been critical of the delivery model and the lack of a regional focus.

#### Presence of a Regional Approach:

Economic Development in the City has always been solely funded by the City taxpayers. While service from the Economic Development office does bleed into the Regional District because of the funding model the primary focus has been within the City boundaries. A recent example of Regional collaboration was the "Shared Vision Shared Goals" grant application to the Province. The Regional District has in the past considered various models without success. With the NEDC now considering an arm's length corporate model, Regional District staff has been approached to consider commencing discussions with the SD #68 electoral areas and Lantzville to participate in the new model. An independent Economic Development Corporation may be better able to meet the needs and service requirements of Regional participants than can the City.

### DISCUSSION:

Mayor Ruttan introduced an opportunity for the NEDC to discuss moving to an arm's length economic development corporation. The advancement of this topic came about for several reasons.

1. Sectors of the business community have been discussing this model for the past three years.
2. The Tourism Strategy Committee has been reviewing tourism services delivery for the past four months and concluded that the ideal delivery model would be a single arms length entity.
3. The Strategy suggests the structure be reviewed and given that we have not yet hired an EDO it seemed to be an appropriate opportunity to commence this discussion.

In a municipal and regional context there are two primary delivery models:

1. An internal model which is an economic development department that may or may not receive its strategic direction from a commission or committee.
2. An arm's length economic development corporation.

In considering moving to the corporate model, the following factors need to be considered:

- operational costs and access to external funding
- relationship with the business community
- relationship with local government
- administration and regulation
- co-location with other agencies
- provision of incentives – ability to “make deals”

### Operational Costs and Access to External Funding

Overhead costs are higher. The City's current budget is \$1.357 million; rent and accounting are not included in that budget. Information Technology (I.T.) is partially funded through an overhead charge per computer/printer. The City will offset the accounting and I.T. costs by continuing to provide this support until the Corporation can sustain these costs independently. Rent, at this time, is still an unresolved additional cost. Start-up costs can be offset by the City transferring the assets of the economic development department to the corporation. This includes computers, phones, photocopiers, printers, and office furniture.

A pro forma budget is outlined below based on assumed preferred organization chart, salary estimates and current service delivery. Note that it exceeds the current allocation of funds provided by the City and we are assuming no further funds are available from the City for this endeavour. The overage comes from additional payroll costs, and lost membership revenue from Tourism Nanaimo. Until the issues relating to new revenue opportunities from the Region, hotel tax, and partnership opportunities are addressed, cuts to the proposed budget will be required to operate this model. It will be one of the board's first tasks to set the new

budget within the existing funding constraints, likely meaning one or more of the proposed positions will have to be held vacant for the time being.

payroll	760,000
marketing and communications	250,000
tourism development	230,000
building rent	40,000
building expenses	15,000
computer support	13,000
contract services/consulting	60,000
travel	18,000
professional development	10,000
memberships	10,000
hospitality	16,000
telephone	5,000
photocopier	10,000
miscellaneous office	60,000
<b>Total</b>	<b>\$ 1,497,000</b>

It is believed that the corporate model will be more attractive to a regional approach and could result in funding from regional district participants.

The changes in the tourism model results in a loss in membership revenue of approximately \$70,000 and at this time there is a potential loss as a result of sales of advertising. Advertising sales will likely be reactivated and membership fees revenues may be partially recouped through a stakeholder based model. The Nanaimo Accommodation Sector Association (NASA) have been working with the City and Tourism Nanaimo and are supportive of the corporate model. NASA has indicated that they have a desire to implement a "hotel tax" with conditions on spending. This revenue is expected to be approximately \$400,000 per year.

UBCM indicates that the corporate model may have greater access to non-traditional sources of funding through partnerships, sponsorships, for profit ventures, etc.

#### Relationship with Business Community

The City enjoys a good relationship with its business community and as a result of the respect of the business community's opinion that Mayor Ruttan has initiated this discussion.

The corporate model's EDO is viewed more as an advocate for business and less part of the regulatory body. This has been a problem in the past for the City and as a result, Council

may not have been aware of the economic development impact of a particular initiative before them. Privacy and confidentiality are of the utmost importance to current businesses, new investors and potential new businesses considering locating to Nanaimo. The corporate model can provide greater assurances of privacy and confidentiality. A downside to this model is the loss of direct access to the decision-makers in the City. If the decision is to proceed with a corporate model, this must remain top of mind in the development of the new structure and the hiring of an EDO.

#### Relationship with Local Government

This is the area of the corporate model that will make or break the success of economic development under this delivery model. In interviewing communities, organizations, and provincial representatives, this category ultimately dictated success. It is more difficult to have effective communication with local government and input into relevant local government policies. Physical separation of the economic development office can exacerbate communication problems. There is less direct oversight by local government, which can lead to a sense of disconnect and consequent loss of political support for the economic development organization.

The communities reviewed during this study all had observations of where they had successfully overcome these concerns. Ensuring that the structure is established that continues to provide a link to the City is critical. This link is typically the appointment of the City Manager or his/her designate to the corporation's board. The appointment of the Mayor or a Councillor to the board was met with mixed results and varying opinions on success. The receipt of confidential information as a board member puts the Mayor or member of Council in a difficult situation. It was clear that the appointed staff member was expected to provide the strong communication link both back to the City and from the City to the corporation. Hiring the right EDO/CEO and ensuring that the City Manager can have a strong, respectful, open relationship was also cited as a key to success of the corporate model. Structures will need to be in place to ensure strong communication links with the City's Community Safety & Development Division.

Having the independence from local government control, reduces the influence of politics on the economic development functions' decision-making process.

#### Administration and Regulation

The corporate model's independence from local government can lessen the administrative burden and allow a more rapid response to opportunities. However the necessities of running an organization takes up a certain amount of time and cannot be overlooked. As stated under operational costs, the City's Finance Department can continue to provide accounting services to the corporation and the I.T. Department can continue to provide technical support.

The corporation will need to continue to have access to components of the City's database. In particular, the land and business license database. Appropriate security measures and network access will have to be established.

Given that the City already has the function in place and the department's staff are members of CUPE, it adds a level of complexity that other communities establishing this function from the beginning do not have to address. Four City staff are affected if the corporate model is to

be considered. The new corporation will be required to organize its employees under CUPE. The City and CUPE executive are having extensive discussions with the affected staff and are working in a very positive manner to support this initiative and provide the corporation with the necessary flexibility it needs to operate effectively.

Tourism Nanaimo has been notified that funding for Tourism Nanaimo is being reallocated to a different delivery model at the end of 2011. As a result, Tourism Nanaimo has issued working notice to its staff and advised its membership of the loss in revenue and that the City's, along with their partners', intent is to create a new delivery model for tourism support services. If the corporation proceeds, the services previously provided by Tourism Nanaimo will be the responsibility of the corporation. The new EDO/CEO will be encouraged early to establish the skill set needed to deliver those services under his/her new model and consider the applicability of the workforce previously employed under Tourism Nanaimo. If the membership vote to cease the operations of Tourism Nanaimo, the corporation will assume the assets of Tourism Nanaimo, which includes the liabilities associated with a photocopier lease and a van. City staff is currently working with Tourism Nanaimo's transition committee to address the issues that are arising out of this decision. During this transition, the City may incur some one-time costs as a result of winding down the operation.

#### Co-Location with Other Agencies

Co-location allows for greater coordination of activities and the reduction of overhead costs. The merging of Economic Development and Tourism Nanaimo will already realize these benefits. Depending on the office space available in downtown Nanaimo and at what cost, possible partners that could co-locate with this office would be the Downtown Nanaimo Business Improvement Association, Community Futures, and MISTIC.

One of the agencies reviewed, moved the City's business licensing into its location, which also provides another vital communication link to the City.

#### Provision of Incentives – Ability to "Make Deals"

The arm's length separation of the function into a corporation, frees the organization from the constraints of government policy to think more creatively. This does not mean that the corporation will circumvent policy, but can create an environment that identifies what could be done and instigates a dialogue with the City of how it could fit into existing policy or the initiation of a policy review as directed by City Council. This freedom to be creative extends to dealing with potential investors, the possibility of owning land, and the opportunity to sell land but not necessarily to the highest bidder, but the one that can demonstrate the greatest economic value to Nanaimo. If the corporation is established before a hotel deal is struck for the conference centre, the City and the corporation should investigate the benefits of transferring this land to the corporation to carry out the attraction of a hotel.

### Case Study

There are several cities and regions successfully running economic development corporations. For numerous reasons I chose to use Prince George as the case study. Of all of the other successful models, Prince George has many of the same characteristics of Nanaimo, which are:

- It has a similar population base.
- It is a regional centre.
- One of its core business opportunities is logistics/freight, as is Nanaimo's.
- UNBC is a major economic opportunity for Prince George, as is VIU to Nanaimo.
- Both communities have a strong history in the resource industry.
- The Ministry Community, Sport, and Rural Development recommended Prince George.
- It is a city-owned corporation rather than a regional model.
- Initiatives Prince George (economic development corporation) has evolved into a very effective model.

### Progress Board

Prince George established a progress board that established benchmarks to measure their performance in economic, social and environmental performance indicators and provides strategic advice on the ways to improve the performance of the City and the surrounding region. Prince George's model also uses the progress board as the nominating body for itself and for the board of directors of the economic development corporation. Their board is made up of volunteers from the community.

In the City of Nanaimo's case, it is recommended that a similar structure be put in place to monitor the performance of the economic development corporation and be the nominating body for the economic development corporation board. City Council may wish to consider broadening the scope of the progress board to reflect the model Prince George has adopted; however, that discussion is outside the scope of this report. A City of Nanaimo Progress Board would follow the principles and mandate established by Council. Administrative support could be provided by the City Manager's Office and if we are to follow a similar model to Prince George, the Mayor would co-chair the progress board.

### Governance

The Prince George model has a voting board that is entirely made up of some of the top business community members. It has ex-officios made up of the President of the University, CEO of the Health Authority, CEO of the Chamber of Commerce, the CAO of the City, and the CAO of the Regional District. The board is absent of elected officials. A common theme among the successful models is the absence of elected officials, but not for a lack of trying. Some models continue to include elected officials with varying degrees of success. The common problems that have occurred are:

- Concerns of inequality from Councillors who do not participate on the board.
- One Councillor being "in the know" because of their involvement on the board.



- The Councillor is placed in a predicament of being required to not share privileged information.
- The Councillor is bound by his/her oath and the rules of the *Community Charter*, which has the potential to compromise the Councillor's role and potentially place him/her in a conflict of interest.

A proposed organization chart is attached as Appendix A.

#### Accountability

Accountability is a large concern for Council when proposing to turn over \$1.3 million dollars annually to an arm's length agency, particularly when the City has been critical of the funding of arm's length agencies in the past, such as the DNPS, Tourism Nanaimo, etc. Successful models are aware of the need for accountability. Typically, successful cities sign three to five-year contracts with their corporation, guaranteeing the funding levels during the term; however, a budget presentation is provided to the shareholder (Mayor and Council) every year. Further, quarterly reporting is provided to the shareholder, as is an annual report. The performance indicators established by the progress board and the subsequent monitoring against those indicators provide further accountability to the shareholders of the corporation.

Further, Prince George also adds biweekly meetings between the EDO/CEO and the City Manager and City staff.

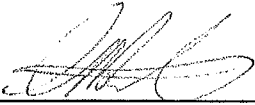
#### Conclusion

There is no one model that is better than another. The decision is whether the current model is still the best model to take Nanaimo forward and will the community and Council buy-in and support this new delivery model. The perception of the City's department delivering economic development over the past couple of years has been tarnished and whether that perception could be overcome with a staffing change (i.e. a new Economic Development Officer) is hard to predict.

There are hurdles to the existing model that have exacerbated our current circumstances, which are:

- Elected officials, particularly as a governing body, generally do not have the background in economic development and tourism although the community expects them to.
- Confidentiality, a strong value in the business world, is difficult to protect in a local government context.
- Difficult for a local government to provide strong support to a proposed development that will generate strong and lasting economic development opportunities when the local government is expected by the community to be a neutral adjudicating body.
- Challenging to defend business practises/activities that are effective tools in the private sector and in economic development/ tourism, but deemed questionable in a government context.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'I. Howat', written over a horizontal line.

I. Howat,  
Director of Strategic Relationships

IH/jk/hp  
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# APPENDIX A

