

Summary of BDO Report (“Feasibility Review of New Museum Business Plans, December 7, 2015) and the NVMA Commission’s Response (“Response to Feasibility Review of New Museum business Plans, January 6, 2016)

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Background

- NVMA retained Lord Cultural Resources to produce a Business Case and Feasibility Study for a new Museum in the Pipe Shop in 2013. (Lord Cultural, based in Toronto, is one of the world’s largest museum planning firms.)
- At City Council’s request, NVMA prepared an updated financial plan and submitted it to City staff in 2015.
- Both the Lord Study and the NVMA Financial Plan were based on the principle that there would be *no net increase in annual municipal contributions* to the North Vancouver Museum & Archives Commission in the future.
- City of North Vancouver retained BDO Consulting to prepare an independent assessment and review of the Lord Study and the Five Year Financial Plan for the new Museum in the Pipe Shop.
- Whereas studies conducted over the many years of planning for the new Museum have shown the project to be an ideal facility to broaden the success of The Shipyards precinct, low risk in terms of financial operation, and of significant economic benefit to the people and businesses of North Vancouver, the BDO Report took a pessimistic view.
- BDO said “reviews such as this, by their very nature, take a pessimistic view and consider risk” (p. 9). BDO concluded that the Museum’s business cases are “high risk, both in terms of the overall commercial model and the financial viability of the project” (p.6) and said “the venture as currently modelled is too risky to contemplate” (p. 10 side-bar).

Side-by-Side Summary of Reports

BDO REPORT	NVMA RESPONSE
“Whilst there may be a number of options that could be considered in addition to the current structure of the NVMA and the Lord Study plans, as currently constituted it is difficult to create a commercial case for pursuing the plans.” (p.7 side-bar)	NVMA is not a commercial entity. It is a bi-municipal agency that is not intended, mandated or designed to generate a profit.
“This analysis is purely financial. However, the financial analysis back up other more qualitative analysis (assessment of similar projects and the commercial attractiveness of the venture.” (p.10 side-bar)	The analysis is extremely narrow and does not consider broader benefits such as the new facility’s community economic impact, achievement of Official Community Plan goals, contribution to education for reconciliation with First Nations peoples, offering a platform for community dialogue and providing learning opportunities for people of diverse ages and backgrounds.
“It is very difficult to get a historic museum profitable within Vancouver.” (p.7)	Public museums, by definition, are not-for-profit organizations and are not expected to generate a profit. Rather, governments recognize the value of good museums to their

	<p>communities and invest in them on an on-going basis.</p> <p>NVMA has a mandate for a zero net income. Municipal contributions are based on providing the funds to cover the expected difference between total forecast expenses and other forecast revenue sources. Planning is done on a break-even basis.</p>
<p>NVMA’s plans ignore the possibilities of saving costs from consolidated buildings and staffing (p. 6).</p>	<p>This is true but ignores the reality of NVMA as a bi-municipal organization which from the outset was <u>directed</u> by its parent municipalities to create a new Archives building in the District (now a reality through capital funding from the District) and a new Museum building in the City (yet to be provided).</p>
<p>“The plan in the Lord Study ... shows deficits in all five years. The NVMA plan ... shows surpluses, but mainly because of increased fundraising activity that we are not seeing evidence for within the local market.” (p. 8)</p>	<p>The word “deficit” does not appear anywhere in the Lord Study. The Museum’s financial projections, as in virtually every other not-for-profit public museum, include amounts to be covered by fundraising.</p>
<p>“The lack of a compelling case for corporate sponsorship means that the plans will need to concentrate more on individual and family donation, which is a more difficult task and therefore presents higher risk to the City...” (p.8 side-bar)</p>	<p>A report to Council from Optimus Fundraising, dated January 20,2016, reported that the Campaign for the New Museum had raised \$801,000 from 7 corporate donors, with an additional \$600,000 in gifts in process from 2 additional corporate donors.</p>
<p>“Typically, museums rely heavily on donations from philanthropists, corporations and the public, in general to assist with funding operations. ... Insufficient evidence exists to confirm that the New Museum will be able to attract donations away from other cultural centres, especially with the use of a general history museum that covers a relatively brief period in history.” (p.20).</p>	<p>The Optimus Report shows at the present time, without any staff members responsible for fundraising or a high-profile location or a building that meets even basic visitor service standards, that the Commission and the Friends Society have raised an annual average of \$63,400 for the past ten years through grants, sponsorships and donations. This represents approximately 1/3 of the new Museum’s needs. Amounts in the new Museum budget covered by fundraising and earned revenue are below average for Canadian heritage institutions (fundraising = 11.3%% vs. 13.1%; earned revenue = 25.7% vs. 26.7%).</p>
<p>Table 1 shows the “10-year impact of a plausible downside case that models a 10% dip in variable revenues and expenditure” (p.9).</p>	<p>This stress test is extreme. NVMA would never allow a cumulative 10% revenue decrease and 10% expense increase to continue year upon year for 10 years. Within six months of such a situation, corrective action would be taken.</p> <p>NVMA has a solid record of financial management and has carried an operating reserve for 10+ years.</p> <p>Revenues and expenses for the new Museum will be different than forecast—there will be some favorable and some unfavorable</p>

	<p>variances—and will need to be managed to achieve at least break-even. NVMA’s Financial Plan identified ten possible response strategies to increase revenues and decrease expenses.</p>
<p>“Our analysis shows that historic museums typically struggle within the Vancouver market.” (p. 7 side-bar) “Museums within and around Vancouver do not appear to be routinely financially viable...” (p.15)</p>	<p>On the contrary, municipal museums in New Westminister, Surrey, Richmond and Delta are in various stages of expanding.</p>
<p>“We studied two museums in Vancouver—Storyeum, based in Gastown and The Museum of Vancouver, based in Kitsilano. There is striking similarity with the insight the two examples provide.” (p.15 side-bar)</p>	<p>Storyeum was not a museum; it was a privately-owned theatrical business. It cannot be used credibly to provide insight or forecast the success of a Museum at The Shipyards. The Museum of Vancouver is more similar, however it differs from North Vancouver’s Museum in significant ways that make it a poor comparator (see below).</p>
<p>Storyeum (a defunct “theatrical adventure” located below ground in Gastown) is “a good proxy to provide insights when considering the likelihood of the New Museum being a success.” (p. 7)</p>	<p>Storyeum was a private, for-profit venture with a large cast of paid performers and was largely dependent on admissions revenues (vs. the less than 12% average the new Museum projects from admissions revenue). Nevertheless, despite a steep admission price of \$21.95 (vs. our proposed \$7.00) Storyeum did attract 200,000 people a year, but was unable to cover its high cost base.</p>
<p>“The Museum of Vancouver, whilst being the oldest local historical museum in the country, is currently unprofitable and continues to be supported financially by the City of Vancouver.” (p.15)</p>	<p>Like NVMA, the MOV is a civic museum supported financially, but not exclusively, by its parent municipality.</p> <p>It is a poor proxy for the new Museum, especially in terms of the quality of its location. Unlike the new Museum in the Pipe Shop, MOV has an out-of-the-way location, is relatively poorly served by transit, has no near-by visitor amenities (like food services and retail shops) and is located in a facility (shares with the H.R. MacMillan Space Centre) without an independent identity.</p>
<p>“Another comparable in the local market for city museums which also illustrates the significant risks facing the New Museum is the Museum of Vancouver.” ... Factors contributing to the Museum of Vancouver’s financial position may include: ... a lack of interest in content.” (p.17).</p>	<p>To the contrary, in recent years MOV has re-branded with a mission “to deepen people’s understanding of Vancouver through stories, objects and shared experiences.” Its exhibits routinely win national awards and it has enjoyed an increase in visitation of 57% over ten years.</p>
<p>“The New Museum does not present a compelling commercial case ... we see the proposed development of the North Shore to be an evening and weekend destination for residents ... a museum does not appear to be the obvious commercial solution in that</p>	<p>To the contrary, the Council-approved site planning principles for The Shipyards define it as a family-friendly people place that is programmed year-round, includes a mix of small vendors and businesses, is culturally rich and “historically rich, showcasing the</p>

<p>context.” (p.7)</p> <p>The proposed Shipyards development is a modern destination that encompasses high end retail and dining, along with innovative office space.” (p.15)</p>	<p>history of North Vancouver.”</p>
<p>“There is a significant risk surrounding the appeal or attraction of the content of the New Museum and given the relatively short historical timeframe (City incorporated 1907 and District incorporated 1891) and thus the relative age of the content, we consider that the New Museum would struggle to attract initial visits and repeat visitors.” (p.27)</p>	<p>A municipality’s date of incorporation does not correlate with its ability to attract attendance or to the quality of its programs and exhibits. In addition, first Nations and settler history on the North Shore pre-date 1891.</p> <p>A 2015 survey by local market research firm, Lux Insights, found that 79% of respondents were likely to visit the new Museum and 76% said they would visit more than once.</p>
<p>“We see the plans as high risk, especially as the design of the building (and capital cost) will be impacted by the amount of space given to childcare and childrens’ activities.” (p. 28)</p>	<p>No portion of the new Museum is devoted to “childcare”. Rather, the museum contains a children’s gallery occupying less than half of the second floor space. Data show that children’s museums generate substantially higher levels of attendance, especially repeat attendance, than do traditional history museums.</p>
<p>As a condition of receiving federal funding [\$2.2 million has been pledged], “...the City would be committed to keeping the facility open for ten years, so there is no opportunity to close the New Museum if it is unprofitable.”(p.13)</p>	<p>Federal funding necessitates only that recipients of funding have a 10-year facility lease. It does not preclude having a lease between the NVMA and the City that addresses what would happen in the event of on-going losses by the NVMA.</p> <p>The NVMA cannot be compelled by the federal government to continue operating in the Pipe Shop if this results in ongoing financial shortfalls. There is also no evidence that the Federal Government would require a return of the grant after the new Museum had been built in good faith.</p>
<p>“At the date of this report there is no evidence to guarantee the \$5 m capital required will materialize.” (p.8)</p>	<p>On January 25, 2016, the NVMA Commission reported that its fundraising campaign (received and pledged) stood at almost 84% with an additional 6% in process. The only missing piece was the absence of 10% that had been forecast as a provincial contribution.</p>
<p>“The New Museum has never operated while the benchmark data set used to develop the New Museum’s assumptions include actual historical results of other museums each with their own characteristics.” (p.35)</p>	<p>The Lord Study used industry standard benchmarking analysis to inform projections in the areas of attendance, operating revenues and expenses. Benchmarking data was derived from a variety of sources including government surveys and interviews with administrators of comparable museums.</p>
<p>BDO says the new Museum project is “too risky to contemplate” (p.10 sidebar)</p>	<p>Ted Silberberg (Senior Principal, Market & Financial Planning, Lord Cultural Resources), a world expert in business feasibility planning</p>

	<p>for museums, said (e-mail, Dec 4, 2015): “...this project really is low risk and I am surprised that there is any doubt about that. I believe the revenue projections are easily achievable given the experience of other Canadian museums/heritage organizations in generating income from a combination of earned, government and private sources and, as a fall-back, there are always opportunities to reduce operating expenses if necessary.”</p>
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