



VANCOUVER  
CONVENTION CENTRE EXPANSION  
PROJECT

**2007/08 - 2009/10 Service Plan**

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## Table of Contents

Message from the Board Chair to the Minister Responsible .....	iii
Organizational Overview .....	1
Expansion Project Overview .....	2
Corporate Governance .....	3
Other Projects Overview .....	5
Strategic Context .....	5
Planning Context .....	6
Risk Factors and Mitigation .....	6
Objectives .....	7
Goals and Strategies .....	8
Performance Measures and Targets .....	9
Linkages to Government Strategic Priorities.....	11
Summary Financial Outlook.....	11
Summary Financial Outlook (\$ thousands).....	12

## Message from the Board Chair to the Minister Responsible

### To the Minister of Tourism, Sport and the Arts

On behalf of the Vancouver Convention Centre Expansion Project Ltd. (VCCEP) Board of Directors, I am pleased to present the Corporation's Service Plan for the fiscal years 2007/08 through 2009/10.

VCCEP was incorporated on February 13, 2003 to design, construct, and commission an expansion to the existing Vancouver Convention and Exhibition Centre, including a connector between the new and existing facilities, and to undertake renovations within Canada Place.

This Project will provide much needed expansion of convention facilities in the Lower Mainland. On completion, the expanded convention centre will feature 722,000 square feet of function space and 384,000 square feet of back of house and support space for a total of 1,106,000 square feet. The expanded Centre's capacity can accommodate conventions of up to 10,000 delegates (or multiple smaller ones simultaneously) and could operate at close to one million delegate days per year.

VCCEP represents a significant investment in tourism for the province. The total budget for this Project has been revised to \$623.1 million from \$615 million for the expansion, upgrades of the existing Vancouver Convention and Exhibition Centre, and the interconnection of the existing and new facilities. The additional \$8.1 million is required to meet the escalated cost of contracts that must be committed to by the end of February 2007, to meet the Project's current schedule.

In response to the significant cost escalation and skilled labour availability pressures persisting in the Vancouver construction market, VCCEP is undertaking a comprehensive review of its construction budget and schedule.

Preliminary estimates of an updated Project cost are in the range of \$800 million depending on the contract model selected.

The 2007/08 – 2009/10 Vancouver Convention Centre Expansion Project Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The Board is accountable for the contents of the plan, including the selection of performance measures and targets which are based upon the progress of the Project to date and an assessment of the environment in which VCCEP is proceeding with its design and construction of the Expansion Project. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions, and identified risks as of February 12, 2007 have been considered in preparing the plan. The Board is accountable for ensuring the Vancouver Convention Centre Expansion Project Ltd. achieves its specific objectives identified in the plan and for measuring and reporting actual performance. The performance targets in this plan have been determined based on an assessment of Vancouver Convention Centre Expansion Project Ltd.'s operating environment, forecast conditions, risk assessment and past performance.



Ken Dobell, Chair  
VCCEP Board of Directors

## Organizational Overview

The Vancouver Convention Centre Expansion Project Ltd. (VCCEP) is a Provincially held limited corporation incorporated under the *BC Business Corporations Act*. VCCEP was established to design, build, and commission the Vancouver Convention and Exhibition Centre Expansion Project.

VCCEP reports to the Minister of Tourism, Sport and the Arts through a Board of Directors who provides direction and leadership to the Corporation. (See Corporate Governance section for further details on Board structure.)

The Board of Directors has adopted the guiding principles included in the provincial government's Governance Framework that provides an understanding of the roles and responsibilities of all parties that are part of the Crown corporation governance environment. The Board of Directors appoints a President and Project Director to manage the completion of the Expansion Project in accordance with VCCEP's corporate principles and policies.

VCCEP continues to consult with BC Pavilion Corporation's (PavCo) convention centre management team (VCEC), on all design matters potentially impacting future operation. To ensure communications between the two Provincial companies are effective, VCCEP's Board continues to facilitate joint Directors' meetings.

VCCEP currently has four full and part-time employees and also utilizes the equivalent of 11.5 FTE's of contract project management and administrative staff.

The Corporation's Project office is located, and may be contacted, at:

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## Expansion Project Overview

The scope of the Project includes: the design, construction and commissioning of an expansion to the existing Vancouver Convention and Exhibition Centre, a connector between the new and existing facilities, and renovations to facilities within Canada Place.

The Project Budget is \$623.1 million with contributions confirmed as follows:

	<u>(\$ in thousands)</u>
Province of BC	\$280,600
Government of Canada	222,500
Tourism Vancouver	90,000
VCCEP-Generated Revenue	30,000 <sup>(1)</sup>
<b>Total</b>	<b>\$623,100</b>

*<sup>(1)</sup> VCCEP has negotiated revenue generation through a number of supplier and commercial programs. At the direction of the Shareholder, the majority of this revenue may be taken either as upfront payments to reduce the Provincial contribution, or, taken over a period of years to potentially offset annual operating costs of the Convention Centre. VCCEP is forecasting that up to \$70.0 million of revenue could be realized in up-front payments or in a commensurate amount over an operating period.*

The Expansion Project is scheduled for completion by the end of 2008. Recent challenges may delay substantial completion into the first quarter of 2009, but every effort is being made to maintain the target date. The complete Project Schedule recognizes that the existing facility will then undergo modifications and the entire facility will be made available as the international broadcast and media centres for the 2010 Winter Olympic and Paralympic Games. The Schedule is regularly reviewed and will be updated throughout the life of the Project.

Since our last report in January 2006, VCCEP has made progress as follows:

- Completed detailed design and construction documentation.
- Completed site preparation and ground densification activities and off-shore compaction grouting.
- Completed Pile driving in May 2006.
- Completed 70% of the Expansion's concrete foundation.
- Commenced structural steel erection.
- Completed the Earth Retaining Structure Project (City of Vancouver parkade) in June, 2006.
- Tendered 85% (January 2007) of its construction requirements.
- Completed negotiation of agreements for Communications and Integrated Building Systems contracts under its revenue generation program.
- Realized independent third party contributions to the Project to aid in the leveraging of the public's investment in the Project.
- Received an award from the Association of Professional Engineers and Geoscientists of BC for innovative marine habitat design.

VCCEP is currently undertaking the following:

- Finalizing agreements with the Commercial Development proponent.
- Renewed negotiations with its Construction Manager on the transfer from VCCEP of the remaining construction cost and schedule risks.
- A re-examination of the impacts of persistent market place construction cost escalation and skilled labour supply challenges.
- Preparing to report to Government on the outcome of these activities.
- Continued exploration of opportunities for offsets to construction cost increases.
- Continued exploration of options to maximize the sustainable attributes of the new facility.
- Continued exploration of options to leverage the return on the public investment in the facility by identifying third party contributions towards enhancements to the facility.

## **Corporate Governance**

### MINISTER RESPONSIBLE

Honourable Stan Hagen, Minister of Tourism, Sport and the Arts

The Corporation maintains an effective working relationship with the Minister through monthly Project reporting and regular in-person meetings of the Chair and senior staff. The Ministry's Deputy Minister is appointed as a member of the Corporation's Board of Directors

### BOARD OF DIRECTORS

VCCEP is currently governed by a six-member Board of Directors appointed by the Shareholder. Current members include the following:

- Ken Dobell (Chair) – Independent Consultant
- Terry A. Lyons – Chairman, Northgate Minerals Corporation
- Bruce Okabe, Deputy Minister, Tourism, Sport and the Arts
- Grant Ritchie – Independent Consultant, former Senior Vice President, UMA Engineering Ltd.
- Paul Taylor (Chair, Audit Committee) – President & CEO, ICBC
- Andrew Wilkinson – Lawyer

Bruce Okabe joined the Board in September 2006 to fill the seat previously held by Virginia Greene who resigned in May 2006.

Biographies of the Board members are published on the VCCEP website ([www.vccep.bc.ca](http://www.vccep.bc.ca)).

The activities of the Board are guided by the VCCEP Board of Directors Charter. VCCEP has a clear understanding of the roles and responsibilities of its Shareholder and Minister Responsible. VCCEP is continuing its identification of potential additional Directors who possess skills and experience in areas relevant to the Corporation's mandate that would augment the expertise of the current Board. The Board Charter is available on the VCCEP website.

The Board Chair, President, and Corporate Secretary ensure that the Board encourages new Directors to participate and be effective as soon as possible. The President and Corporate Secretary provide new Directors with a reference guide “VCCEP Board of Directors Guidebook” and a personal Project briefing. VCCEP also provides ongoing education for Directors with respect to the organization, its sector and corporate governance. Directors are encouraged to attend educational opportunities in the areas of organization and corporate governance. In addition, the Project Team conducts briefings and Board presentations on a regular basis.

VCCEP’s Directors meet together, without Management present, at Board and Committee meetings under an ‘In Camera’ section that is included on all agendas as a standing item.

VCCEP’s Directors engage in annual self appraisal of the function of the Board and its Committee and in externally facilitated 360° reviews of its President & Project Director and its Corporate Secretary.

## COMMITTEES

Due to VCCEP’s specific purpose and time limited mandate, and due to the composition of the VCCEP Board, the Board limited its formation of committees to two to assist it in fulfilling its governance responsibilities: an Audit Committee and a Committee of the Whole.

The Audit Committee, comprised of two Directors having extensive financial expertise - Paul Taylor (Chair) and Terry Lyons, deals with Audit and Financial related matters. The Audit Committee Chair also serves as the identified direct recipient should any confidential information be forwarded under the Corporation’s Whistleblowing Policy. The Committee of the Whole is comprised of all Directors and deals with Governance, Performance, Human Resources and Remuneration. Charters for both Committees are available on the VCCEP website.

## EXECUTIVE GROUP

VCCEP is led by a team of executives with extensive experience in planning, designing and building major projects within Canada. The Executive group includes:

- Russell J. Anthony – President & Project Director <sup>1</sup>
- Colin E. Smith – Chief Financial Officer & Corporate Secretary <sup>1</sup>
- David N. Walker – Project Manager
- Lou Zoldan – Project Controls Manager
- Ken Grassi – Design Manager
- Krista Freeman, Project Controller <sup>1</sup>
- Alexandra Wagner – Assistant Corporate Secretary <sup>1</sup>

<sup>(1)</sup> Corporation Officers



## Other Projects Overview

VCCEP has entered into (or is preparing to do so) the following third party Agreements with other funding agencies for the construction of facilities that are ancillary to the Expansion Project.

### 1. Water Management Showcase Project

Western Economic Diversification Canada (WED) has agreed to contribute up to \$2.1 million for a water management showcase project that is incremental to the Expansion Project. This project, which includes a blackwater treatment plant and a desalinization plant, is scheduled to be completed in 2008. This project will be completed within WED's contribution. To date, WED has contributed \$0.9 million. The balance of funds will be received from WED as expenditures are incurred.

### 2. Earth Retaining Structure (City of Vancouver Parkade)

The City of Vancouver contributed \$4.1 million to VCCEP for the construction of this structure which will underlie the future Thurlow Plaza and the transition zone to the Vancouver Parks Board lands to the west of the Project. This structure houses 104 parking stalls that are accessible from Lower Waterfront Road. This project was completed on time and within budget in June, 2006.

### 3. Central Mechanical Plant

VCCEP is reviewing options related to the financing, construction, operations and maintenance of a central mechanical plant that will provide the future heating and cooling requirements of the Expansion Facility.

### 4. Revenue Generation

VCCEP has also entered into a number of negotiated revenue generation agreements under which VCCEP is forecasting that up to \$70 million in up-front payments or in a commensurate amount over an operating period will be realized.

## Strategic Context

**Vision:** To position Vancouver as a global destination in the convention centre market and create a unique waterfront experience for visitors and citizens alike.

**Mission:** To create a world class convention facility while simultaneously completing the vibrant urban experience for the people of Vancouver.

## Planning Context

VCCEP was incorporated in February 2003 for the purpose of designing, building, and commissioning the new Convention and Exhibition Centre facilities, renovating the existing leased facilities within Canada Place, and linking the two sites to form an integrated convention and exhibition centre. As such, a number of factors may influence the Corporation, presenting challenges, opportunities, and risks.

Confirmed contributions for the Project total \$623.1 million — the Province of British Columbia (up to \$280.6 million); Government of Canada (\$222.5 million); and Tourism Vancouver (\$90.0 million). The balance of \$30.0 million will be funded by VCCEP through its generation of revenue through a number of supplier and commercial programs. Generation of a total of \$70.0 million as up-front payments or equivalent revenue over time is currently forecast. At the direction of its Shareholder, the majority of this revenue may be taken either as upfront payments to reduce the Province's capital contribution, or, taken over a period of years to potentially offset operating costs of the Convention Center.

VCCEP will continue to pursue additional sustainability-related enhancements to the Project as opportunities present themselves. VCCEP continues to pursue opportunities to leverage the public investment in the Project by obtaining funding from independent third parties who may be interested in contributing to other enhancements and betterments that are outside of the Project's approved budget and scope.

## Risk Factors and Mitigation

From Project inception, a rigorous risk management plan built on industry best practices and a strict regime of written procedures and controls for contingency management was established by VCCEP's Board of Directors.

Initially, VCCEP established three allowances (design, escalation, and construction) within its budget for anticipated/identifiable risks associated with items whose scope were not fully determined at the time the original Project Budget was prepared.

The design allowance was established for design evolution and development, but not for changes in scope.

The escalation allowance was based upon 2003 market conditions and industry forecasts with annual ranges from 2% to 5% for some trades, with others as high as 16% (metals). This allowance has been allocated on a trade by trade basis.

The construction allowance is a general allowance to cover items such as unexpected site conditions/soils, design revisions/coordination, owner requests, acceleration, environmental, code requirement, and contract scope changes after contract award. It was based on historic performance of similar projects and the experience of the Project Team and consultants.

In addition to these allowances, that were expected to be expended during the course of construction, a Project contingency (centralized, unallocated budgetary reserve) was established to cover unforeseen costs which were likely to occur within the defined Project scope of work. Typical elements of uncertainty

included design development; unexpected site conditions/soils; labour availability/productivity disruptions; new technology costs or delivery times; unsecured insurance claims; and changes in design criteria. In the current construction market, significant material cost escalation and skilled labor supply shortages have also caused continuing cost pressures.

VCCEP employs best practices to mitigate construction risks and to enforce cost control discipline (especially with respect to change order and claims management). For example, its construction procurement (85% concluded at January 2007) utilizes open tendering, international bidding, and the utilization of a fairness commissioner on major awards. It also undertakes extensive third-party reviews and value engineering analyses.

The Corporation undertakes monthly cost reviews, and forecasts utilization of remaining allowances and Project contingency to forecast the cost to completion of the approved scope of the Expansion facility.

Notwithstanding these “best practices”, significant cost pressures are arising. Following negotiations in January, 2006, VCCEP’s Board declined to convert its construction management-at-fee contract with the Project’s construction manager to a contract on an at-risk basis because the premium and exceptions were deemed to be unacceptable. VCCEP is currently re-exploring its construction management options for the completion of the Project as part of its ongoing efforts to mitigate the persistent cost pressure impacts on the Project’s budget.

## **Objectives**

The Vancouver Convention Centre Expansion Project objectives are to create an expanded facility that would facilitate the following.

1. Allow Vancouver to remain competitive in convention markets by retaining existing events which are expanding beyond current capacity and securing new meeting, convention and event business.
2. Generate economic benefits through jobs and tax revenues from out-of-province visitors that will provide governments with the opportunity to enhance Provincial and Federal revenues.
3. Complement the role of Canada Place as an internationally recognized symbol welcoming visitors to Canada and as a signature feature of the Vancouver waterfront.
4. Maintain and enhance features that have given Vancouver its competitive edge in the market.
5. Meet a high level of environmental and sustainability standards for convention centres, thereby enhancing Vancouver’s position in the marketplace.
6. Provide significant public amenities and meet the requirements for a desirable city context.

VCCEP has developed a comprehensive Project Implementation Plan (PIP). The PIP is a critical component to the successful planning and delivery of the Expansion Project.

The PIP provides the Project Team with a common understanding of the fundamental goals and objectives of the Project, and its scope, budget, schedule, and procedures adopted to meet those goals. It is the baseline document that defines the Project and how it will be implemented. The PIP was reviewed and approved by Treasury Board and has been signed off by Tourism Vancouver, the Government of Canada and by PavCo/VCEC (the existing Convention Centre operator).

VCCEP's Project Implementation Plan focuses on three distinct areas.

**Volume 1:** Project Definition specifies issues of scope, budget, and schedule, identifies key issues, and introduces the corporate organization.

**Volume 2:** Implementation Strategies documents a series of implementation strategies for key components of the Project, including Project Team organization, design, and cost management strategies, financial considerations, value engineering, reporting, communications, and the approaches taken with respect to important aspects of Project implementation planning.

**Volume 3:** Project Controls and Procedures details controls, procedures, and processes that have been implemented by VCCEP for the proper analysis, control, reporting, and management of key Project elements.

## Goals and Strategies

**Goal #1:** To design, build and commission an expansion that meets the operating requirements of the existing Vancouver Convention and Exhibition Centre (the Expansion Program), to design and construct a connector between the new and existing facilities (together the Integration Program), and to undertake renovations within Canada Place (Upgrade Program).

### Strategies:

- Manage schedule, budget, and quality objectives through continuous and rigorous monitoring of progress towards achievement of Project milestones and by Corporate reporting on a monthly, quarterly and annual basis.

**Goal #2:** To effectively manage the Project budget, schedule, and related activities to ensure timely delivery of the Project within its established budget, as approved by Treasury Board.

### Strategies:

- Follow the Province's governance guidelines to ensure practices are consistent with corporate governance standards for BC's public sector organizations and apply cost containment strategies as outlined in this service plan.

**Goal #3:** Implement and manage an effective revenue generation program.

### Strategies:

- Continue to identify and add potential sources of revenue (both cash and value-in-kind) and initiate agreements for the creation of further business alliances.

## **Performance Measures and Targets**

The expansion facility is scheduled to be substantially complete by the end of 2008. Recent challenges may delay substantial completion into the first quarter of 2009, but every effort is being made to maintain the target date.

The following Project milestones represent significant stages of completion of the Expansion Project. The Expansion Facility will be showcased to the world during its use as the international broadcast centre during the 2010 Winter Olympic Games.

	MEASURE	ACTUAL	FORECAST	TARGETS		
		2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
<b>Goals 1 &amp; 2</b>	<b>Canada Way Viaduct</b>	100% Complete				
	<b>Foundation Construction</b>	25% Complete	85% Complete	100% Complete		
	<b>Pile Driving</b>	90% Complete	100% Complete			
	<b>Design Development</b>	75% Complete	100% Complete			
	<b>Structural Steel Erection</b>		Commenced	100% Complete		
	<b>Construction Documents</b>	75% Complete	100% Complete			
	<b>Glazed Curtain Wall</b>		To Commence	80% Complete	100% Complete	
	<b>Living Roof</b>			To Commence	100% Complete	
	<b>Interior Finishes</b>			To Commence	100% Complete	
	<b>Connector Construction</b>	Commenced	25% Complete	100% Complete		
	<b>Canada Place Upgrades</b>				To Commence	100% Complete
<b>Goal 3</b>	<b>Revenue Generation</b>	Commenced	Complete			

VCCEP's other projects will be completed as shown below.

	MEASURE	ACTUAL	FORECAST	TARGETS		
		2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
	<b>Water Management Showcase Project</b>	Commenced	25% Complete	80% Complete	100% Complete	
	<b>City of Vancouver Parkade</b>	98% Complete	100% Complete			
	<b>Central Mechanical Plant</b>			To Commence	100% Complete	

## Linkages to Government Strategic Priorities

VCCEP's Service Plan strategies are consistent with and support the government's strategic priorities. VCCEP is an integral part of the government's plan to promote economic growth and job creation in British Columbia's economy.

The state-of-the-art convention centre and upgrades to the existing Convention Centre will generate positive, long-term impacts on tourism and contribute to future economic growth for British Columbia and Canada.

Project benefits arise firstly from its construction, followed by the incremental convention attendance and onward visitation of non-resident delegates, and finally by repeat tourist visits by previous delegates and their families.

All of these events create or sustain employment, and generate economic activity throughout British Columbia.

## Summary Financial Outlook

### Confirmed Capital Contributions

	(\$ thousands)
Province of BC	\$280,600
Government of Canada	222,500
Tourism Vancouver	90,000
VCCEP Revenue Generation	<u>30,000<sup>(1)</sup></u>
Total	\$623,100

<sup>(1)</sup> VCCEP is negotiating revenue generation through a number of supplier and commercial programs. At the direction of the Shareholder, the majority of this revenue may be taken either as upfront payments to reduce the Provincial contribution, or, taken over a period of years to potentially offset annual operating costs of the Convention Centre. VCCEP is forecasting that up to \$70.0 million of revenue could be realized in up-front payments or in a commensurate amount over an operating period.

## Summary Financial Outlook (\$ thousands)

	Project to Date	Actual	Forecast	Targets <sup>(1)</sup>		
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue <sup>(2)</sup>	n/a	51	51	51	3,909	15,428
Expenses <sup>(3)</sup>	n/a	94	31	6	3,858	15,428
Net Income	n/a	(43)	20	45	51	-
Retained Earnings	1,162 <sup>(4)</sup>	1,119	1,139	1,184	1,235	1,235
Province of BC Capital Contribution <sup>(1)(5)</sup>	132,148	69,500	70,852 <sup>(6)</sup>	-	8,100	-
Government of Canada Capital Contribution <sup>(7)</sup>	41,663	38,983	53,784	81,622	6,448	-
Tourism Vancouver Capital Contribution <sup>(8)</sup>	9,300	19,000	29,600	24,700	7,400	-
VCCEP Revenue Generation <sup>(9)</sup>	2,589	7,197	12,800	7,700	37,400	12,000
Project Capital Expenditures <sup>(1)(10)</sup>	105,036	81,771	113,572	192,115	116,034	14,572
Debt	-	-	-	-	-	-
Staff (full-time equivalents) <sup>(11)</sup>	n/a	14.5	14.5	14.5	14.5	14.5

(1) Target years forecasts for Project Capital Expenditures and Province of BC Capital Contribution reflect VCCEP's approved budget at the time of preparation of this Service Plan. They are subject to revision as a result of the outcomes of ongoing budget reviews and risk transfer negotiations with the Project's construction manager.

(2) Tenant revenues to 2008/09; recognition of deferred revenues and capital contributions beginning in 2008/09.

(3) Amortization expense on Project office assets to 2007/08; amortization of Expansion facility beginning in 2008/09.

(4) Net Income (loss) added (subtracted) to prior year's retained earnings annually.

(5) Provincial contribution includes \$3.148 million of piling pipe in-kind received in FY 04/05.

(6) \$40.852 million received; the timing of receipt and finalization of the remainder of this contribution is dependent upon Treasury Board direction regarding receipt of VCCEP generated revenue.

(7) Government of Canada contributions received as reimbursements against eligible expended Project capital expenditures.

(8) Tourism Vancouver's contributions are advanced on its behalf by the Province of British Columbia. Tourism Vancouver and the Province have entered into an agreement under which Tourism Vancouver has agreed to pay its \$90 million industry contribution to the Province.

(9) VCCEP's forecast revenue generation totals \$70 million for cash management and commercial / supplier programs, and \$9.7 million for in-kind donations. It is based upon funds generated to date and upon negotiated agreements with respondents to VCCEP Requests for Proposals.

(10) Other than expenses in Note 2 above, VCCEP incurs no operating costs. All expenditures are capitalized to the Project.

(11) VCCEP has four full and part time employees. It also utilizes the equivalent of 11.5 FTE's of contract project management and administrative personnel.