



Arctic Development
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***Addendum To The Rae Motel Feasibility
Study***

Type of Study: Feasibility Studies

Author: True North Safaris Ltd.

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True North Safaris Ltd.

ADDENDUM TO THE RAE MOTEL FEASIBILITY STUDY

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Doug Doan
Dept. of Economic Development

Dear Sir:

Re: Marketing Redefinition for the Rae Motel

I have had some discussions with Mr. Amy Stienwand regarding the proposal for the Rae Motel. As the consultant on the feasibility study for the project I have agreed to provide a clarification for the market projections for the project.

However, in undertaking the study it was recognized by all parties that **RMC** Consultants had spent considerable time and effort in defining the market. The study I undertook did not set out to redefine the market but rather using **RMC's** market penetration formulas we updated the data and made some adjustments for the change of location.

Relevant considerations:

1.0 Tourism traffic has increased substantially since the data for the **RMC** study was compiled. However; the transient or tourist market is only approximately 30% of the total market for the Rae Motel and the destination market makes up the remaining 70%.

The actual increase from **1984** to 1987 was almost 40% for the tourist traffic. Since the transient market makes up 30% of the **total**, the increase then in occupancy computes to a 12% increase. However; this number was discounted because of the change of location from the highway to the Rae town site. It is reasonable to assume that a highway location would by nature attract more **passerbys** and we concluded that while tourism traffic volume increase could provide an occupancy increase of **12%**, our study shows an increase of 4% up to 64% total while **RMC** showed **60%** in this study.

2.0 The destination market as set out in the **RMC** study is difficult to quantify other than the fact that letters of intent from various users were obtained. In reviewing these findings it is difficult to ascertain whether they are still valid without actually doing the survey over again. As well the quantification of demand is difficult given the general nature of the responses. For the destination market however, the relocation of the facility from the highway to the town site will **likely** be positive as all services are available in Rae and most meetings, events, and construction jobs will be in the town itself. Rae has meeting rooms available for conferences and workshops in the Nishi Khon Center and the sports plex and the location of a motel in Rae will facilitate the hosting of these.

3.0 The destination market can be broken down to those people requiring accommodation for recreation type events such as hockey tournaments or cultural events such as feasts or carnivals and business travelers such as meetings and construction workers.

Rae has grown rapidly over the past several years and has acquired new facilities and services. These contribute to making Rae a desirable destination.

The **RMC** study mentions these categories however, does not quantify the demand. The following breakdowns therefore provide a comparison test for the **RMC** conclusions.

3.1 Hockey tournaments: A typical hockey tournament would involve say 6 teams with 4 teams being from out of town. Each team would involve from 15 to 20 people including players, coaches and spectators, say 16 people per team for easy calculation. The tournament would start Friday and finish Sunday with say 2 nights for each team in the motel. Four teams would produce a total of 128 bed nights with 4 people to a room. The price structure for the motel for double or multiple occupancy vs single occupancy will have a direct bearing on the total revenue derived from these activities. For the purpose of calculating occupancy we are assuming that each additional person in a room will increase revenue as follows. 40% of double occupancy, and 30% for each additional person. Therefore 4 people per room would produce double revenue or double occupancy or all occupancy projections assuming 100% occupancy based on 16 **bednights** at \$85 per night. This then produces **1%** occupancy based on 5,840 **bednights** possible.

Rae-Edzo has an emerging minor hockey program and last year hosted a first ever minor hockey school, It also has a well established senior hockey program. Both minor hockey and senior hockey as well as a once per year hockey school could generate 6 weekends or tournaments.

- 2 x Senior
- 1 x **Pee Wee**
- 1 x Bantam
- 1 x Atom
- 1 x Hockey School

A total of 6% of total occupancy could be generated through hockey alone.

- 3.2 Curling **Bonspiels**: A typical curling **bonspiel** would involve say 30 teams with say 10 out of town teams. Each team has 4 players for a total of 40 bed nights or a little over 2 persons per room for 2 nights. Three curling **bonspeils** could produce say 96 room nights + **40%** (134 **bednights**) for 2.5% of total occupancy,
- 3.3 Events: Events which have become annual affairs in **Rae-Edzo** include Treaty Day, Xmas/New Year's Feast, **The Easter Feast**, and the **Dene** Daze summer carnival as well as the winter carnival/dog race in March. Five events would likely produce 10 nights of double occupancy or **160** + 40% or 224 room nights or 4% of total occupancy.
- 3.4 Construction Workers: The **N.W.T.** Housing Corporation will be building units in **Rae-Edzo** on an annual basis. The choice between private (HAP) units and public rental units is made by the community on an annual basis. Most construction companies hire local **labour**, and the use of outside contractors is reduced where the community opts for HAP.

Last year the Department of Health built a nursing station and nurses residence, as well, a private company built 23 rental units, This year the **N.W.T.** Housing Corporation is constructing 1 x 4 **plex** and the Hamlet of **Rae-Edzo** is building a swimming pool. A new primary **school** is scheduled for construction for 1990.

The 23 unit rental project last year generated over 500 bed nights. A typical housing project like the 4 **plex** which is under construction would generate say 4 man days x 90 days = 360 bed nights for supervisors, tradesmen, etc. in addition to local hiring. Any major project will easily double or triple this amount.

This demonstrates that construction workers will be significant users of a motel however, the **Rae-Edzo Dene** Band Development Corporation has an old construction camp in Rae and there will be competition for this market. If we estimate the average bednight requirement for annual construction at 1000 and say 50% will go to the new motel, we have say 500 **bednights** or 8.5% of total occupancy.

- 3.5 Meetings and Conventions: **Rae-Edzo** is the administrative centre for the **Dogrib** communities. It has the area office for the **G.N.W.T.** as well it hosts meetings for territorial organizations such as the **Dene** Nation from time to time. The **Dogrib** people themselves however, would not likely use a motel facility extensively as they typically are billeted out or stay with frien'ds and relatives.

There are probably 2 meetings average per month and Government personnel and resource people would be significant users of the motel. Government policy has been to encourage staff to overnight in local establishments when traveling on Government business.

For comparison purposes, say 8 rooms per meeting = 16 room nights per month or 3% of total occupancy.

3.6 **NCPC** had in the past maintained a trailer in Edzo for its employees who travel from Yellowknife regularly to **do work** in **Rae-Edzo**. The trailer fell into despair and 2 years ago **NCPC** agreed to rent one room in the camp on an ongoing basis. The camp however, did not meet their expectations and there is a letter on file which indicates their willingness to lease a room if it is properly maintained. 365 room nights equals 6% of total occupancy.

3.7 Department of Education: Arctic College and the Department of Education have indicated a willingness to sponsor off campus or community based training programs. This summer as an example a prospector training program was held in Rae. There are plans to hold a guide training program this fall. The guide training program as an example will involve 15 students and an instructor for 3 weeks or 336 bednights or **6%** of total.

Rae has facilities for conferences, workshops, etc. The **RMC** study shows 6 - 8 weeks negotiations by the Dept. of Education.

If we assume that courses, conferences, workshops, etc., produce six weeks of single occupancy we have a 12% penetration.

3.8 The **RMC** study had a quantified response from the Association of Municipalities for 70 bed nights or 11 of occupancy.

3.9 Other Destination Attractions

The mining activity in the Rae area is flourishing and for example Neptune Resources is proceeding with a major project at Indian Lake. They have signed an agreement in principle with the Dogrib Tribal Council to use Rae as a staging point and source of **labour** pool. The impact of this activity on a motel is uncertain but could be of importance.

As well, Rae has a number of emerging tourism operators including: **Rabesca** Company Outfitters, True North Safaris, and **Nishi** Expeditions. A new health facility, a swimming pool, an active Friendship Center, etc., will all help the community to grow. A motel in Rae will enhance the community's ability to grow and **take on** activities which have not been possible in the past.

4.0 A summary of quantified demand estimates.

Hockey	6%
Curling	2.5%
Events	4.0%
Construction	8.5%
Meetings	3%
NCPC	6%
Education	12%
Assn. of Municipalities	<u>1%</u>
	43% total occupancy.

5.0 Conclusion on Occupancy Rates

Using the forgoing rationale as a method of comparing the **RMC** findings it could be concluded that a **similar result has** been forthcoming. The 6% result from the hockey scenario may be ambitious however, we show only 12% for combined education users and this is likely on the light side. As well we have not included other sports like swimming, ball, etc. nor have we estimated occupancy for section 3.9. If the destination market represents 70% of the total occupancy and the transient market represents 30%, a total occupancy of approximately 59% is achieved using this scenario.

Destination	43%
Transient	<u>16%</u>
	59%

6.0 Other Relevant Factors

6.1 A study called "A Product Development Plan for the Northwest Territories' Tourism Industry 1987" was prepared by Derek Murry Consulting Associates Inc. for the Department of Economic Development,

Relevant findings of the study are that occupancy rates for hotels in the Northern Frontier Visitor's Association Zone are 63.5% while occupancy for motels is 80.5%. Occupancy for The Big River zone is 40% for hotels and 55% for motels.

The proposed facility in Rae then falls somewhere in between the 55% average occupancy in The Big River Zone and the 80.5% occupancy in the Northern Frontier Zone.

6.2 Double vs Single Occupancy

According to the Derek **Murry** Study, the average split between double and single occupancy is approximately **2:1** in favor of double occupancy, This is born out in the highway traffic count produced in the RMC study which shows that approximately 2,5 people average per vehicle.

It is a standard practice in the North to charge room rates for beds and visitors in many small community motels often find themselves sharing a room with a stranger and still paying full room rates. However, in discussing this with Mr. Stienwand, it was agreed that given the proximity to Yellowknife, people could choose not to use the motel if this practice prevailed. As well, events such as hockey tournaments may involve negotiated room rates for multiple occupancy. We have therefore estimated the price structure as follows:

Single	\$ 85.00
Double	119.00 (+40%)
Triple	144.50 (+70%)
Multiple	170.00 (+100%)

It could be concluded that while our initial market penetration showed 64% and a revised estimate could be as low as 50% that a 40% increase in price for double occupancy would produce approximately 15% increase in revenue based on a **2:1** double vs single occupancy average.

The assumption in the study was that 100% occupancy is based on 16 rooms @ \$85 per night x 365 days.

We can therefore reduce occupancy to 50% and add 15% revenue for double occupancy and still achieve **57.5%** revenue.

6.3 Financial Forecasts

The financial forecasts shown in the feasibility study, used **an occupancy** rate of **60%** and room rates of \$85. **We demonstrated** the sensitivity to the occupancy rate by showing what would happen if only 40%, 50%, and 60% occupancy were to be achieved in years 1, 2, and 3 respectively. The result was a cash loss in the first 5 years,

However, the forecasts also assumed 100% occupancy to be achieved when 16 rooms are filled and did not take into account times when through double **and** triple occupancy more than 100% occupancy can be achieved.

The feasibility study further **qualified** the occupancy rates by discounting the increase in tourism **volume** from 12% to 4% given the new location and by showing 60% occupancy based on 16 bednight maximum.

The result which we attempted to demonstrate is a break even somewhere between 50% and 60% occupancy,

7.0 The Proponent and Marketing Strategy

The final success of the project will depend on Mr. **Stienwand's** ability to increase and maintain adequate occupancy levels.

This will require him to seek commitments from construction companies, Government agencies, etc., to utilize his facility. As well, it will be in his best interest to promote recreation events and cultural activities. **He** has in the past sponsored the army cadets in Rae-Edzo and is well advised to do the same for other teams and organizations.

Mr. **Stienwand** has demonstrated through his past and present business experience and ability to compete in the northern environment.

As well, it is my considered opinion that the brings enough experience to the project to be able to mount a suitably aggressive marketing campaign if occupancy levels are not adequate.

Mr. **Stienwand** has also indicated that given the risk involved in the project, that he is taxing his own resources and accepting additional liability to the maximum. However; should the worst scenario arise, namely **only** 40% occupancy as was shown in the study for comparison, he would find other ways to make the project work. He could for example differ a manager's salary if it became a problem.

In addition to the overview of the marketing strategy provided in the study, an effort will be made to secure the destination market.

- letters will be sent to Government agencies announcing the project **when, it** is approved.

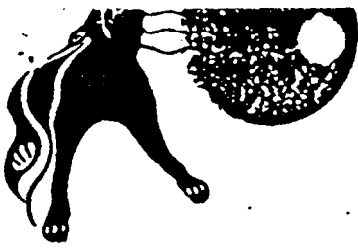
- these will be followed up by personal meetings to secure commitments for workshops, courses, **overnight** stays, etc.
- local sports teams will be sponsored as practical to do so.

8.0 Conclusion

In conclusion it is my considered opinion that the Rae Motel project has all of the ingredients necessary to be successful. While the market penetration is difficult to quantify because there are no industry statistics available in Rae as there are in other communities, the market projections do stand up to comparative tests and are supported by the Derek **Murry** study.

The project will likely not proceed without **EDA** funding support as the proponent can not carry the full risk of the project. However, the project will benefit the community as a whole and meets the **EDA** criteria.

The proponent brings the necessary skills and abilities to the project to help ensure its success.



True North Safaris Ltd.

Letter of transmittal

True North Safaris Ltd. was contracted by Arnie **Stienwand** to undertake a feasibility study for a motel to be located in Rae, **N.W.T.**

Mr. **Stienwand** made an application to the EDA and received a grant covering 50% of the cost of the study.

True North Safaris Ltd. wishes to acknowledge Travel Arctic as a source of current tourism statistics as well as the **N.W.T.** data book as the source for the community profile.

Resources Management Consultants market research and market penetration formula was also applied.

Stewart, Weir, MacDonald appraisers are the source for the land appraisal.

Clark-Bowler Construction Ltd. provided a **design** build proposal and conceptual drawings as well as all construction cost information.

MacKay and Partners provided computer services for the income projections.

We also wish to acknowledge. Doug Doan and Gordon Connan from the Department of Economic **Development and Tourism** for their ongoing advice and consultation.

Yours truly,

G. Jaeb

If less than **60%** occupancy is achieved the owner **will** risk operating losses and cash flow shortages in the first **5 years** of operation.

We therefore conclude that the project will require a significant grant or contribution if it is to proceed, The risk to the proponent is significant even with a grant of \$334, 177.

However, the long term (10-15 year) projections are more favorable and the project will contribute significantly to employment and other spinoffs in the community.

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1 . Introduction

Rae-Edzo is the **largest Dene** community **in** the **Northwest Territories**. Within the last decade **Rae-Edzo** was established as an area service **centre** by the Government of the **N.W.T.** and services the communities of Rae Lakes, Lac La **Martre**, Snare Lake and in some programs, **Detah** Village/Lot 500 of the **Yellowknife** Band.

The **Dogrib** Rae Band is **also** headquartered in **Rae-Edzo** and this reinforces **Rae-Edzo** as the social, economic and administrative **centre** of the **Dogrib** Band and the outlying communities.

The economy of **Rae-Edzo** is weak compared with southern standards, However, the Proponent of the Rae Motel project, a long term businessman and resident of Rae, has identified the project as not only a potential business opportunity, but also as a catalyst for future economic growth in the community.

The Economic Development Committee of the **Dogrib** Rae Band has undertaken a number of economic planning projects in the past and at least two of these have a bearing on the proposed motel project.

A tourism study for the Rae Band area was completed in 1983. The study identified a number of Tourism related potentials for the area, A lack of both public and private . infrastructure was apparent.

A feasibility study on a Motel/Hotel facility in **Rae-Edzo** was **completed** in 1986. The study demonstrated that a **15** room **otel** combined with a coffee shop, licenced dining lounge and **as** bar was economically viable if located as the highway and if it received 50% of it's capital cost on an equity grant.

The proponent of this study wishes to examine the viability of a motel only facility to be located **in** the town proper of Rae. A number of reasons for this exist.

Firstly, the proponent owns an appropriate serviced lot in Rae where as a choice of sites on the highway would be unserved and likely involve a complicated land application process and resultant problems in licensing and financing.

Secondly, Rae has two restaurants and to **build** a third in a small motel would create questionable competition as well as questionable viability.

Thirdly, **Rae-Edzo** has elected to have prohibition of alcohol within a **15** mile radius of the **community** so a licensed **dining** lounge is unrealistic with either location.

Fourthly, Rae has three existing gasoline outlets and a gas bar facility does not make sense for a location other than the highway site.

For these compelling reasons, the proponents, Jay Ko Motel Ltd., has discounted a restaurant, **lounge** and gas bar and this study examines a **motel only** project for Rae proper.

1.1 Competition

There are two facilities in **Rae-Edzo** which offer room and board. The hostel which is attached to the **Chief Jimmy Bruneau School** in **Edzo** provides accommodation for continuing **education** students who take courses in **Edzo**. It is however, a policy of the school not to use this facility for other commercial or competitive purposes.

The **Rae-Edzo** Dene Band Development Corporation Ltd. owns and operates a 20 man construction camp. The facility has in the past few years housed only seasonal construction workers and has not been used for traveling public accommodation. As well the quality is such that it would not compete with a modern new facility. The Development Corporation did receive a **small** EDA grant at the time they purchased the camp and a condition of the contribution was that the camp not be used for a substitute for a proper permanent facility in the future.

The camp does not offer **real** competition to the motel for the traveling public and the motel viability does not assume a transfer of business from the camp to the **motel**.

In conclusion, there is no existing facility in Rae **Edzo** than can be considered competition or a substitute for a modern motel facility. For a community the size of **Rae-Edzo** and being a social, cultural and administrative centre a motel facility is long overdue.

2.1 Rae-Edzo

2.1.1 Location

62 50'N, 116 03' W. Elevation 156m at Marion Lake. 113 air km NW of **Yellowknife**, in the Fort **Smith Region**, **Yellowknife** area.

On a rocky peninsula on the southeast shore of Marion Lake, (Rae) ; on the east shore of the West **Channel** which flows between Marion and the North Arm of Great Slave Lake (**Edzo**) .

2.1.2 Topography

Hilly outcrops and lowlands of silty clay lake sediments. **Edzo** on shale and sandstone foundation, in **rough timbered** country bounded on the south by the Mackenzie Highway and to northwest by numerous lakes and **muskeg**.

2.1.3 Climate

Average **annual** precipitation: 14.4 cm rainfall, **110.0** cm snowfall, 25.4 cm total precipitation.

July mean high -23.4 C, low 11.3 c

January mean high -23.4 C, low -32.0 c

Winds E at 16 km/h

2,2 History

Rae-Edzo is the largest Dene community in the Northwest Territories. The **Dogrib** people have lived in the Rae area of centuries, pursuing caribou and other game in small family groups until modern times. After about 1790- a trading post was established in the area. The **Yellowknife Chipewyans** had received funds prior to the **Dogrib** and effectively gained control of trade around Great Slave Lake, The **Yellowknives** oppressed the **Dogrib** for over 30 **years**; but in 1823 the **Dogrib** began to fight back and retake **their old hunting** grounds. The chiefs, Akaitcho of the **Yellowknives** and Edzo, for whom the newer development of **Edzo** is named, made peace.

In 1852, Dr. John Rae, the early explorer who more than any other adopted the indigenous way of life in his travels, established a **Hudsons's** Bay Company post at Old Fort Rae, approximately 8 km from the present site. . This area was **near** the path taken by the caribou migrating north and south. The

Dogrib people began to go there to trade, and a fairly large settlement developed. By 1890, there were about 600 Dene trading in to Fort Rae. At the turn of the century, the Northern Trading Co. set up a post at the present site, the point where **travel** routes. from traditional hunting areas converged. With their supply of fur effectively cut off, the **Hudson Bay** decided to **re-locate** to Fort Rae in 1904.

In 1921, the people of Fort Rae under Chief **Monfwi** accepted Treaty No. 11. Although the **Dogrib** people had **previously** been known as one the hardest **groups in the Mackenzie** District, alcohol and diseases previously unknown had a devastating effect.

After 1900, a doctor made an annual trip into the settlement, but at about that time, measles killed one in ten of the band. Tuberculosis raged, and in 1928, an epidemic of influenza unwittingly spread by the supply ship "Distributor" left so many dead that in man camps there was no one left alive to bury them. By 1940, many observers felt that the **Dogrib** people were on the road to extinction.

Fortunately this did not prove to be the case. As early as 1930, the Fort Rae **Dogrib** began to protest that their understanding of the Treaty appeared not to be the same as that of the Government. It was not until the 1940s the permanent residences were built. The Roman Catholic mission established a convalescent hospital in the **community**, and modern medical facilities became available at nearby **Yellowknife** after the Second World War. In 1959 electricity was brought to Rae, and the access road to the Mackenzie Highway was constructed in 1960. The population continued to alternate between bush and **settlement** living until well into the 1960s.

In 1965, the **Edzo** site, about 24 km from Rae, began to be developed. This was done in order to provide adequate sanitation economically, as the terrain at Rae provides poor drainage. In 1971, the school at Rae **was** closed and a large new school and hostel constructed at **Edzo**, under one of the first **local** Education Societies in the N.W.T. However, despite occasional outbreaks of dysentery and **tuberculosis** even in recent years, most of the community continues to reside at Rae, which provides better water access for fishing and hunting purposes,

With its **large** permanent population and **depleted game** resources, Rae in the past has had a chronic unemployment problem, As late as 1963, the per capita income of the Rae **Dene** was only \$225, including government transfer **payments**, lower even than that of other **Dene** groups. **However, the** community has contributed several articulate spokesmen to the aboriginal rights movement. Today the local **Dene** Band and community council actively pursue community development and employment projects, including an office/shoppin_g **compl**ex. The Band is involved in **local** mining and tourism ventures.

2.3 Demography

Population, June 1981, 1,378; June 1985, 1,481.
1985 sex distribution: 52% male, 48% female.

2.3.1 Political Organization

Hamlet status, April 1, 1971.

Mayor, Charlie **Charlo**.

Community Council: E. Erasmus, J. **Migwi**, Dan Marion, Joe Liske, Joe Mackenzie, Noel **Drybones**.

Secretary-Manager: Fred Behrens.

Hamlet Office: (403) 392-6500

Dene Band Chief, Joe **Rabesca**. Band **Councilors**: J. Migwi, E. Erasmus, **E.P.** Rabesca, **J.B.** Zoe, Noel **Drybones**, Patrick **Beaulieu**, Narcisse Chocolate, Nick Football, Susie Mackenzie.

Band Manager:

Band Office: 392-6471

Liquor Plebiscite, Oct. 1 - 3, 1985: prohibition

MP David **Nickerson**, PC (Western Arctic).

2.4 Economy

Major Activities - Domestic fishing, hunting, trapping; local development projects.

Banks - None. Service from **Yellowknife**.

Renewable Resources - Fish: **Grayling**, **Jackfish** (pike), Lake Trout, Ling Cod (**Loche**), Pickerel (Walleye), Whitefish.

Game: Beaver, Black Bear, Duck, Fox, Lynx, Marten, **Mink**, Moose, Muskrat, Ptarmigan, Rabbit, **Wolf**, Woodland Caribou. 1986 Community Caribou quota: 30.

Total number of trappers 1984-85: 195.

Number over \$600: 72.

Total fur dollars: \$179,719.41.

Renewable Resources Officers: Dave Williams, Joseph Mackenzie.

Non-renewable Resources - Minerals: gold, uranium prospects. See Rae Lakes, **Yellowknife**.

Tourism - Traditional games and dances. Arts and crafts: **Dene** beadwork and embroidery, moosehide and stroud jackets.

Prices and Income - Income per capita, 1983: \$.3,242.

Consumer prices, 1983: 30 - 39% higher than Edmonton.

Food prices, 1985: 6% higher than Yellowknife.

Local Businesses - **Akaitcho** Industries (arts & crafts/boat building & repair/construction **project** management/general building contractors/pets, pet supplies & equipment); Bicycle Repairman (sporting goods); the Bay (general retail merchandising); Rae-Edzo **Dene** Band Development Corp. Ltd. (general retail merchandising/outfitters/operators of buildings and dwellings/personnel, suppliers/restaurant scheduled and non-scheduled air transport); Ritchie Excavation (highway & heavy **construction/site** work & heavy equipment rental/truck transport); Rix Trucking (1976) Ltd. (misc. services/other utilities/other wholesale); Roadrunner Transit (bus & limousine service/postal & courier service/taxicabs); Taylor Distributing (video rentals); **Dene** Store; J B Gas Bar; Edzo Air Ltd.; Rebeca Enterprises (firewood); E. Koyina & Assoc.; Amy's General Store; NKFS (forestry contractor); Norm's Contracting; Jaemar Construction Canada Ltd., Neshnokon Beauty Salon.

INFRASTRUCTURE

Power - NCPC (Area **Office Yellowknife**), hydroelectric power with diesel backup, **1200kW** capacity. "1986 rates, **Domestic Service** (non-government) : 5.64 **cents/kWh** for the first 300 **kWh** per month, 6.51 **cents/kWh** for all over 300 **kWh** per month; **Commercial Service** (non-government) : 11.27 **cents/kWh**; **Domestic Service** (government): 12.15 **cents/kWh** for 1st 300 **kWh/mo.** , 11.29 **cents/kWh** for all over 300 **kWh** per month; **Commercial Service** (government): 15.76 **cents/kWh**.

Water - Source, Rae: Marion Lake (polluted) ; **Edzo**, Great Slave Lake West Channel. Rae water supply since 1979 is flocculated, settled, filtered and chlorinated. . New reservoir & pumphouse. Partially piped distribution system to taphouses, remainder on privately contracted truck system. **Edzo** is fully piped.

Sanitation - Rae: Sewage **pumpout** and bagged sewage. **Pumpout** 3 times a week, bagged service 6 times a week. Sewage hauled to lagoon 3 km **E** of Rae. Garbage dump 3 km **along** access road. **Edzo**: piped sewage system. Garbage disposed 1.4 km south.

Fuel - Gasoline, heating oil, diesel available.

2.4.2 TRANSPORTATION

Air - Ice **Aerodrome** Operator: **Hamlet** of Rae/Edzo. **Aerodrome** Facilities: Licensed ice strip with fuel available (**100/130**) and limited services; Freeze-up . **approximately** October 7; Break-up approximately May 30. Charter Service: **Edzo Air** Limited.

Road - Mackenzie Highway system **N.W.T.** Highway Number 3, **10** km access road to Rae. Winter tote **trail** to Lac La **Martre** and Rae Lakes. Trucking services: several local. Bus/taxi (Roadrunner Transit) .

2. 4.3 Communications

postal Code: Rae, XOE OYO. Service three times a week. Telephone: NorthwTel, microwave to **Edzo**, land lines from **Edzo** to Rae, **local** and long distance. Becho Kho Radio Society. **CBC** Radio (low powered **relay** transmitter); community radio. **CBC** Television (**Anik**). Two Cancom Channels.

2.4.4 Protection Services

Police: **RCMP** seven man detachment.
Justice of the Peace: Eric Burke.
Coroner: Eric Burke.
Other legal and court services: **Yellowknife** Region Native **Courtworkers** Association, staff in **Yellowknife**.

Fire Chief: **Edzo**, Richard Bonnetrouge;
Rae, Leone Lafferty.
Fire department: **Edzo** 19 person volunteer brigade; **hydrant** system; triple combination pumper, pagers. Rae, volunteer fire brigade; triple combination pumper, pagers, hydrant system.

2.4.5 Medical/Social Services

Medical Staff: one MD, 6 nurses, dental therapist. other medical services: **Health** facility under construction in 1986.

Social Services Facilities: 4 person Community Social Services office, **Rae-Edzo** Counseling Services (alcohol and drug program) . **C.N.I.B.** Project, **Senior** Citizens Home, Home Care, **Rae-Edzo** Friendship **Centre**.

Church: Roman Catholic Mission,
Parish Council.

2.4.6. Education

School: Chief Jimmy **Bruneau, K-9, Principal** P. MacKenzie.
Students, Grades K-6 (1985-86): 1,028;
- Grades 7 and up, 15.
Teachers: 21, with 8 classroom assistants.

Local Education Authority: **Rae-Edzo** Education Society.
School year (1985-86): August 26 - June 20.

Vocational and Continuing Education: adult education **centre**, one resident adult educator, Outreach worker, Arctic College extension program.

2.4.7 Housing and Accommodation

NWT Housing Corporation units (1986): 199. **GNWT** staff housing units: 7 houses, 1 duplex, 2 mobile homes.

2.4.8 Recreation and Culture

Community **centre.** School gym, playground, summer pool, softball diamond, lake area, Active Recreation Committee (Rae -Edzo Exhibition Association). Winter Carnival, Dene Days (in summer). **Khon Go Cho** Sportsplex.

3. Motel Market Analysis

Rae-Edzo is the largest Dene Community in the **N.W.T.** and the administrative and cultural centre for the Dogrib Nation. Travelers have been somewhat conditioned to pass by **Rae-Edzo** because there has been little to do there and nowhere to stay. Establishing Rae as a destination has been equally difficult for lack of infrastructure and tourism related products available. Many community leaders and Government officials believe that a motel facility in Rae, is **long** overdue and will benefit the community economy as a whole when it is built.

For the purpose of this study we have not conducted extensive original research on the transient or destination markets. We will in the following sections examine the research which was conducted by Resource Management **Consultants** (N.W.T.) Ltd. in their 1986 report on the feasibility of a motel in **Rae-Edzo**.

As pointed out by **RMC** the existing data is incomplete and does not offer concrete evidence in support of a motel and it simply **allows** a projection of estimated market penetration.

It is our view that the growth of the Tourism Industry in the **N.W.T.** is accelerating and we **will** factor growth into our market projections assuming **RMC's** method of projecting **Market** penetration to be valid.

3.1 Transient Market Analysis

"The transient market source has been defined as the motoring public, whether for business, tourism, or personal reasons."

The **RMC** report analyzed by G. **N.W.T.** Public Works (attached as Appendix I) and concluded that approximately 6 vehicles per day would use accommodation services combined with gas, food and beverages services on the highway during the survey period.

- The **RMC** report further analyzed **G.N.W.T.** Department of Tourism data (attached as Appendix II). The study looked at air travel and road travel by destination.

A study done by Canadian Facts and analyzed by RMC further concluded that 70% of all visitors to the N.W.T. travel by air. Of the air travelers, 39.7% were non-residents, or approximately 4,300 people. Visitors to the Fort Smith region, which includes Rae/Edzo, identified the following locations as their primary destinations (in percentages).

Yellowknife	48%
Hay River	17%
Fort Smith	6%
Other	29%

The survey tabulated that 78 people (.7%) of the N.W.T. total had Fort Rae as their primary destination and 57 people or (.5%) had Edzo as their primary destination for a total of 135 people over the 70 day survey period.

Highway traffic was analyzed with 1984 data and able 8 section 3.1.3 of the RMC report concluded a demand for hotel/motel accommodation for the period of June - September to be 14 vehicles or 30 persons (at 2.5 persons per vehicle). The breakdown between Transient and Tourism traffic was 10-20 persons respectively.

Information on 1985.6-7 highway traffic provided by Kieth Thompson of Travel Arctic showed the following. Non-resident vehicle traffic north bound from Fort Providence compares to the 1984 RMC data as follows:

1984 * estimate travelers to Fort Smith region was 4,300 persons of which 48% of 29% were destined to points north of Providence.

* Vehicle movements adjusted to May - September time frame multiplied by 2.5 persons per vehicle for non-resident license plates.

	1984	1985	1986	1987
Vehicles		2,193	2,536	3,408
Persons	3,311	5,483	6,340	8,520
% increase		39%	14%	26%

It is the view of this writer after discussion with Travel Arctic that the increase from 1984 to 1985 of 39% is a result of poor data in 1984. A more realistic growth would have been 12 - 15% in 1984 - 85 with an accelerated growth between 1986 - 87 resulting from exposure at Expo and more aggressive marketing program.

However based on RMC's bed-night estimates based on .7% and .5% estimates of market penetration for Rae and Edzo, the traffic increases (86-87) drastically in creases the demand for motel rooms for the season from May to September.

Bed-night demand using the RMC formula is as follows:

		Rae destination @ .7%		
		Edzo destination @ .5%		
	1984	1985	1986	1987
Rae	23	38	44	59
Edzo	16	27	31	42

Using the 10-20 ratio for transient vs. destination daily averages for Rae only would be 20 to 40.

3.2 Destination Market Analysis

The destination market demand based on the market penetration ratios developed by RMC indicate that for every one transient room night, two room nights will be required for the destination traveller. The majority of patrons coming to Rae will be people on Government business, people attending meetings, conferences, etc. and people from the area on business. Also, carnivals, hockey tournaments and tourist type activities contribute to the destination market.

Table 9 of the RMC report analyzed destination market demand for a motel in Rae through a survey of a number of government and private agencies.

The main users would be seasonal construction workers and native organizations plus Dept. of Education and a combination of other Government Departments.

They conclude that a 15 room motel accommodating 30 people would be utilized for 4-5 months annually for the destination market.

The destination market will require food, recreation services, etc. all of which are available in Rae.

As well the tourism potential for the **N.W.T.** and especially the communities services by highways is dramatically increasing. There are motel/hotel facilities and other services available in Fort Providence (200 km south) and Yellowknife (100 km northeast of **Rae-Edzo**). Presently there are no services available between Fort Providence and **Yellowknife** other than those in Rae which is 10 km off of the main highway. **RMC** concludes that both destination and transient patrons would be attracted to **Rae-Edzo** based on the highway location.

It is therefore important for the proponent of the Rae Motel to advertise and establish proper signage for not only the motel facility but the other services available in Rae.

The destination market will include tourists, business travelers, meeting and convention guests, special activity visitors and residents from the area including **Yellowknife**. A large native community located an hour drive from the Capital city could well be an attraction.

3.3 Summary of Estimated Market Demand

RMC concluded that from May to September, an average of **11.8** units would be required **daily**, which for a **15** unit facility would provide an occupancy level of 79%, well within the industry break-even.

Increases in Tourism Traffic from **1984** to 1987 is approximately 36%. The transient market is **approximately** 33% of the total market therefore the **total** market penetration increases approximately 12% or from 79% to 88% for the tourist season.

October to **April** occupancy would remain close to 47% as **RMC** projected therefore an average occupancy would be approximately 64% slightly higher than the industry **break-even** standard.

4.0 Building and Site.

The following section describes the building program, concept, and site location for the Rae Motel . It must be noted that while the RMC study involved a facility which included a restaurant, gas bar, confectionery, and a dining lounge, that this proposal involves a motel only approach. The rest of the services which are required for both the transient and destination travelers are available within easy walking distance from the proposed site.

As mentioned earlier, a licensed dining lounge is not available due to liquor prohibition in the area.

4.1 Building Program

In order to accommodate a mix of transient and destination travelers, the following program has been developed and is reflected in the design.

<u>Type</u>	<u>Description</u>	<u>Location</u>		<u>Total</u>
		<u>1st Floor</u>	<u>2nd Floor</u>	
1	Double	1	3	4
2	Double - Kitchenette	2	0	2
3	Single - Kitchenette	2	0	2
4	Single	2	6	a
5	3 Bed Apartment	<u>1</u>	0	<u>1</u>
		8	9	17

4.1.1 Room Use and Function

The kitchenette units will cater primarily to the destination market and could accommodate construction workers who desire a degree of independence, extended stay vacationer and so on. The kitchenette units could also be rented to transient, overnight visitors at reduced rates depending on the demand at the time. The three bedroom apartment is included to accommodate the manager using the family owned and operated option described in the RMC report and discussed further in this report under the ownership and management section. The 3 bedroom suite could also be rented to groups or longer stay clients if not used for management accommodation.

The program then is an extension **of** the market projections and an element of the ownership and management philosophy is included. The program needs to cater to **a** range of clients, **family** and group sizes, with stays of varying **lengths of** time. The building design and room program provide a high **degree** of flexibility and with the use of cots, **a** further, capacity for high demand and group variations is provided.

4.1.2 Furnishings

Furnishings of the facility is also a function of expected usage. **All** units **will** have private bathrooms. All rooms will include night tables, lamps, luggage racks, **arm** chairs, mirrors, drawers, seater sofas, televisions, and desk chests. Single rooms will have single beds and double rooms, twin beds. Additionally the kitchenette will have **a fridge,** stove, table and chairs. The 3 bedroom suite will be equipped with a washer and dryer, **fridge,** stove," table and chairs, lamps and beds.

The entire facility will have cable t.v. hook ups and a satellite disk to provide for quiet entertainment.

The above will accommodate usages or functions as follows: sleeping, relaxing, watching t.v., small group socializing, dressing, hygiene, storage of clothing and luggage, **meeting** and work areas for business men plus food storage, preparation, and clean up in the kitchenette units.

4.2 Building Concept

The proposed building (**preliminary** drawings attached) is a two story wood frame structure with outside entrances to all suites and parking located on the side of the building in front of the suite entrances.

The ground floor contains the **office, adjacent** to the managers suite along with 2 single units, 2 single kitchenettes, 2 double occupancy kitchenettes, one double occupancy room, and the mechanical room. The second level includes 3 double rooms plus 6 **single** rooms and a house keeping and storage area.

Some variations to the design have been examined and are used in the sensitivity analysis in section 5.5. These involve the addition of one extra suite over the mechanical room which necessitates **a** slight enlargement of the mechanical room itself. The second variation could involve the droppng off of two suits at the end of the building.

4 . 2 . 1 Space Summary

Ground Floor

1 x Office & Managers Suite	1350 sq. ft.	1,350
2 x Double Kitchenette	444	888
2 x Single Kitchenette	324	648
1 x Double Room	444	444
2 x Single Room	324	648
1 x Mechanical	336	<u>336</u>
		4,314

Second Floor

1 x Housekeeping	864 sq. ft.	864
6 x Single Room	324	1,944
3 x Double Room	444	<u>1,332</u>
		4,140

4.3 Site (Attached Appraisal, Stewart Weir, MacDonald Ltd.)

The site location for the proposed motel facility is a vacant commercial lot legally described as Lot 5-3 in Plan 312, Rae, **N.W.T.**

It consists of 30, 492 **sq.** ft. and has piped water and sewage and electrical services available at the lot line.

It is centrally located in the down town core of Rae and other services are within easy walking distance.

Rae is located **approximately** 100 km. west, northwest **of Yellowknife** and approximately **11 km. off of** the Mackenzie Highway. Rae is approximately 20 km. north of Edzo and approximately 200 km. north of Ft. Providence, **N.W.T.**

The market **value** of the property **as** determined by the attached appraisal is \$50,000.

The cost of site preparation and foundations is included in **the** construction cost estimates. There may be a need to **blast bedrock** in order to access piped underground services. These are included in estimates in the construction contingencies.

5.0 Project Costs

The following section describes the various **capital** costs components of the proposed Rae Motel project.

5.1 The Building

Attached are conceptual drawings, floor **plan** layouts, and outline specifications as provided by **Clark Bowler** Construction Ltd. The firm price to design and **construct** the **facility** as outlined is \$719,888.

5.2 Furniture

"A **list** of furniture attached is priced at **\$79,591**. The addition of a 12' T.V. dish is \$19,664 and there is no provision for telephone and switchboard installations. Items such as **linen, dishes, etc.,** are included **as** inventory

Furniture	\$ 79,591
T.V. Dish	19,664
Telephone	3,500
Contingencies	<u>5,000</u>
	\$107,555

5.3 Site

and costs are calculated at the appraised market value of the property at **\$50,000**. A contingency of \$3,000 and \$5,000 is provided **for** blasting and servicing costs respectively.

Site	\$50,000
Servicing	<u>8,000</u>
	\$58,000

5.4 Other Costs and Contingencies

Other costs which will be capitalized in the project include legal, accounting, other professional fees and financing charges.

Legal Costs of Incorporation and Setting Up of Securities for Financing	\$ 7,500
Feasibility Study Costs	9,500
Finance Charges & Fees	15,000
Interim Financing Charges	12,500
Appraisals	1,000,
Survey	<u>2,000</u>
	\$47,500

5.5 Total Capital Costs

Land & Site	38 8,000
Building	\$719,888
Furnishings	107,755
Other	<u>47,500</u>
	\$933,143

5.6 Capital Cost Variations

The basic building design as first conceived included 15 rooms and a managers suite. As the design process evolved it became apparent that one additional **room could be included** above the mechanical room with some modification to the mechanical room itself for a cost of \$32,000.

On the request of the Department of Economic Development and Tourism, it was agreed that a smaller version of the motel should also be looked at hence the cost of dropping two rooms is also addressed (\$28,000 each).

5.6.1 Capital Cost Variation

As Drawn - 16 Rooms & Suit	\$719,888
Drop Two Rooms <2 x 28,000>	663,888
Drop Room Above Mechanical <32,000>	687,888
Drop Both 2 6 3	631,888

*Cost Assumptions Provided By **Clark** Bowler

5.6.2 Sensitivity Analysis

- 16 Rooms @ 719,888 = 44,993 or 1 Room = 6.25\$ of cost
- 14 Rooms @ 663,888 = 47,993 or 1 Room = 7.14% of cost
- 15 Rooms @ 687,888 = 45,592 or 1 Room = 6.67% of cost
- 13 Rooms @ 631,888 = 48,607 or 7.69% of cost

The reduction of one room based on 100% occupancy for four months creates a loss of 121 room nights or \$10,285 per year @ \$85.00 per bed night.

	<u>Capital Cost Reduction</u>	<u>Loss. Of Revenue</u>
Drop One Room	\$32,000	\$10,285
Drop Two Rooms	56,000	20,570
Drop Three Rooms	88,000	30,855

} \$100
/07821
reduct.

* The cost of adding units in future years **will** undoubtedly be more than the cost of initial construction.

* The cost of each room as a percentage, of total increases at approximately .5% with a reduction of each rooms.

* Economies of scale would be lost if the units are reduced from 16.

* Loss of revenue resulting from dropping a room is approximately 2% total revenue per year:

* Reduction of capital cost as a percentage of total for each room is approximately 4%.

* ~~4%~~ reductions in capital cost produces a reduction in revenue of 2% per year.

* **One** room pays for itself in two to three years as a stand **alone** unit.

* This scenario assumes the cost of additional rooms to **be** \$33,000 due **to** economies of scale in construction. Actual costs of a room is \$60,000 given 16 rooms and a total **capital** cost of \$950,000,

Conclusion: **It** does not make economic sense to reduce the number of units from sixteen. It would make-sense to enlarge the motel however; the size of lot available limits the' size of the buildings.

9.0 Proposed Financing

9.1 Equity

Equity is contributed by the **proponent** in land and prepaid expenses which will be capitalized, and cash.

Land as per Appraisal	\$ 50,000
Feasibility Study (50% EDA Funded)	9,500
Appraisal	1,500
Cash	<u>194,192</u> 1?; 192
	194,192

9.2 EDA Contribution

The Canada Northwest Territories Economic Development Agreement, Tourism Sub Agreement provides incentive grants to develop tourism infrastructure and to promote small business, Given the sensitivity analysis in section 8.2, the project carries significant risk in the initial years, a risk which most investors **would** not be willing to bear. If scenario one came to pass, the **proponent** would have to contribute \$127,000 to the cash flow in year three. It is proposed that the **EDA** contribute \$343,177 as a non repayable contribution.

9.3 Loan

A loan will initially be sought using normal commercial financing. Given a relatively shorter amortization of 15 years and a 1.06 to 1 debt to equity ration, commercial financing may be available. However; provision could be made for a small business loan fund guarantee.

Total Debt Financing \$442,590

9.4 Total Project Financing

9.4.1 Equity

Owner Contributed	\$194,192
EDA Contribution	334,177
Loan	<u>442,590</u>
	\$.970,959

9.4* 2 **Application of "Funds**

From section 5.0 to 5*5, project costs are as follows:

Land	\$ 58,000
Building	719,888
Fixtures	107,755
Other Cost	47,500
Working Capital Required	<u>38,016</u>
	\$971,159

10. **Ownership and Management**

The project will be owned by a company to be **incorporated. Jei ko'** Ltd., the name of the company, means "orange" in the **Dogrib** language. As well, **Jei ko'** is the **Dogrib** name given to Peter Baker, a well known fur trader and business man who lived in Rae for many years. Peter Baker is now deceased so the motel will be named in his memory.

The share holders in **Jei ko'** Ltd. will be **Arnie Stienwand, Jacqueline C. Stienwand, and Alexander R.C. Stienwand.**

Arnie and Jackie are husband and wife and own a general store and cafe in Rae. Their son, Alexander, will **be** a partner in the new company and be groomed to take over as manager. Alexander is presently completing a business administration course in Edmonton.

The management **will** involve a live-in family concept. This concept was identified as one of the preferred arrangements in the **R.M.C. study.**

It offers a number of advantages.

- The **Stienwand** family brings management and business experience to this project.
- After hour calls by patrons can be accommodated with a door bell.
- **Cost** of management and control are relatively inexpensive when compared with importing an outside manager.
- Management expenses can be deferred if -revenue projections in the initial years are not met.

Organization

Jeiko' Ltd.
Share Holders

Manager
Alexander **Stienwand**

Clerks Maintenance Housekeeping

Share Structure

The proposed share structure is:

Arnie Stienwand - 40% common shares
Jackie Stienwand - 30% common shares
Alexander Stienwand - 30% common shares

Equity contribution by shareholders will be made by way of shareholder loans.

10.1 Licensing

The lot described at lots 5-3 in plan 312, Rae, **N.W.T.** owned by **Arnie Stienwand**, "fee simple" and will be transferred by way of a shareholders loan to **Jeiko' Ltd.** Therefore no land application is required. The lot is appropriately zoned and the Hamlet of **Rae-Edzo** does not have a building or zoning-by-law.

A business license, and municipal services application will have to be obtained from the Hamlet of **Rae-Edzo**.

A building permit will be obtained as per Clark-Bowlers' design build proposal and the design and engineering of the project will conform to **all** health, safety, and construction **codes**.

Licensing is not an issue, however; the standard permits and a business license will have to be **obtained**.

11.0 Socio Economic Benefits

The motel project will contribute significantly to the local economy in Rae as almost all revenues will be derived from outside sources. It will generate new money.

In addition to approximately \$120,000 per annum in local salaries paid out for the operation of the motel, tourists spend between \$50 and \$90 per day on other goods and services or \$250,000 per year,

The project will create approximately 4 person years in direct employment and an equivalent number in spinoff spending.

The motel will most likely also be a catalyst for the development of other tourist related small businesses. ie. Rabesca Outfitting will almost certainly derive business from motel patrons.

Local arts and crafts will also have an additional market.

The present lack of public infrastructure for tourists and the nature of the tourist spending makes a motel project a high priority in generating both social and economic benefits.

EXECUTIVE SUMMARY

Market Demand

The most practical estimate of demand for a **hotel/motel facility in Rae/Edzo** requires a **composite** perspective of both the transient and **destination market** sources of demand analyzed in the **preceding sections**. These sources of demand will include tourists, business travelers, convention guests, **special activity visitors**, and residents from both **Rae/Edzo** and **Yellowknife**. The calculation of demand for the various facilities as set out in **Table 10** has taken into consideration the composite **estimated** demand, and reveals that:

- * From May to September, an average of 11.8 units **would** be required daily, **which** for a 15 unit **facility would** provide an occupancy level of 79%, well **within** the industry **breakeven standard** of 60%.
- * The October to April occupancy **level** of 47% **would** bring the overall **annual occupancy level** to 60%, or **just** at the Industry **breakeven level**. To increase this level will require an increase in **either** more patronage **by** convention/seminar guests, or by more **Rae/Edzo** and **Yellowknife** residents on both a short and **long term basis**.
- * **Seating** requirements for food sales **from May** to September are estimated to be **approximately 35** seats and lounge **facilities of approximately 24** seats, for a total **summer demand of food and beverage seating requirements of approximately 59 seats daily**. **This number is estimated to decline in** the period of October to **April** to a total of 35 seats. The overall annual demand **is** estimated to be accommodated in a seating arrangement of approximately 45 seats, of which, 27 **would** be for food sales, and 18 for **lounge sales**.
- * It **is** obvious that the availability of food and lounge **seating** and associated services **to** attract the necessary market **will** have an impact on the occupancy levels of the **accommodation** services. **Without** food and beverage, or **without** one of **them**, it **will** be increasingly difficult to attract the required number of bed-night patrons.

For purposes of financial and design **analysis**, therefore, It **is** recommended that a **15** unit hotel/motel facility **with** a 30 seat food service and a 20 seat lounge service be considered as one meeting market demand **with** 60% occupancy.

Facility Programs

The proposed **motel/hotel facility is** broken down into **S major** components, as follows:

	<u>Area in Sq. Ft.</u>
1. Bedrooms - 10 standard @ 280	2,800
- 5 larger w/kitchenette 0360	1,800
2* Conference/Meeting space	1,000
3. Food Services & Lounge	1,500
4. Support Areas Including laundry, maintenance, lobby, office & confecti onery	800
5* Living unit for on-site manager	500
Subtotal	8,400
Add 15% for mechanical, circulation & contingenci es	1,300
TOTAL ESTIMATED BUILDING AREA	9,700 Sq. ft. (900 m ²)

Capital Cost

Based on an estimated construction cost of **\$900/m²** (assuming traditional frame **construction**) the construction cost **is estimated** to be \$810,000. Additional costs **include** \$170,000 for equipment and furnishings and \$50,000 for the gas bar, **resulting** in a total preliminary capital cost estimate of approximately \$1,020,000.

Financial Analyses

Five year **financial proforma** statements of **income** and cash **flow** were prepared for this **analysis**. Five **levels** of occupancy were projected for the motel and a three case scenario for debt to equity/grant ratio was developed. Results of these and other relevant **analysis** are **summarized below**:

- * **With** good management and a **level** of Investment **reaching** the estimates of capital costs, the proposed motel **would** be profitable after **full** operations upon reaching a 60% occupancy level. Increases **in** the profit **level** could be made **if** room rates were Increased from the \$75.00 rate, the **minimum** current market rate.
- * Most of the costs of operating the **facility** are fixed costs; thus **breakeven** revenue for the **motel** operations **is** projected to be approximately \$500,000 **in** Year 1. This excludes \$200,000 **in** gas sales **which** are not contributing a **significant** gross margin to the operation (15,000), however, the convenience of the gas pumps may create a market draw for customers to the restaurant/lounge and a needed service to overnight guests.
- * The financial **projections** reveal the capability of the venture to serve approximately **50%** of the **capitalization** requirements **in** debt, necessitating the balance to be financed through equity **and/or** grants.
- * The projections are conservative **in** nature as they do not consider a high level of sales **in liquor** revenue; projecting only **sales** to room guests based on **their level** of expenditures for food and beverage. The food sales are also based on guest **utilization**, and did not consider local resident usage **in** the **facility** except **in the** other revenue category for banquets, etc.
- * **Breakeven** revenue **is** \$487,634 for motel operations. Return on investment at 60% occupancy levels reach 13.4% by year 5 and averages 9.64% over a 5 year period. Return on Investment at 70% occupancy levels reaches **18.2%** and averages 17.2% over a 5 year period.

RAE/EDZO MOTEL
 SUNNARY **PROFORMA INCOME** STATEMENT (60% Occupancy)

Under **Various** Debt To Equity/Grant Ratios

	Ratio: So/so		Ratio: 60/40		Ratio: 70/30	
	YEAR 1	YEAR 2	YEAR 1	YEAR 2	YEAR 1	YEAR 2
SALES	706050	756538	706050	756538	706050	756538
COST OF SALES	279180	303115	279180	303115	279180	303115
GROSS PROFIT	426870	453423	426870	453423	426870	453423
EXPENSES						
Interest on Debt	67182	66427	80619	79712	94055	92997
Other Expenses	337554	340398	337554	340398	337554	340398
Total Expenses	404736	406825	418163	420110	431599	433395
MET INCOME	22134	46598	8707	33313	-4729	20028

Ownership and Management

It **is recommended** that the Rae **Dene Band** Council and the Rae **Dene** Band Development Corporation decide on the best method of local ownership and control for this venture. The proponent, whether the Band Development Corporation, a group of **individuals** or one individual **in the community** should encourage the concept of a husband/wife **management** team dedicated to the **motel's long** term success. **A Joint** Venture with an Individual or group of **individuals** and the Band merits **investigation**.

Recommendations

It **is recommended** that the **Rae/Edzo** Hotel **facility** be built by Interested proponents in the **community**. The probability of **commercial** financing this venture **in excess of 50%** of **capital** requirements is unlikely. Therefore, **it** is further recommended that upwards to 50% of the **capital requirement** for this project be sought from government granting agencies, Particularly the Native Economic Development Program, in order to **limit** the **risks** accorded this type of **new** enterprise.

The proponents are requested to provide **final input** to the concept so local concerns and **comments** can be Incorporated **in** the plan. The study should then form the **basis** for an application for **financial** assistance to the Native Economic Development fund and **commercial** sources. Proposals from design/build construction **firms** should be sought concurrent with the **application** processing to the funding agencies.