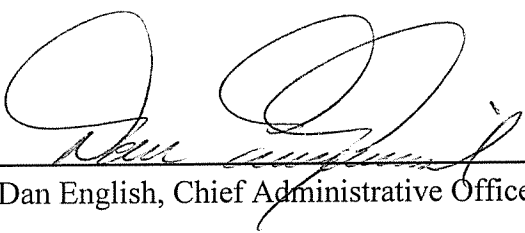




PO Box 1749  
Halifax, Nova Scotia  
B3J 3A5 Canada

**Halifax Regional Council**  
**March 27, 2007**

**TO:** Mayor Kelly and Members of Halifax Regional Council

**SUBMITTED BY:**   
Dan English, Chief Administrative Officer

**DATE:** March 22, 2007

**SUBJECT:** 2014 Commonwealth Games Bid Decision

**INFORMATION REPORT**

**ORIGIN**

Halifax Regional Council In Camera meeting, May 6, 2006, Item 11.3, Contractual Matter - 2014 Commonwealth Games International Bid Budget.

Halifax Regional Council meeting, May 30, 2006, Item 10.1.10, HRM Share of 2014 Games International Bid Budget.

Halifax Regional Council Committee of the Whole meeting, January 30, 2007, presentation by the Chief Administrative Officer on progress and key dates.

Halifax Regional Council Information Report, February 27, 2007, Item 4, 2014 Commonwealth Games Bid Update.

Halifax Regional Council Private and Confidential Information Report, March 8, 2007, 2014 Commonwealth Games.

## **BACKGROUND**

In December 2005, Commonwealth Games Canada announced that Halifax Regional Municipality would be Canada's bid city for the 2014 Commonwealth Games. On May 30, 2006, Council approved HRM's contribution to the International Bid budget. According to the report that was before Council on that date, "The current best estimate to stage the 2014 Commonwealth Games is \$785 million". Shortly thereafter, the potential funding partners (HRM, the Provincial Government, and the Federal Government) mandated the Halifax 2014 Bid Society to develop a proposed Games budget - including detailed operating, capital and business plans - for review and determination by the funding partners of their respective contributions and guarantees.

The proposed Games expenditure budget was tabled with the Halifax 2014 Board of Directors on January 26, 2007. A full list of Board members is attached to this report as Attachment 1. The expenditure budget was the end result of months of diligent work by 2014 staff to produce an extremely detailed series of estimates. On January 29, each funding partner received the proposed budget information and supporting documentation. This material included capital and operating expenditures, a draft Business Plan, Class "C" architectural plans and estimates for proposed Games infrastructure, environmental assessments, and associated reviews and studies. The gross expenditure budget was estimated at approximately \$1.35 billion. In the next several weeks various adjustments were made resulting in a revised gross expenditure budget estimated at approximately \$1.36 billion in 2007 dollars - \$1.6 billion including an inflation estimate. Revenue assumptions included \$400 million as a result of the Federal government contribution announced on November 30, 2006 and an estimated \$165 million (originally estimated at \$211 million) in other revenue (i.e. tickets, merchandising, private sponsorship, etc). The proposed gross budget (including inflation) less known revenue left an amount of approximately \$1.035 billion to be funded by HRM and the Province of Nova Scotia. Preliminary affordability analyses conducted by HRM and the Province revealed that staff from the respective partners were in a position to recommend a maximum combined contribution of approximately \$500 - \$550 million. This proposed contribution would have left an unfunded gap in the Games budget of approximately \$485 - \$535 million, plus additional financial risks which had not been completely quantified.

The high level budget overview presented to Council on March 8, 2007 is attached to this report as Attachment 2 and a Games budget summary released on the Province of Nova Scotia's web site is attached to this report as Attachment 3.

On March 8, after a process of significant due diligence conducted by HRM staff and external consultants, Council passed the following motion:

"Given that the three government funding partners can not collectively close the significant funding gap, as would be required to successfully host the 2014 Commonwealth Games; Halifax Regional Council advise the H2014 Board of Directors, CGC and the CGF that HRM is not prepared to fund the cost of hosting the Commonwealth Games in 2014 and further advise the H2014 Board of Directors to discontinue the bid process".

## **DISCUSSION**

Soon after winning the Domestic bid, the government partners - HRM, the Province of Nova Scotia, and the Government of Canada - agreed that the Bid process would only proceed as a full partnership of all three public funding bodies.

When the draft 2014 expenditure budget was received, in accordance with the direction agreed upon by the funding partners, a due diligence process was initiated to conduct a detailed review of the proposed Games expenditures. This due diligence process included risk identification, affordability analysis, economic impact analysis, and benefits and legacy review. In addition to the significant due diligence being conducted by staff internally, external experts were involved in the process. The Government of Canada and Province of Nova Scotia engaged the services of experienced games and venue experts to review the proposed capital and operating budgets and offer comments on potential risks and issues. HRM, the Province, and ACOA also commissioned a consultant to prepare an Economic Impact analysis to outline the potential benefits and legacy of the Games. Preliminary feedback from the three consultant reports received during the week of March 5 indicated additional financial risk that potentially exposed HRM and the Province to costs beyond those estimated in the budget. As one example, it became evident that the facility legacy fund proposed in the draft budget would not yield sufficient funding, on an annual basis, for HRM to offset the total operating deficits of the new facilities post-Games. It should be noted that Commonwealth Games Canada and Halifax 2014 had not provided their input into these preliminary findings at that time.

From a municipal perspective, the principles and expected benefits originally presented to Council in May 2006 and reiterated during the March 8, 2007 meeting would be difficult to achieve, primarily in terms of legacy, return on investment, and maintaining HRM's financial health. The principles and expected benefits slides presented are attached to this report as Attachments 4 and 5. The funding required from the local partners to close the funding gap and submit the bid based on the proposed budget would have compromised the financial health of HRM and exposed the municipality to undue financial risk. For example, under the Multi-Party Agreement the municipality may have been required to take responsibility for at least 50% of potential deficits and cost overruns relative to the Games operating and capital budgets.

Following discussions at previous meetings of the 2014 Executive Committee, joint letters from senior staff of HRM and the Province of Nova Scotia were sent to Halifax 2014 on February 22 and March 2 to indicate concerns with the total budget and request that options for reduction be developed. A list of Executive Committee members is attached to this report as Attachment 6 and copies of the joint letters are attached to this report as Attachment 7. After March 2, the local funding partners continued to discuss options to bridge the potential funding gap.

At a March 7 Executive Committee meeting, the local funding partner representatives reiterated their concerns as expressed at previous meetings. At the meeting, Halifax 2014 staff produced a summary of additional proposed cuts approximating \$250 million. In follow up to the meeting, a letter was received from Dr. Andrew Pipe (President of Commonwealth Games Canada) requesting that

Halifax 2014 be provided one week to reconfigure the bid and decrease the proposed Games budget to \$1 billion. A copy of this letter was attached to the March 8 Information Report to Council.

After ten months of detailed budget development by Halifax 2014 staff and more than a month of intense internal and external due diligence conducted by the funding partners, one week did not provide sufficient time to effectively manage the substantial reduction required in the Games budget or the risks associated with making such complex decisions in a short time frame. Making substantial budget reductions would have negatively impacted the win-ability of the bid and the potential legacy benefits, which had both been offered as the main reasons that cuts were not made sooner. There was not sufficient time prior to the proposed finalization of the Bid Book for the funding partners to again conduct the necessary due diligence to fully understand how a reduced budget might create additional financial risks or compromise the legacy benefits. In addition, this process would have required additional funds to complete and making decisions of that financial magnitude in one week would have significantly increased risk. Upon considering the request for additional time to reduce the Games budget, the local funding partner representatives decided to jointly proceed to their respective political bodies to seek direction on the bid process.

There was also significant negotiation that would have been required to complete the Multi-Party Agreement once the revised Games budget had been confirmed, but not enough time to fully and effectively complete these negotiations. In the end result, the fact remained that the local funding partners would have been required to guarantee any potential deficit and cost overruns, a significant risk to taxpayers.

On March 7, Nova Scotia Cabinet confirmed that the Province would not provide the financial contribution to support the Commonwealth Games. On March 8, Council approved the motion referenced in the Background section of this report.

At a meeting of the 2014 Executive Committee on March 21, it was agreed that all relevant information related to the bid will be publicly released as part of a coordinated release strategy. Halifax 2014 staff have scheduled a detailed media briefing for March 26 to release bid details. When finalized, the responsibility to release each of the external consultant reports to the public will rest with the funding partner responsible for the respective contracts. The Federal Government is responsible for the business plan and budget review conducted by McMahon Consulting, the Province for the review of the capital plan conducted by Price Waterhouse Coopers, and HRM for the Economic Impact Analysis conducted by CanMac Economics. In addition, the Provincial Public Accounts committee has convened meetings to discuss the decision to withdraw from the bid process. Release of all relevant information will be conducted in a coordinated manner by all partners in the upcoming weeks.

## **BUDGET IMPLICATIONS**

There are no budget implications as a direct result of the material discussed herein.

**FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN**

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

**ATTACHMENTS**

- Attachment 1 - Halifax 2014 Board of Directors - List of members (from Halifax 2014 Web Site)
- Attachment 2 - Games Budget Financial Overview Presented to Council in March 2007
- Attachment 3 - Games Budget Summary (from Province of Nova Scotia web site)
- Attachment 4 - Bid Principles Presented to Council in May 2006
- Attachment 5 - Expected Benefits Presented to Council in May 2006
- Attachment 6 - Halifax 2014 Executive Committee - List of members (from Halifax 2014 Web Site)
- Attachment 7 - Copies of joint letters from HRM and the Province of Nova Scotia to Halifax 2014

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by : Paul Johnston, Commonwealth Games Coordinator, 490-5623

Report Approved by: \_\_\_\_\_  
Dan English, Chief Administrative Officer, 490-4015

# Halifax 2014 Board of Directors

(From Halifax 2014 Web Site)

**Chair:**

Fred MacGillivray, Chief Executive Officer, Trade Centre Limited

**Commonwealth Games Canada (CGC) representatives:**

Dr. Andrew Pipe, CGC President  
Suzanne Coffey, CGC Vice-President  
Claude Bennett, Past President  
Joan Duncan  
Thomas Jones, CGC CEO

**Province of Nova Scotia representatives:**

Robert Fowler, Deputy Minister, Premier's Office and Treasury and Policy Board  
Duff Montgomerie, Assistant Deputy Minister, Health Promotion and Protection

**Halifax Regional Municipality (HRM) representatives:**

Dan English, Chief Administrative Officer  
Wayne Anstey, Deputy Chief Administrative Officer

**Sport representatives:**

Ken Bagnell, Canadian Sport Centre Atlantic  
Jamie Ferguson, Sport Nova Scotia

**Athletes' representative:**

Trevino Betty, Commonwealth Games Federation Athlete Representative

**First Nations representative:**

Lloyd Johnson, Councilor, Millbrook First Nation

**Corporate representatives (2):**

TBD by joint appointment of HRM and the Province of Nova Scotia

**Ex-officios:**

Scott Logan, Halifax 2014 Chief Executive Officer  
Eric Savard, Commonwealth Games Canada Bid Director

**Observers:**

John Knuble/Mel Coombs, Atlantic Canada Opportunities Agency  
Trice Cameron, Sport Canada

# Financial Overview

Extract from March 2007 presentation to Council

|                                   |                        |
|-----------------------------------|------------------------|
| <b>Gross Budget</b>               | <b>\$1,359,740,000</b> |
| (As proposed by H2014)            |                        |
| Less:                             |                        |
| Revenues                          | \$165,000,000          |
| Plus:                             |                        |
| Inflation estimate                | <u>\$240,000,000</u>   |
| <b>Sub-Total:</b>                 | <b>\$1,434,740,000</b> |
| Less:                             |                        |
| Federal contribution              | \$400,000,000          |
| <b>HRM / PNS funding required</b> | <b>\$1,034,740,000</b> |

**Note:** The gross budget, revenue, and inflation figures presented on this slide represent a revised budget proposal received from Halifax 2014 on March 6, 2007. These figures are slightly different than those initially distributed to the funding partners on January 29, 2007, which totaled a gross budget of \$1,347,800.

## Budget for Commonwealth Games - Halifax 2014

### Revenues

| REVENUES                         | \$<br>(in millions) | VK<br>(in millions) | Total<br>(in millions) |
|----------------------------------|---------------------|---------------------|------------------------|
| Public Funding                   | 985.7               | 150.2               | 1135.9                 |
| Sponsorships                     | 57.3                | 39.7                | 97                     |
| Friends of the Games / Donations | 0.8                 | 0                   | 0.8                    |
| Ticketing                        | 42.4                | 0                   | 42.4                   |
| Licensing and Concession         | 2.6                 | 0                   | 2.6                    |
| Broadcasting rights              | 65.3                | 0                   | 65.3                   |
| Others                           | 3.8                 | 0                   | 3.8                    |
| <b>TOTAL</b>                     | <b>1157.9</b>       | <b>189.9</b>        | <b>1347.8</b>          |

### Expenditures

| CAPITAL BUDGET (Expenses)              | \$<br>(in millions) | VK<br>(in millions) | Total<br>(in millions) |
|--|---------------------|---------------------|------------------------|
| Capital Budget (incl. 10% contingency) | 485.6               | 57.7                | 543.3                  |
| Construction Management                | 11.5                | 0                   | 11.5                   |
| Tax (at municipal rate)                | 16.4                | 0                   | 16.4                   |
| <b>TOTAL CAPITAL BUDGET</b>            | <b>513.5</b>        | <b>57.7</b>         | <b>571.2</b>           |

| OPERATION BUDGET (Expenses)        | \$<br>(in millions) | VK<br>(in millions) | Total<br>(in millions) |
|------------------------------------|---------------------|---------------------|------------------------|
| Executive Management               | 1.9                 |                     | 1.9                    |
| CGF/CGC                            | 51.1                |                     | 51.1                   |
| Finance/Legal/Administration       | 24.5                |                     | 24.5                   |
| Technology                         | 36.1                |                     | 36.1                   |
| Sports and Medical                 | 17.2                |                     | 17.2                   |
| Venues                             | 57.1                |                     | 57.1                   |
| Games Operation                    | 21.8                |                     | 21.8                   |
| Workforces                         | 101.8               |                     | 101.8                  |
| Communication and Awareness        | 14.7                |                     | 14.7                   |
| VIP and Protocol                   | 2.4                 |                     | 2.4                    |
| Ceremonies/Culture & Festival      | 28.3                |                     | 28.3                   |
| Broadcast and Media Operation      | 79.8                |                     | 79.8                   |
| Village Operation                  | 36.5                |                     | 36.5                   |
| Cost of Sales                      | 29.7                |                     | 29.7                   |
| PNS/HRM Budget Relieving VIK       | -39.2               | 39.2                | 0                      |
| <b>Sub-Total</b>                   | <b>463.7</b>        | <b>39.2</b>         | <b>502.9</b>           |
| Contingency - Operation            | 35.2                |                     | 35.2                   |
| Taxes - Operation                  | 22.6                |                     | 22.6                   |
| <b>Total Operations</b>            | <b>521.5</b>        | <b>39.2</b>         | <b>560.7</b>           |
| Legacy                             | 75                  |                     | 75                     |
| <b>Total Operations and Legacy</b> | <b>75</b>           | <b>0</b>            | <b>635.7</b>           |
| <b>Security</b>                    | <b>67.6</b>         |                     | <b>67.6</b>            |



|   |              |             |               |
|---|--------------|-------------|---------------|
| Federal Essential Services                              | 20           |             | 20            |
| Province of Nova Scotia                                 |              | 26.4        | 26.4          |
| Halifax Regional Municipality                           |              | 26.9        | 26.9          |
| <b>Total Essential Services &amp; non-budget relief</b> | <b>20</b>    | <b>53.3</b> | <b>73.3</b>   |
| <b>TOTAL OPERATION &amp; NON-BUDGET RELIEF</b>          | <b>162.6</b> | <b>53.3</b> | <b>776.6</b>  |
| <b>TOTAL CAPITAL, OPERATION 7 NON</b>                   |              |             |               |
| <b>BUDGET RELIEF</b>                                    | <b>676.1</b> | <b>111</b>  | <b>1347.8</b> |

These numbers are prepared without inflation factored in

# Bid Principles

Extract from May 2006 presentation to Council

- Maintain long term financial health of HRM
- Manage impact on existing HRM services and capital projects
- Minimize financial impact on residents
- Ensure a fiscally responsible Bid
- Maximize the legacy return
- “Right Size” the Bid for HRM

# Expected Benefits

Extract from May 2006 presentation to Council

- Leveraging
- Investment vs expenditure
- Economic benefits 2008-2014 & beyond
- New tax revenues
- Job creation
- Sustainable infrastructure
- Community benefits
  - Health promotion
  - New affordable housing

# **Halifax 2014 Executive Committee**

(From Halifax 2014 Web Site)

Joan Duncan, Commonwealth Games Canada

Thomas Jones, Commonwealth Games Canada

Dan English, Halifax Regional Municipality

Robert Fowler, Province of Nova Scotia

Ken Bagnell, Canadian Sport Centre Atlantic

Fred MacGillivray, Trade Centre Limited

Scott Logan, ex-officio

Eric Savard, ex-officio



22 February 2007

Scott Logan, CEO  
Halifax 2014  
99 Wyse Road, Suite 1150  
Dartmouth, NS B3A 4S5

AND

Frederick MacGillivray, Chair  
Halifax 2014  
C/O Trade Centre Limited  
1800 Argyle Street, St. 416  
Halifax, NS B3J 2V9

Dear Messrs. Logan and MacGillivray:

**RE: Follow-Up From February 14, 2007, Executive Committee Meeting**

To begin, let us extend our continued thanks to you and your team for the effort and tireless hours you have all put into the Halifax 2014 bid to host the Commonwealth Games.

When the Halifax Regional Municipality and the Province of Nova Scotia agreed to undertake the initiative to bid for the Games, we knew it would be a challenge, but also an opportunity - one that our region might not see again for some time. We appreciate the efforts that you and your team have undertaken to develop a winning bid, a bid that is responsible, sustainable, and fitting for the Halifax, Nova Scotia, and Canadian community.

Now that the funding partners have received a proposed set of estimates for the 2014 Games expenditures, we are undertaking several initiatives: to ensure due diligence; to understand our capacity to fund; and to quantify the anticipated return on investment. Once each of these is complete, and our respective governing bodies have formalized a decision, we will be in a position to articulate what each organization will contribute in terms of the level of funding - a key element to rounding out the revenue side of the budget estimates.

Although Council and Cabinet have yet to review or consider the estimates you have provided, it is incumbent on us, as funding partners and members of the Executive Committee, to share with you a sense of how we anticipate our organizations will react. This correspondence is intended to provide you with an early indication that we have significant concern that there will be a funding gap that provincial and municipal partners will be unable to close.

Current budget expenditure estimates proposed at approximately \$1.3b and uncertainty respecting security and the cost of other federal essential services, combined with estimated inflation (which we include as we will be required to guarantee it as well) gives us a total cost expenditure estimate of at least \$1.6 - 1.7b. With a current proposed revenue stream (federal and other source revenues) of approximately \$600m, you can understand our concern. There is in the area of \$1b still to be funded.

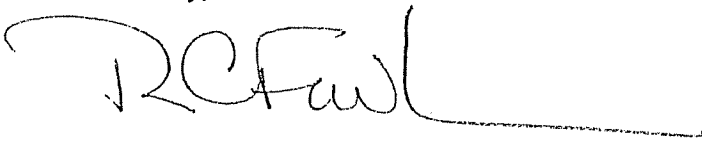
It is with this in mind that we have asked H2014 to consider options that could reduce the proposed expenditures on both the capital and operating side. For estimate purposes, total provincial and municipal contributions should be assumed at no more than \$500 - \$600m for a net funding gap of approximately \$450 - \$550m.

We ask that H2014 provide some options, with implications related to winability, legacy, and bid cost impacts, that could decrease the expenditure side of the budget and still provide a successful Games and legacy for our community. For example, are there opportunities to capitalize on the infrastructure our community will receive as a result of the 2011 Canada Games, or to better utilize/expand on existing facilities in our community?

As senior staff, we must provide our governing bodies with a full and informed recommendation as to our funding contributions. As stated, we are in the process of undertaking initiatives to help inform such a recommendation; however, in an anticipated best-case scenario, we still expect a funding gap that is not likely to be accommodated by provincial and municipal sources alone. For our part, we will continue to have regular discussions with federal colleagues regarding further funding considerations.

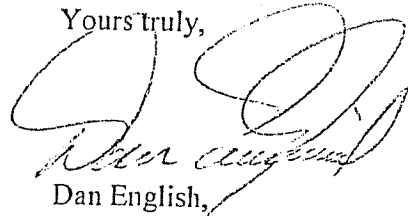
If you would like to discuss this further, please do not hesitate to contact either of us.

Yours truly,



Robert (Bob) Fowler,  
Deputy Minister to the Office of The Premier  
Province of Nova Scotia

Yours truly,



Dan English,  
Chief Administrative Officer  
Halifax Regional Municipality

---

March 2, 2007

Scott Logan, CEO  
Halifax 2014 Commonwealth Games Bid Committee  
99 Wyse Road, Suite 1150  
Dartmouth NS B#A 4S5

and

Frederick MacGillivray, Chair  
Halifax 2014 Commonwealth Games Bid Committee  
c/o Trade Centre Limited  
1800 Argyle Street, Suite 416  
Halifax NS B3J 2V9

Dear Mr. Logan and Mr. MacGillivray:

**Re: Follow-up to letter sent February 22, 2007**

As our collective work continues to progress on the analysis of the capital and operating costs associated with the 2014 Bid, we are writing to request your consideration and response to several key questions in advance of the Executive Committee meeting scheduled for Wednesday, March 7, 2007. We would respectfully ask you to be prepared to formally respond to these questions at the meeting.

To begin, we have received preliminary feedback from the consultants presently engaged in analysing the respective budgets which were submitted to the funding partners at the end of January 2007. We are aware that you have not yet received draft reports from the consultants, however, we understand you will receive these reports early next week in order for your team to ensure there are no technical inaccuracies contained therein. Regardless, as funding partners, we believe it is necessary for the Executive Committee to better understand the fundamental assumptions used in the creation and development of the capital and operating budgets. To that end, following are a list of key questions for your response:

1. Please provide:
  - a. A listing of the key differences between the domestic budget (without inflation) and the current draft budget under consideration.
  - b. This listing should also capture any cost increases which have resulted from present Commonwealth Games Federation requirements.
  - c. We require further information on the costing of the multiplex--specifically, we would like an explanation on the increased cost from \$65M (domestic phase) to \$145M (current budget).

2. Identification within the budget of the guaranteed funds which must flow to CGF and CGC.
3. Please provide further, more detailed information about the \$112M costing for the site preparation of Shannon Park.
4. Athlete's Village:
  - a. Identification and detailed information on the funding required for the construction and operation of the village.
  - b. Risks associated with the land acquisition for the village.
  - c. Feasibility and risks associated with the purchase of the residential units within the village post-Games. (i.e. how realistic is the projection in the budget)
5. Stadium and Multiplex:
  - a. We require further information and commentary regarding the legacy assumption used with the proposed Stadium and Multiplex (i.e. value to the community, future use, etc.)
6. We would welcome confirmation on the integrity of the assumptions used in the derivation of the revenue projections in the operating budget.
7. A confirmation on the percentage of contingency used for the operating and capital budgets is required (including the assumptions used to determine the contingency).
8. Finally, it would be appreciated if you would come to the meeting prepared to discuss the Allan Howell's findings regarding proposed operating costs of \$900M as compared to the figure included in the budget currently under consideration.

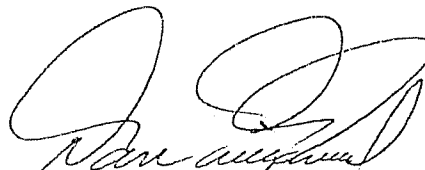
Your cooperation in responding to these questions is greatly appreciated. We remain committed to providing our governing bodies with a full and informed recommendation regarding the bid. While we realize that a great deal of effort will be required to fulfill this request, we are at a critical juncture in the process and your responses are fundamental for informing the Executive Committee and our next steps.

Should you have any questions or require clarification on any item contained in this letter, please contact Duff Montgomerie.

Yours truly,



Robert (Bob) Fowler  
Deputy Minister  
Treasury and Policy Board  
Province of Nova Scotia



Dan English  
Chief Administration Officer  
Halifax Regional Municipality