

# HALIFAX

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**Item No. 6**  
**Halifax Regional Council**  
**May 26, 2015**

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

Original Signed

**SUBMITTED BY:**

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Greg Keefe, Director Finance and ICT

**DATE:** May 05, 2015

**SUBJECT:** Halifax Convention Centre Update

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## **INFORMATION REPORT**

### **ORIGIN**

December 13, 2010 Council motion to support the development of a new convention centre in downtown Halifax, as per the terms negotiated with the Province of Nova Scotia.

July 10, 2012 Council motion that Halifax Regional Council authorize the Mayor and Municipal Clerk to execute the attached Memorandum of Agreement outlining the construction, operational and financial agreements surrounding the new downtown convention centre.

### **LEGISLATIVE AUTHORITY**

Not Applicable

### **BACKGROUND**

The Memorandum of Agreement approved by Council on July 10, 2012 provided for:

- Equal cost sharing by the Federal Government, Province and HRM for a fixed price construction contract
- Equal cost sharing between the Province and HRM on the ongoing operations of the facility for the term of the lease
- The Facility Operator will be a public sector entity, governed by a competency based Board of Directors, appointed jointly by the Province and HRM

### **DISCUSSION**

#### **Governance**

##### **Joint Steering Committee**

To provide oversight during the period between the signing of the MOU between the Province and Halifax and the creation of the Halifax Convention Centre Corporation (HCC), staff established a Joint Steering Committee. This has been co-chaired by the Deputy Minister (DM) of Economic and Rural Development

and Tourism (ERDT) for the Province and the Chief Administrative Officer (CAO) for Halifax. The Provincial co-chair will transition to the DM of the Department of Business. It meets monthly and provides guidance to staff of the Province, Halifax and Trade Centre Limited on issues related to the HCC.

### **Legislation**

In the Spring 2014 session, the Province passed the Halifax Convention Centre Act. This legislation:

- creates the public sector corporation, Halifax Convention Centre Corporation (HCC);
- defines the objects of the corporation as;
  - “to operate, maintain and manage the activities of the Halifax Convention Centre in a manner that will promote and develop economic development, tourism and industry in the Province generally, and the Municipality in particular, in accordance with strategic directions established by the Board and approved by the Chief Administrative Officer and the Minister” and
  - “includes other activities as approved by the Chief Administrative Officer and the Minister.”
- provides for a Board of Directors, their qualifications, the appointment process and their authority;
- provides for the issuance of capital stock. Two shares, to be known as the "Principal Shares", one of each to be issued to HRM and one to the Minister on behalf of the Province;
- provides for the transition of staff from Trade Centre Limited to HCC

The Board of Directors will consist of 8 persons, four appointed by the Province and four by HRM. In appointing the Board, Regional Council and the Minister shall take into consideration expertise, competency, and other factors as may be set out in the by-laws of the Corporation. The Board will elect the Chair.

The following persons are disqualified from being a member of the Board:

- (a) a person who is less than nineteen (19) years of age;
- (b) a person who is of unsound mind and has been so found by a Court in Canada or elsewhere;
- (c) a person who is not an individual;
- (d) a person who has the status of bankrupt;
- (e) a person who does, or did in the prior ten (10) calendar years, hold the position of a member of a federal or provincial legislature in Canada or a member of a municipal council in Canada

The Board will appoint a person to be President and Chief Executive Officer.

Upon proclamation of the legislation, planned for fall 2015, the CAO of Halifax and the DM of the Department of Business will become the Interim Board of HCC. They will deal with transition activities such as staffing and the initial budget. Recruitment for the Board will take place during winter 2015/16, with the appointment of the Board effective April 1, 2016.

### **Design Construction and Lease Agreements**

As per the MOU with the Province, the Province is the lead in negotiating the agreements with the developer. HRM has observer status. The Design Construction Agreement is the construction agreement that sets out the building specifications (square footage, number of rooms, ceiling heights, fit and finish and equipment as an example). The lease will be between the Province and the developer, with HRM reimbursing the Province. The lease lays out the responsibilities for each party, what the developer will pay to repair and maintain as well the tenant's (Halifax Convention Centre) obligations. The lease also speaks to the integration of the other units in the complex.

The lease costs are broken out into a number of components:

- The first cost is the base rent, or the cost of design, construction and land. This amount is fixed for the 25 year term of the lease. The base rent is the principal and interest costs to design and build the facility (less the Federal payment paid at substantial completion) amortized over the 25 years plus a rent payment for land. The design and construction costs are fixed and the interest rate will be fixed when the agreement is signed so there will be certainty in the cost to be shared. The land rent payment is also fixed.
- The second cost is the operating cost of the facility that will be supplied by the owner such as cleaning, security, pest control, waste removal etc.
- The third costs are costs that are paid directly by the Halifax Convention Centre. These are separately metered utilities, property taxes (if taxes are assigned to individual condo units), insurance, operating and maintenance of the interior of the Convention Centre spaces, etc.
- The final category of costs are CAM or common area costs. These are the costs for cleaning and maintaining areas of the complex that are shared by all tenants in the complex. As an example operating and maintenance of common systems, cleaning of shared spaces or snow removal.

These costs will be shared on a 50% basis with the exception of property taxes. The MOU sets out the allocation for the payment of property taxes.

The negotiation process between the Province and the developer also involves validation that the final convention centre plans align with the RFP details and commitments. The plans for the full complex will also be reviewed by the Province to ensure the cost allocation of the common areas is equitable. When this process is final, the Province and the developer will sign the lease. HRM will not be a signatory.

The lease will contain a commitment for the substantial completion date. The working date for substantial completion is September 2016, which will allow an opening date of January 2017. No funds will flow to the developer until the substantial completion date. At that time the federal commitment to the project will be paid to the developer (\$51.4 m). The balance of the capital costs will then be amortized over the 25 year term of the lease and shared equally between the Province and HRM. In order to ensure that the interest rate received for financing the convention centre is attractive, the ability for the Province to terminate the lease is very limited. The Province is looking at a number of options, such as purchasing insurance, and provisions in the lease to mitigate the risk.

### **Interim Period**

#### **Marketing and Sales**

The number of national and international clients choosing Nova Scotia's new Halifax Convention Centre to host their events continues to grow. TCL is on track to achieve the public market projections. While the change in opening date to 2017 did impact some clients, TCL has successfully rebooked 14 of the 17 impacted clients in the existing facility or moved them to a future year.

As of May 4, 2015, 27 national and international events were secured for the new convention centre resulting in 23,150 delegates. Fourteen of those events (4 international, 9 national associations, 1 national corporate) are for the first year of operations, resulting in 14,000 delegates which is 80% of the delegate goal for year 1.

### **Operational Readiness**

#### **Recruit Operational Manager**

TCL is currently resourced to manage and operate the existing WTCC, with its operations team focused on the delivery of events in the existing facility. Preparing to operate and open a new facility that will offer a more complex mix of events with new technology and processes requires a specialized skill set. Ensuring excellence in service delivery and operational processes is critical to the success of the new convention centre.

TCL has hired a Senior Director of Operations to support operational, event management and food and beverage teams in the planning transition to the new convention centre. This senior manager brings extensive convention centre expertise, and is responsible for developing and executing an operational readiness plan that ensures the effective operations of the new convention centre.

This position is a short-term contract with a primary deliverable to ensure the successful opening of the new Halifax Convention Centre.

**Software – Event Management System**

A critical component of the new convention centre is the ability to host and support multiple, simultaneous events. This will result in an increased volume of attendees and increase the complexity of event programming and event delivery. TCL’s current Event Management System (Delphi v9.5.2) was implemented in 1984 with an upgrade in 2005 and is currently end-of-life. The current system has had no significant upgrades or investments and it is not sufficient to meet the needs of the volume of business expected in the new convention centre.

New functionality and system-supported processes will be required to provide seamless coordination of event operations and sales and allow the organization to implement tighter operating and preventative controls in the new convention centre. Implementation of a new Event Management System, which automates processes, is a critical component of attaining AIPC Quality Standards Certification, which has become a standard in Canada.

**Interim Period Costs**

In addition to covering part of the operating costs of TCL, \$632,000 in 15/16, HRM is covering 50% the Sales and Marketing for the HCC and 50% of the interim period costs. HRM’s portion of these costs are:

<b>Item</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>
HCC Sales and Marketing	\$640,000	\$547,000	\$663,000
Event Management System		\$332,000	
Operational Readiness – Carried from 14/15		\$127,500	
Operational Readiness		\$151,600	\$315,500
Time and Attendance System			\$272,500
<b>Total</b>	<b>\$640,000</b>	<b>\$1,158,100</b>	<b>\$1,250,000</b>

Other operating costs will begin in the 16/17 year, but these will be covered by the Halifax Convention Centre.

**Other Issues**

**Tunnel**

TCL has expressed that a tunnel is needed between the existing World Trade and Convention Centre (WTCC) building and the Halifax Convention Centre. This will link the complex to four hotels (Prince George, Barrington Halifax, Delta Barrington, Halifax Marriott Harbourfront) without requiring guests to go outside. TCL maintains that ease of connectivity is important to clients and integral to sales activity for the new centre. One of the requirements of the RFP for the convention centre was that the developer accommodate an entrance to a tunnel for connectivity to the hotel network downtown.

Concept design for the tunnel connection along Grafton Street between the existing enclosed pedestrian system and the new convention center is expensive (\$7-10 million). While HRM staff do not agree that a tunnel is a necessary feature, we do acknowledge that the concept of a convenient, weather protected pedestrian connection at street level is a desirable outcome. This issue has a direct connection to the overall issue of streetscaping and the ultimate dispensation of the Nova Centre events plaza. Staff are working on practical and effective alternatives to create weather protected access without the expense and disruption of tunnel.

That being said, a tunnel, with its associated price tag, may end up the preferred solution. HRM would be responsible for some of the cost, but we would be looking for partners, such as the Province, to share this cost.

### **Argyle St. Streetscaping Efforts**

There are two main issues at hand on this topic:

1. The above referenced tunnel and the integration of municipal streetscaping efforts.
2. The timing of streetscaping improvements on Argyle Street relative to the completion of the frontage of the Nova Centre.

Actions on the tunnel are outlined in the section above. The plan for Argyle Street to date is for staff to complete the design and implementation of a pilot project for this summer (2015) followed by the design, funding and implementation of a permanent solution to be completed in spring or fall of 2016 concurrent with the completion of the Nova Centre.

### **Scotiabank Centre**

The current agreement with TCL for the operations of Scotiabank Centre (SBC) is an interim agreement. This was done deliberately knowing there would be a change to TCL, and the ownership of the WTCC building. The current agreement has two parts: 1. for the operation of SBC; and 2. for the allocation of the costs of shared infrastructure (primarily HVAC).

This agreement will need to be replaced with two agreements. One will be with HCC for the operations of SBC. The other will be for the allocation of the costs of shared infrastructure with whoever the eventual owner of the WTCC building is. Staff are currently working on a service agreement for this that the Province can use when they put the property on the market. The agreement will indicate access areas that are critical for the successful operation of SBC as well as recognizing areas where HRM has made significant investments in areas that are part of the WTCC such as the Budweiser King Club.

### **Ticket Atlantic**

TCL operates Ticket Atlantic, which in addition to offering ticket sales for a number of venues, is the box office for Scotiabank Centre. In July 2012, the Auditor General recommended, as a result of an audit, a change to the billing model between Ticket Atlantic and Scotiabank Centre. A subsequent review by Grant Thornton showed that the issue the Auditor General brought to light occurred when there was a year with very high attendance numbers. It is planned that Ticket Atlantic become a part of HCC, and that any change in the billing model be considered in that context. As a part of HCC, any Ticket Atlantic surpluses will contribute to the operations of HCC.

### **WTCC Building**

Under the MOU with the Province, there is a process for determining the eventual disposition of the WTCC.

The Province will advertise it for sale. If a buyer is found, Halifax can match the price and acquire the building. If Halifax does not choose to acquire the building at that time, the purchaser would need to enter into an agreement regarding the infrastructure shared between WTCC and SBC.

If no buyer is found, Halifax will purchase the WTCC on the date the HCC opens for the book value on that date. The book value is expected to be below \$1 million.

### **Exhibition Park**

TCL also operates Exhibition Park. Before the windup of TCL, the Province will assess the options for managing this asset.

## **FINANCIAL IMPLICATIONS**

There are no financial implications specific to this report. The financial implications of the project are:

Halifax currently pays \$630,000 towards the operation of TCL. This amount increases by inflation each year. It will become a part of the support for HCC when it opens.

Council approved \$640,000 for the sales and marketing of HCC in the 14/15 budget. This will decrease to \$547,000 in 15/16, but there will be transitional costs of \$611,100, for a total increase of \$518,100.

The funding model for HCC is that all taxes from Nova Centre are placed in the Convention Centre Reserve, Q326 and this reserve be used to fund Halifax's costs. The reserve has a balance of \$1,764,307 at March 31, 2015 and is budgeted to increase by \$1,010,243 in 15/16. Although commercial property tax rates have dropped since the decision in 2012, the model remains sound.

**COMMUNITY ENGAGEMENT**

Not Applicable

**ATTACHMENTS**

None

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A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.php> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 902.490.4210, or Fax 902.490.4208.

Report Prepared and  
Approved by:

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