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P.O. Box 1749
Suite 1150, 99 Wyse Road
Halifax, N.S.
B3A 1L9

**BRIEFING NOTE
HIGHLY CONFIDENTIAL**

DATE: March 6, 2007

SUBJECT: Phone conversation – briefing for funding partners re: Games budget process

BACKGROUND:

At the February 14 Executive Committee meeting, the local funding partners advised that there were concerns regarding capacity and ability to match total public financing required to support the proposed Games budget requirements. It was agreed that a letter would be provided to the Society to provide the context and order of magnitude of concerns in this area. On March 2nd additional correspondence was received from the local funding partners specific to the preliminary reports from the external reviews (operating, capital and economic impact) underway.

CURRENT STATUS:

Over the past several weeks and months independent reviews have been undertaken in the areas of Games operating and capital budget estimates and economic impact analysis. Draft reports are now being received and the Society will be provided with copies of this information to allow for feedback, questions and clarification where required. Final conclusions based on these preliminary reports are premature and to that extent may actually result in inaccurate conclusions. The draft report on the operating budget from Mr. B McMahon was provided to the Society March 5th.

The March 2nd partner correspondence included a summary of an estimated gap in public financing, as determined by the local funding partners. This has been recalculated to adjust what appear to be several errors in assumptions. (see Appendix 1) This recalculation does not reflect current Halifax 2014 activities directed at overall scope reduction. This work is ongoing today and will be available in draft on Wednesday at the Society Executive Committee meeting.

Given the critical point in the development of the bid, and to ensure that there is no risk to the viability of a Canadian bid for the Commonwealth Games, Society staff is examining every opportunity to reduce the overall scope. Staff will identify the impact of any possible changes, on the ability to win the right to host the Games.

The goal of this process is to ensure that the 2014 Commonwealth Games funding assumptions are comparable to other major Canadian Games and national infrastructure projects. These results will be provided in draft to the Executive Committee of the Society on Wednesday, March 7th at which time, direction will be sought to conduct further analysis over the next week, with final concept approval the following Wednesday, March 14, 2007.

One of the particular challenges faced by the Halifax 2014 Bid is the total cost of Games operations in addition to the significant cost of the Games capital budget. This stems from the very basis of the bid, which is the shortage of sport facilities in the area. The infrastructure deficit in Nova Scotia and Halifax is significant and the Games role in addressing this has always been a compelling part of the rationale behind the bid. Previous Games and even competitor's bids do not require the remediation of such an infrastructure gap as part of their bids. If addressing this gap is a significant part of the reason for bidding at all, it should not be surprising that this is the same element is behind the primary difference in cost estimates for the Halifax 2014 bid and previous Canadian Games.

The portion of the Halifax 2014 total Games estimate required for operations is comparable to previous Games and competitors. It is the vision of bridging the capital infrastructure deficit in Nova Scotia that makes the total Games budget different for the Halifax 2014 Games. The size of this deficit and the seriousness of all partners to address it requires funding partners to consider the cost of a prudently planned Commonwealth Games and the costs to address the infrastructure gap. These two goals must be treated as the two distinct but linked opportunities.

Conclusion and next steps:

- **Answers to the questions posed by the local funding partners in recent correspondence will be provided on Wednesday, March 7, 2007.**
- **Opportunity for Games budget scope reduction will also be provided on March 7th.**
- **On March 7th, direction will be sought to allow final revised concept plans to be presented for approval on March 14th.**

Prepared by: SD MacLennan, CA
(902) 490-7483

Distribution: Local funding partners March 6, 2007

Scenario (revised)

March 6, 2007

Proposed Gross Expenditure budget	
- capital, operating, security, essential services and secretariat's	\$1,347,890
Less – eliminate broadcast revenue contingency (1) a)	38,150
Plus – estimated security increase (2)	<u>50,000</u>
 Sub-total of expenditure base for contribution agreement	 \$1,359,740
 Less:	
Other non-public financing revenues (1) b)	<u>(165,000)</u>
 Total public financing requirements (before Inflation)	 \$1,194,740 **
 Plus – inflation (without management plan) (3)	 <u>240,000</u>
 Total current base for negotiations	 <u>\$1,434,740 **</u>

Notes:

** does not reflect current scope reduction activities by Halifax 2014.

1) a) Non-public financing revenues (ticketing, marketing, etc.) – operating review by Mr. B McMahon indicates risk of overstatement of \$100M. This includes \$38.15M of host broadcast revenues that are fully offset through an expenditure contingency. The calculations above remove both the revenue and the contingency contained in the expenditure budget that offsets this revenue.

b) A review of remaining commercial and ticket revenues has resulted in a further reduction of ticket revenues of \$8m. No further reduction of marketing revenues is warranted. A follow-up report is available for both of these revenue items. This adjustment results in total non-public financing revenues being reduced from \$211M to \$165. For completeness, if the domestic host broadcast revenues of \$38.15 M is eliminated from other revenues; expenditures must be reduced by the full amount of the revenue contingency.

2) Total estimated upward risk in Federal essential services and security estimated at \$50M not \$100M – result is security of approx. \$100M.

3) Inflation estimates are based on preliminary cash flows and assumptions for operations put forth by Sport Canada in their direction to Mr. McMahon. A project of this size requires a detailed inflation strategy including assumptions about timing of funding from partners and the degree to which inflation will be managed within as well as the cost-sharing assumptions related to inflation.