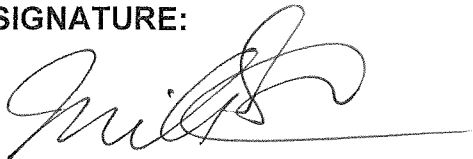


Hamilton

**CITY OF HAMILTON**
**CORPORATE SERVICES DEPARTMENT**  
**Enterprise Management and Revenue Generation Division**

<b>TO:</b> Mayor and Members General Issues Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> July 11, 2013	
<b>SUBJECT/REPORT NO:</b> Cops Coliseum Power Ring (FCS13058) (City Wide)	
<b>SUBMITTED BY:</b> Mike Zegarac Acting General Manager Finance & Corporate Services	<b>PREPARED BY:</b> John Hertel (905) 546-2424 x2739
<b>SIGNATURE:</b> 	

**RECOMMENDATION**

(a) That the Cops Coliseum Power Ring project be approved in an amount not to exceed \$650,000, excluding HST;

(b) That subject to the approval of recommendation (a) of Report FCS13058, that the Cops Coliseum Power Ring project be funded from the following sources:

- (i) \$350,000 borrowed from the Working Fund Reserve (112400) to be repaid from HECFI's annual capital allocation over 5 years plus interest at a rate of 2.30%
- (ii) \$300,000 from the following HECFI Capital WIP accounts:
  - (aa) \$ 55,230 from 3721241800 (HCC and CC Replacement and Renos)
  - (bb) \$167,000 from 3721241801 (HCC Interior Renovations)
  - (cc) \$ 77,700 from 3721241803 (HP Replacements & Renovations);

(c) That a Copps/Hamilton Place Profit Sharing Reserve be established and that all future profit sharing revenues be credited to this reserve;

(d) That the purchase be single sourced to Daktronics Inc. to ensure that the installation and testing can be completed for the beginning of the 2013/14 hockey season

## **EXECUTIVE SUMMARY**

At the General Issues Committee on Monday July 8, 2013, staff was directed to:

- (a) clarify why the City is purchasing the Power Ring since Global Spectrum is the new operator
- (b) provide details of the business case and c) outline the details of the proposed funding.

The total 'not to exceed amount' of \$800,000, referenced in the motion put forward at the General Issues Committee on July 8, 2013, has been reduced to \$650,000. This was made possible because the manufacturer clarified that one component of the quote which we interpreted as being incremental was actually included in the overall quote, and also the full impact exclusive of HST rebates had been included.

- (a) The reasons we are proposing the City purchase the Power Ring:
  - (i) The Management agreement requires the City to continue to be responsible for capital items, while Global Spectrum is responsible for operating expenses.
  - (ii) The capital project priorities for Copps and Hamilton Place have been jointly assessed with Global Spectrum. A conservative approach to selecting the projects to be completed has been taken, to ensure that future monies are available for major project investments e.g. a new roof on Copps Coliseum.
  - (iii) The Management agreement contains a formula for profit sharing. City staff are targeting investments that contribute to revenue generation and potential profit sharing wherever possible.
  - (iv) A minimal amount of the capital money was spent by HECFI in the past 2 years with the exception of the exterior refurbishing of Hamilton Place, therefore some monies remain unspent in previously approved WIP accounts.
  - (v) On a one-time basis, Global Spectrum is also required to contribute \$500,000 towards capital.
  - (vi) From the project priority list, several projects are being funded by Global Spectrum within their \$500,000 funding envelope. Because the amount required for the Power Ring exceeds \$500,000 it was agreed that the City would fund this project, and use a combination of internal financing and unused WIP accounts to pay for it over a 5 year period.
  - (vii) Additionally, the Power Ring will enhance the fan experience and play a role in attracting fans to Copps, thereby continuing last year's trend of increased ticket sales and ancillary revenues for hockey and other events.

(b) The Business Case:

(i) All NHL, and many AHL, Junior and College venues have Power Rings; they have become a staple of revenue generation and fan experience. Its value is not dependant on an NHL team.

(ii) Global Spectrum's sales arm, Front Row Marketing, manages over 40 venues in North America and has determined from their experience that hockey alone may generate approximately \$350,000 in new sponsorship and advertising revenues connected to the Power Ring in the 2013/14 season with the number potentially reaching \$500,000 in subsequent years. It is anticipated that non hockey events can generate another \$60,000 to \$70,000 in revenues annually.

(iii) There is a revenue sharing agreement between Global Spectrum, Front Row Marketing, and the Hamilton Bulldogs. The net effect of the agreement is that approximately 25% of incremental sponsorship and advertising revenues goes to Global Spectrum's bottom line. Therefore using conservative numbers of \$400,000 in fiscal 2014 and \$500,000 in fiscal 2015, the Power Ring would contribute \$100,000 and \$125,000 to Global Spectrum's bottom line. This would greatly enhance the City's potential to participate in profit sharing.

(iv) This increase in net revenues will be a component of Global Spectrum's overall financials and will contribute directly to the potential revenue sharing opportunity to the City based on the Management Agreement formula:

- (1) If Global Spectrum achieves profitability:
  - (aa) GS gets the first \$450,000 of profits
  - (bb) The City share is 70% of all profits in excess of \$450,000. E.g. if Global Spectrum achieves \$750,000 in profits, the City will recognize \$210,000 in profit sharing (to be held in a special Copps Coliseum/Hamilton Place reserve)
- (2) If Global Spectrum experiences losses:
  - (aa) GS covers the first \$500,000
  - (bb) The City covers losses in excess of \$500,000
- (3) The increase in net revenues as a result of this project, will be incremental towards the profit sharing forecasts previously presented to Committee and Council:
  - (aa) 2014 = \$449,000
  - (bb) 2015 = \$529,000
  - (cc) 2016 = \$605,000
  - (dd) 2017 = \$645,000
  - (ee) 2018 = \$687,000
- (4) Three quotes from industry leaders were obtained by Global Spectrum:
  - (aa) Daktronics Inc., ANC, and OES
  - (bb) Daktronics Inc. had the lowest qualified bid of \$599,760.00 excl tax
  - (cc) Total cost of installation and testing is not to exceed \$650,000 excl tax

**FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)**

**Financial:**

The current balance in the Working Fund Reserve (112400) is \$15,130,000. It is recommended that \$350,000 of the Power Ring project be funded from the Working Fund Reserve and to be repaid annually over 5 years plus interest at 2.30% from the annual Capital Contribution to HECFI's Capital Reserve. The City currently contributes \$800,000 annually to HECFI's Capital Reserve (100025), which is incorporated into the City's 10 Year Capital Financing Plan. Therefore \$100,000, plus approximately \$7,000 interest, will be repaid to the Working Fund Reserve annually in the years 2014 – 2018.

It is recommended that the balance of the required funding of \$300,000 be funded from existing HECFI Capital Work in Progress (WIP) accounts that have unspent/uncommitted funds. The table below provides a summary of the available balances in the WIP accounts proposed as a funding source for the Power Ring project.

<b>Proj. ID</b>	<b>Project Description</b>	<b>Available Balance</b>	<b>Proposed Funding</b>	<b>Balance Remaining</b>
3721241800	HCC and CC Replacement and Renos	55,230	(55,230)	0
3721241801	HCC Interior Renovations	167,000	(167,000)	0
3721241803	HP Replacements & Renovations	150,915	(77,770)	73,145
	<b>Total</b>	<b>373,145</b>	<b>(300,000)</b>	<b>73,145</b>

**Staffing: N/A**

**Legal: N/A**

**HISTORICAL BACKGROUND (Chronology of events)**

- (a) March 1, 2013 was the effective date for Global Spectrum Management Agreement
- (b) Regular Facilities Management Meetings have been held over the last 4 months
- (c) A list of short term capital projects was developed in collaboration with Global Spectrum for Copps Coliseum and Hamilton Place
- (d) A priority list was developed, with an emphasis on revenue generation and the fan/patron experience – the Copps Power Ring was identified as the single best incremental revenue generator
- (e) This item had also been high on the HECFI list of priorities
- (f) Quotes were sought for all key projects

- (g) Due to the tight time frames to purchase, install, test, and train, the Power Ring request to the General Issues Committee was brought forward as a Motion on July 8, 2013. A request for a staff report detailing the benefits was requested and is found within this report.

**POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS**

- (a) Single source procurement greater than \$250,000 requires Council approval

**RELEVANT CONSULTATION**

- (a) Finance and Corporate Services – Financial Planning & Policy
- (b) Global Spectrum
- (c) Front Row Marketing

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

- (a) Management Agreement profit sharing formula
  - (i) Global Spectrum receives the first \$450,000 of profits
  - (ii) The City of Hamilton shares in profits that exceed \$450,000 at a level of 70% City, 30% Global Spectrum

**ALTERNATIVES FOR CONSIDERATION**

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

- (a) Consideration was given to having Global Spectrum pay a portion of the cost of the Power Ring from their \$500,000 capital commitment
- (b) It was determined that it was be a much cleaner process to have Global Spectrum allocate their capital dollars to a number of smaller but necessary projects

**ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:**

**Strategic Priority #2**

Valued & Sustainable Services

*WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.*

**Strategic Objective**

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

2.3 Enhance customer service satisfaction.

**APPENDICES / SCHEDULES**

N/A