

Hamilton City Council  
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May 22, 2020

## Examine Commonwealth Games Risk Carefully

Members of Council:

Without question, there are major short and long-term benefits to Hamilton hosting the Commonwealth Games but how much will it cost us and what risks are we taking? There are still several unanswered questions and more importantly a lack of funding commitments from both public and private sector sources in addition to an increasing provincial and federal deficit which may in fact triple within the next few years and calls for a thorough examination of the facts and more importantly the risks involved before we make commitments which may adversely impact generations of Hamilton residents.

The attached report provides a summary of facts and details based on historical records and past trends from hosting the Commonwealth Games and is provided for informational purposes only. In addition to this information the following recommendation is submitted for your consideration.

Whereas there are still several outstanding questions regarding the potential risks and benefits of hosting the Commonwealth Games .....

1. Recommendation is made for Hamilton City Council to commission a comprehensive feasibility study which includes both a detailed cost-benefit analysis and business plan to identify the potential risks and benefits of hosting the Commonwealth Games;
2. that the comprehensive feasibility study be completed by an independent third-party source;
3. that the comprehensive feasibility study should include a public consultation process which may include public information sessions, online surveys, stakeholder engagements, etc.; and
4. the results of this study be made available to the public-at-large.

Kevin Gonci  
Hamilton Resident

## Attachment

*City of Hamilton Commonwealth Games Bid – Examine Commonwealth Games Risk Carefully.*

# City of Hamilton Commonwealth Games Bid

Examine Commonwealth Games Risk Carefully

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# City of Hamilton

## Summary of Previous Commonwealth Games Bids

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### **2010 Hamilton Commonwealth Games Bid**

- Estimated cost: \$715.9 million.
- Federal contribution: \$250 million.
- Provincial contribution: \$250 million.
- City of Hamilton contribution: \$80 million.
- McMaster University contribution: \$50 million.
- Private sector contribution: \$61.4 million.
- Ticket sales: \$18 million.
- Aquatics Center: \$43.6 million.
- Security: \$6.1 million.
- Staffing costs (Organizing Committee): \$42.4 million.
- Contingency: \$23.5 million.

### **2014 Hamilton Commonwealth Games Bid**

- Estimated cost: \$834 million to \$1.6 billion.
- Federal contribution: \$292 million.
- Provincial contribution: \$292 million.
- City of Hamilton contribution: \$100 million.
- McMaster University contribution: \$25 million.
- Aquatics Center: \$36.5 million.

# 2014 Halifax Commonwealth Games Bid

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## **Summary**

Halifax was selected as Canada's bid for the games beating Hamilton, York Region and Ottawa in Canada's bidding process in December 2005. Halifax formed a bid committee (Halifax 2014 Bid Society) that was charged with developing funding proposals and infrastructure requirements necessary for winning the 2014 Games. The committee was in the process of finalising financial details and infrastructure requirements for the bid during the fall of 2006 and winter 2007 and the project received an initial commitment of \$400 million from the Government of Canada. Leaked information about spiraling costs from \$785 million to upwards of \$1.3 to \$1.7 billion, combined with the bid committee's secrecy and publicity campaign, caused funding partners in the provincial and municipal government to withdraw financial support on 8 March 2007, followed immediately by the withdrawal of funding from the Canadian government, cancelling Canada's bid.

## **Background**

- Initial estimated cost: \$785 million.
- Revised International Bid cost: \$1.7 billion.
- Municipal contribution: \$150 million.
- Federal contribution: \$400 million.
- Provincial contribution: \$300 million.
- Private sector contribution: \$165 million.
- Contingency: \$50 million.

## **Halifax Investigation**

Seven months after Halifax's Commonwealth Games bid collapsed, there still wasn't full disclosure of the records of the Halifax 2014 Bid Society, a non-governmental organization put together to pursue the Commonwealth Games, so freelance reporter, Tim Bousquet initiated an investigation of the Halifax bid, the findings of which are summarized as follows:

- In preparation for an international bid submission, the Halifax 2014 Bid Society utilized information derived from an outdated feasibility study which was prepared four years prior to the submission date. Critical line items included unrealistic revenue projections from private sector contributions, revenue from spectator ticket sales and contingency funding estimates which could have left the province vulnerable to significant cost overruns.
- Despite the fact that the majority of the project was to be funded through public taxpayer sources, which included the international bid submission, the Halifax 2014 Bid Society refused to disclose any detailed financial records until it was published in government records almost one year later.

- Various levels of government made their initial funding decisions based on published reports and estimates derived from the Halifax 2014 Bid Society without utilizing an independent third-party evaluation.
- There were several questionable expenditures in relation to the International Bid budget including \$5 million dollars which was used to lobby other Commonwealth Nations to support a Halifax bid and a payout of over \$700,000 in cash grants to each member organization. These disbursements were filed under the category of “sport development” contributions.
- A large portion of this funding paid for first-class travel of a combined Halifax 2014 delegation who visited most of the 70 participating Commonwealth Games countries and hosted dinner parties and social events including a trip to Australia at a cost of just under \$ 1 million dollars.
- There was a significant shortfall of private sector contributions prior to the international bid submission deadline which suggested that the public contribution level would be much higher than originally stated.
- There were critical time constraints in relation to the international bid submission and need to prepare a detailed and accurate business plan and budget resulting in several unanswered questions regarding potential risk and coverage of anticipated cost overruns.

### **Halifax Cost/Benefit Assessment?**

- Cities bid on sporting events such as the Commonwealth Games or Olympics knowing that hundreds of millions of dollars will be spent to host the event and that the revenues will not cover the costs. That’s why these events are not usually hosted privately — the private sector is motivated by profits. The public sector’s motivation to host such events, and risk the taxpayers’ money, is based on the spill-over effects associated with the Games.
- Based on experiences from hosting other major events, the estimates of benefits are usually overly optimistic and costs grossly under-estimated which was the case with the Halifax bid submission.
- Large projects are notorious for cost over-runs. Sports events are as susceptible to this as any other projects.
- The economic impact analysis (EIA) which the Bid Committee used to estimate the net benefits of hosting the Games was not the appropriate tool for comparing costs and benefits and the appropriate tool to determine investment decisions is a cost-benefit analysis.
- For the 2002 Manchester Commonwealth Games the final price tag was four times the original bid estimate and Manchester’s Games committee over-estimated private revenue streams from TV rights, sponsorships, ticketing, licensing, concessions, accommodations and these revenues did not even cover the operating costs of the Games.

# 2014 Glasgow Commonwealth Games

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## City of Hamilton Staff Report

- Stated that the anticipated municipal contribution to host the 2030 Commonwealth Games would be between \$150-\$300 million for capital and operating expenses according to the Commonwealth Games Canada. Additional financial details are included on pages 6-9 of this report.
- *Games Delivery Model* - Over the years, hosting costs have increased and have outstripped the increase in commercial revenues for the Commonwealth Games. Commonwealth Games Federation is implementing changes to the Game's delivery and commercial arrangements to address this financial issue.
- The committed budget to put on the Glasgow 2014 Games was £579.7 million/CA \$1.016 billion<sup>2020</sup>. The Games ultimately cost £543 million/CA \$952.6 million<sup>2020</sup>, £32 million/CA \$56.1 million<sup>2020</sup> under budget.
- Glasgow City Council committed £80 million/CA \$140.3 million<sup>2020</sup>.
- Scottish government committed £381.7 million/CA \$669.3 million<sup>2020</sup>.
- Contribution limits - The Government of Canada will limit its contribution to a maximum of 35% of total event costs and will not exceed 50% of total public sector contribution to the event.
- The Government of Canada will not provide any deficit funding.

## Summary

- The original estimated cost to host the games <sup>(2007)</sup> was £344.089 million/CA \$603.7 million<sup>2020</sup>.
- If we take the figures used by City Staff (£543 million/CA \$952.6 million<sup>2020</sup>) and compare it to the original estimate included in the International Bid submission (£344.089 million/CA \$603.7 million<sup>2020</sup>) we can see that there was an actual increase in cost of (£198.911 million/CA \$349 million) to host the 2014 Games.
- Almost 70% of the Games infrastructure was already in place for the 2014 Games.
- The original security budget was £27.2 million/CA \$47.7 million and increased by 200%, reaching a final total of £90 million/CA \$157.8 million. which was covered through an inflated contingency budget.
- The 2014 Glasgow Commonwealth Games were deemed to be under budget due to the remaining surplus of funds within the contingency budget category.

# 2018 Gold Coast Commonwealth Games

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## **City of Hamilton Staff Report<sup>1</sup>**

- The established budget to host the Gold Coast 2018 Games was CA \$1.807 billion. The Games ultimately cost CA \$1.659 billion, CA \$148.764 million under budget.
- City of Gold Coast contribution CA \$98.895 million.
- Queensland government CA \$1.194 billion.
- Australian government CA \$139 million.

## **Summary**

- The 2018 Gold Coast Commonwealth Games submission was comprised of two budget categories (“Organizing Committee” and “Non-Organizing Committee”) which may be misleading to readers and make it difficult to actually calculate Games-specific costs and therefore may account for the event being deemed to have been under budget.
- The total budget of the “Organizing Committee” was CA \$562.2 million and the total budget of the “Non-Organizing Committee” was CA \$513.2 million for a combined total of CA \$1,075.4 billion.
- Contingency budget approximately 10% or CA \$107.54 million.
- Anticipated private sector contribution \$87.6 million.
- The initial budget for security services was derived through two budget sources (Organizing Committee) CA \$39.3 million and (Non-Organizing Committee) CA \$22.5 million. There were additional security costs associated with utilizing members of Australian Defence Forces (CA \$30.3 million) not captured within the Games budget with the final cost for security services estimated at CA \$155 million.
- 2018 Gold Coast Commonwealth Games was held in conjunction with the “Gold Coast Summer Festival”, the largest public festival in Australia making it difficult to accurately assess the Games versus Festival tourism benefits.
- The Australian Gold Coast region has one of the most robust tourist areas in the world. A tourism report<sup>2010</sup> published by the Australian government estimates 11 million visitors to the region annually.
- 80% of Games venues already in place.
- The Queensland Government guaranteed any Games budget shortfalls of the Organizing Committee.



# 2022 Birmingham Commonwealth Games

## 2022 Birmingham Commonwealth Games

- City of Hamilton Staff Report – *“The Hamilton 100 group has utilized the 2022 Birmingham Commonwealth Games budget as a baseline in calculating the estimated costs of hosting the 2030 Commonwealth Games”.*
- The Initial estimated cost to host the 2022 Birmingham Commonwealth Games was between CA \$1.3 billion to \$1.5 billion dollars.
- British government contribution \$1 billion.
- City of Birmingham contribution \$324.2 million.
- The initial estimated cost for security services was \$353 million.
- The initial estimated contingency amount was \$251 million.
- Birmingham City Council borrows \$88 million over 40 years to cover the cost of the Games.
- Birmingham City Council cuts \$8.7 million dollars in community programs and services in order to manage their municipal budget. Most of these programs service, at-risk populations.
- Birmingham City Council utilizes a \$202 million dollar emergency reserve fund to manage municipal budget deficits.
- 2018 news report that Birmingham City Council was almost bankrupt due to current financial position and there were serious concerns with potential Games cost over-runs.
- *“Last week, accountants Grant Thornton triggered a rare S24 notice, using powers under the Local Audit and Accountancy Act to force a full council debate on the worrying financial position. One councillor called the situation “a total and absolute disaster”.”<sup>2018</sup>*
- *“It is fair to say that the cost of the Commonwealth Games is having an impact on the day-to-day running of council services.”<sup>2018</sup>*
- As of 2020 there is a \$47.6 million dollar shortfall in private sector contributions and significant cost over runs related to security services and housing development.
- Birmingham City Council implements public tax increases over the next four years to address cost over-runs including the introduction of a new hotel tax.
- Birmingham City Council reduces number of Games events, size of housing complex, downsizing and redistribution of venues to reduce costs.

## National Bid to Host 2022 Commonwealth Games

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### **City of Victoria, British Columbia.**

- Expression of interest June 2017.
- Withdrew interest August 2017.
- Hosted 1994 Commonwealth Games.
- Unable to secure Provincial funding.

### **City of Toronto, Ontario.**

- Expression of interest March 2017.
- Withdrew interest May 2017.
- Hosted 2015 PAN AM Games.
- Expression of interest withdrawn following City Staff Report which indicated that the City of Toronto would be a strong candidate however there were too many uncertainties including Provincial and Federal funding support and detailed cost estimates for housing and security.

### **City of Edmonton, Alberta.**

- Expression of interest March 2014.
- Withdrew bid February 2015.
- Hosted 1978 Commonwealth Games.
- Province of Alberta withdraws funding support.

## National Bid to Host 2026 Commonwealth Games

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### **City of Calgary, Alberta.**

- Expression of interest January 2020.
- Withdrew interest April 2020.
- Unable to secure Provincial and Federal funding.

# 2030 Hamilton Commonwealth Games Bid

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## **City of Hamilton Staff Report**

- *“Given the short time available for review of the Hosting Proposal Part 2 and that the feasibility of the hosting concept has not been confirmed, staff are unable to make a recommendation to endorse”.*
- 2030 Hamilton Commonwealth Games budget \$1.425 billion.
- City of Hamilton contribution: \$100 million.
- City staff anticipate the municipal funding contribution between \$200 million and \$300 million.
- Provincial contribution: \$350 million.
- Federal contribution: \$600 million.
- Contingency \$40 million.
- \*Security \$140 million.
- Venue development and overlay \$619 million.
- Private sector contribution: \$45 to \$50 million.
- Education contribution: \$30 to \$40 million.
- Naming rights & fundraising: \$15 to \$20 million.
- \*Athletes residence: \$437 million.
- \*Official’s accommodations: \$240 million.
- \*Multi-Sport facility #1 (98,000 sf) \$29 million.
- \*Multi-Sport facility #2 (65,000 sf) \$20 million.
- \*Multi-Sport facility #3 (56,000 sf) \$17 million.
- Aquatics Center: \$36.5 million<sup>2015</sup>.
- Construction would need to be completed by 2028.

- The athlete's village is not part of the game's expenditures and are assumed to be funded under a separate stream.
- The City has a variety of funding sources it can leverage in addition to the tax levy, including development charges (DC), debt, assets and in-kind services.

### **\*Security Costs**

The security costs incurred by other major international multi- - sport events provide a benchmark for estimating the security costs of the 2030 Commonwealth Games including:

- 2014 Glasgow Commonwealth Games: CA \$157.8 million (initial \$45.5).
- 2018 Gold Coast Commonwealth Games: CA \$155 million (initial \$120).
- 2015 Toronto PAN AM Games. CA \$182 million (initial \$129).
- 2022 Birmingham Games CA \$353 million (initial).

### **\*Residence/Accommodations**

#### **Technical Officials Accommodations**

- Average of 200, 2-bedroom units per building.
- Up to 4 sites in city centre (sites to be determined).
- Approximate cost \$281 to \$488 million.

#### **Athletes Village**

- Proposed location - McMaster University.
- *"Not owned by the City of Hamilton".*
- The athlete's village is not part of the game's expenditures and are assumed to be funded under a separate stream.
- Required bed capacity – 6,000
- Current bed capacity – 3,600
- Bed deficiency – 2,400
- Approximate cost \$456 million to \$780,000.

### **\*Multi-Sport Facility (3)**

- Estimated cost based on approximate square footage times industry average of \$300 pers square feet.

## Summary

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1. Based on historical trends from hosting past Commonwealth Games, there tends to be significant cost over runs related to security services and housing development.
2. Most budgets have relied on the resale of a portion of the housing units at fair market value at the conclusion of the games. This strategy contributes to reducing the overall games debt.
3. Hamilton City Staff (February 19, 2020) provided a housing unit cost estimate between \$190,000 to \$325,000 per unit.
4. The projected security costs (\$140 million) for hosting the 2030 Commonwealth Games was validated through a comparison with the 2015 Toronto PAN AM Games. A more accurate comparison could have been made with one of the historical Commonwealth Games events or recent estimate for the upcoming 2022 Birmingham Games which has recently been published at CA \$353 million.
5. There are currently no formal funding commitments from the private sector, Provincial or Federal governments.
6. There has been no formal expressions of interests (internationally) to host the 2026 Commonwealth Games and as previously illustrated (Victoria, Toronto, Edmonton, Calgary and Halifax) difficulty securing critical funding at various levels of government.
7. Based on the forecasted Venue Development & Overlay Plan and initial cost estimates, the identified budget of \$619 million dollars, appears to be inadequate.
8. Based on a review of several Post-Games reports, there appears to be a significant need for substantial “contingency” funding to effectively deal with unexpected cost over runs. The current contingency budget of \$40 million dollars appears to be low.
9. The plan for the Athlete’s Village involves making use of the current inventory of student beds at McMaster University (3,600) leaving a deficiency of 2,500 beds. The cost for the projected 2,500 additional beds is approximately \$456 to \$780,000 million dollars, responsibility for this cost along with post-games ownership of this facility needs to be identified.
10. With regards to potentially hosting the 2026 Commonwealth Games, please consider that this shortened time frame will most likely result in higher labour and building costs due to the size and scope of work to be performed.

11. Potential adverse publicity - while the community gains if the Games succeed, there's a big downside if it's a failure. Any major problems would be broadcast around the world, damaging our existing quality brand.
12. Provincial taxpayer hit - we are all one taxpayer here, and the provincial taxpayer will also be hit. Given the lengthy lists of promises and political climate, how solid is any commitment to provide funding?
13. Local agenda dominated - this mega event will dominate the local agenda for years potentially pushing sewer treatment, aging infrastructure, transportation and other important capital development projects to the back burner.
14. Other bids nixed - It is worth considering that Toronto, Victoria, Calgary, Edmonton and more appropriately Halifax withdrew their bid after concluding the risks and costs were too high.

