Hamilton

CITY OF HAMILTON

CITY MANAGER'S OFFICE
City Manager

TO: Mayor and Members General Issues Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: June 23, 2011	
SUBJECT/REPORT NO: Independent External Audit Review of HECFI Operations (CM11013) (City Wide)	
SUBMITTED BY: Chris Murray City Manager **SIGNATURE:**	**PREPARED BY:** Art Zuidema 5639

RECOMMENDATION

(a) That Report CM11013 respecting the Independent External Audit Review of HECFI Operations be received.

EXECUTIVE SUMMARY

In response to Council's December 15, 2010 direction that an Independent External Audit Review of HECFI Operations be conducted, a multi disciplinary co-ordinating team composed of the Internal Auditor, City Treasurer, City Solicitor and the Director of Corporate Initiatives was created. The staff team prepared Report CM11002 (Appendix A). Subsequent to the input from the General Issues Committee, the Terms of Reference, originally attached to Report CM11002 were modified (Appendix B).

To expedite the completion of the requisite audit, staff recommended and Council subsequently authorized, the retention of a consulting group/team outside of the City's usual procurement policies. Informal bids were solicited from four consulting firms.

The Independent External Audit Review is being done in two phases. The first phase, consisting of a review of the operation, has been completed and the attached report by KPMG in conjunction with HLT Advisory Inc. has been prepared for Council's consideration (Appendix C).

It is recommended that General Issues Committee convene for an "in camera" session with respect to "personal matters about identifiable individuals, including municipal or local board employees".

Alternatives for Consideration – Not Applicable

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

Financial: N/A

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND (Chronology of events)

City Council, at its meeting held on December 15, 2010, approved Motion 7.2 which reads as follows:

7.2 Motion respecting Audit of Hamilton Entertainment and Convention Facilities Incorporated

(a) That an Independent External Audit Review be conducted of the HECFI operations;

(b) That upon completion of the Audit that staff report back to Council with a process to privatize HECFI through a Request for Tender Process not overlooking a potential public bid.

City Council at its meeting held on February 23, 2011, approved the General Issues Committee Report 11-006 including the following:

13. Independent External Audit Review of HECFI Operations (CM11002) (City Wide) (Item 12.5)

(a) That Phase One of the Independent External Audit Review of HECFI Operations be approved and funded from the HECFI Reserve in an amount to not exceed $90,000.

(b) That the Terms of Reference for the Independent External Audit Review of HECFI Operations (Appendix A to report CM11001) be approved.

(c) That the requirements of the Purchasing Policy Bylaw be waived in the interests of rapid completion of the Review.

(d) That staff be directed to seek responses from no less than three major accounting firms or their consulting subsidiaries including a Scope of Work and a budget for completion of the tasks set out in the Terms of Reference. That value for money rather than lowest price be part of the evaluation criteria.

(e) That following receipt and evaluation of the responses, the City Manager be authorized to negotiate with one, or more of the firms, and retain a firm to complete the review and to execute a contact for the work in a form satisfactory to the City Solicitor.

POLICY IMPLICATIONS

N/A

RELEVANT CONSULTATION

A project team consisting of the City Auditor, City Treasurer, City Solicitor and the Director of Corporate Initiatives was created in response to Council's direction in December and February. The KPMG report has been reviewed by the project team. A redacted copy, or partial draft, of the KPMG report was reviewed with the Chair of HECFI and the HECFI (CEO) in late May at KPMG's offices.

ANALYSIS / RATIONALE FOR RECOMMENDATION
(include Performance Measurement/Benchmarking Data, if applicable)

N/A

ALTERNATIVES FOR CONSIDERATION

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

N/A

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

APPENDICES / SCHEDULES

Appendix A to Report CM11013: Report to General Issues Committee on February 14, 2011, Independent External Audit Review of HECFI Operations (CM11002).

Appendix B to Report CM11013: Amended HECFI Review Terms of Reference to Independent External Audit Review of HECFI Operations Report (CM11002).

Appendix C to Report CM11013: The City of Hamilton, Independent External Review of HECFI's Operations, June 3, 2011.

Hamilton

CITY OF HAMILTON

OFFICE OF THE CITY MANAGER

TO: Mayor and Members General Issues Committee	**WARD(S) AFFECTED:** CITY WIDE
COMMITTEE DATE: February 14, 2011	
SUBJECT/REPORT NO: Independent External Audit Review of HECFI Operations (CM11002) (City Wide)	
SUBMITTED BY: Chris Murray City Manager **SIGNATURE:**	**PREPARED BY:** Art Zuidema (905) 546-2424, Ext. 5639 Tony Tollis (905) 546-2424, Ext. 4549 Peter Barkwell (905) 546-2424, Ext. 4636 Ann Pekaruk (905) 546-2424. Ext. 4469

RECOMMENDATION

(a) That Phase One of the Independent External Audit Review of HECFI Operations be approved and funded from the HECFI Reserve in an amount to not exceed $90,000.

(b) That the Terms of Reference for the Independent External Audit Review of HECFI Operations (Appendix A to report CM11001) be approved.

(c) That the requirements of the Purchasing Policy Bylaw be waived in the interests of rapid completion of the Review.

(d) That staff be directed to seek responses from no less than three major accounting firms or their consulting subsidiaries including a Scope of Work and a budget for completion of the tasks set out in the Terms of Reference. That value for money rather than lowest price be part of the evaluation criteria.

(e) That following receipt and evaluation of the responses, the City Manager be authorized to negotiate with one, or more of the firms, and retain a firm to complete the review and to execute a contact for the work in a form satisfactory to the City Solicitor.

EXECUTIVE SUMMARY

In response to Council's December 15, 2010 direction that an Independent External Audit Review of HECFI Operations be conducted, a multi disciplinary co-ordinating team composed of the Internal Auditor, City Treasurer, City Solicitor and the Director of Corporate Initiatives has been created. The staff team have prepared Terms of Reference (Appendix A to Report CM11002). The review will be done in two phases. The first phase will be the review of the operation as detailed on Appendix A to Report CM11002, after which a report will be written for Council's consideration. This report will outline options available to Council for further action. In order to expedite the completion of the requisite audit, staff recommend that Council authorize the retention of a consulting group/team, to a ceiling of $90,000 (for Phase One) from the HECFI Reserve, outside of the City's usual procurement policies. Under normal circumstances staff would be required to issue an RFP to solicit bids from the public. Staff is requesting that they seek informal bids instead. Staff will solicit a minimum of three quotes from major accounting firms or their Consulting Subsidiary.

In keeping with Council's direction in December of 2010, staff propose that upon completion of the Audit, that staff report back to Council with a process to privatize HECFI through a Request for Tender Process not overlooking a potential public bid.

Alternatives for Consideration – *Not Applicable*

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

Financial: The direction of Council will require an expenditure which, at this point has not been confirmed. A 2004 review of HECFI by KPMG was completed for approximately $90,000. It is proposed that Council authorize access to the HECFI Reserve for the project costs in an amount to not exceed $90,000.

Staffing: A multi-disciplinary internal co-ordinating team composed of the Internal Auditor, City Treasurer, City Solicitor and Director of Corporate Initiatives will retain the external consulting group/team, manage the review and coordinate subsequent reporting to Council.

Legal: N/A

HISTORICAL BACKGROUND (Chronology of events)

City Council, at its meeting held on December 15, 2010, approved Motion 7.2 which reads as follows:

7.2 Motion respecting Audit of Hamilton Entertainment and Convention Facilities Incorporated

(a) That an Independent External Audit Review be conducted of the HECFI operations;

(b) That upon completion of the Audit that staff report back to Council with a process to privatize HECFI through a Request for Tender Process not overlooking a potential public bid.

POLICY IMPLICATIONS

Staff propose to seek responses from the large consultant practices such as Deloitte, PricewaterhouseCoopers, Ernst & Young, Grant Thornton and KPMG rather than send out an RFP in accordance with the City's Purchasing Policy.

RELEVANT CONSULTATION

This project is being managed through the City Manager's Office. A project team consisting of the City Auditor, City Treasurer, City Solicitor and the Director of Corporate Initiatives was created in response to Council's direction in December. The proposed recommendations have been reviewed and endorsed by both the project team and the Senior Management Team. The City Manager's Office has sought the cooperation of HECFI for the requisite review through the Board Chair.

ANALYSIS / RATIONALE FOR RECOMMENDATION
(include Performance Measurement/Benchmarking Data, if applicable)

N/A

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

N/A

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- A culture of excellence

Financial Sustainability

- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

Intergovernmental Relationships

- Maintain effective relationships with other public agencies

Growing Our Economy

- A visitor and convention destination

APPENDICES / SCHEDULES

Appendix A - Terms of Reference

AZ/db
Attach. (1)

HECFI REVIEW TERMS OF REFERENCE

PHASE ONE – FINANCIAL REVIEW

A Financial Review of HECFI shall be conducted and consist of the following:

- Evaluation of the economy and effectiveness of the current structure and organization as well as the efficiency of key processes and management practices.
- A review of major Board decisions (over the last # years).
- A review of the decision making authority of staff and Board and interaction thereof.
- A five year review and comparison of all revenues with explanations of material variances from budget.
- A five year review and comparison of all net costs and thus profitability for each area of business (cost centres), with explanations of material variances.
- Development and calculation of key financial indicators to measure HECFI performance over the past five years.
- A review of the strategic plan (goal setting), its effectiveness and achievements over the last five years.
- A review and assessment of the impacts of any / all restrictions imposed by City.
- Review impacts of City Cost Allocations including costs not currently charged (i.e. utilities).
- A financial outlook (pro forma) outlining the requirements for a break even business case if possible (no restrictions).
- Review alternate operating options including but not limited to the sale of all or parts of HECFI facilities, lease of all or parts of the HECFI Facilities.
- Assess other similar facilities to determine other operating arrangements.

Report to GIC – Decision point, proceed or stop

PHASE TWO – ALTERNATE OPERATING SCENARIOS

- Prepare and issue a Request for Interest (RFI) or Expression of Interest for the purchase or lease of all or parts of HECFI facilities.
- Summarize options in a report to the GIC.

Report to GIC – Decision point, proceed or stop

- Based on GIC discussions and direction, negotiate a tentative agreement with respect to the future operation of HECFI facilities for approval of City Council.

HECFI REVIEW TERMS OF REFERENCE
(as amended by General Issues Committee on February 14, 2011)

PHASE ONE – FINANCIAL REVIEW

A Financial Review of HECFI shall be conducted and consist of the following:

- Evaluation of the economy and effectiveness of the current structure and organization as well as the efficiency of key processes and management practices **including the marketing plan**.
- A review of major Board decisions (over the last # years).
- A review of the decision making authority of staff and Board and interaction thereof.
- A five year review and comparison of all revenues with explanations of material variances from budget.
- A five year review and comparison of all net costs and thus profitability for each area of business (cost centres), with explanations of material variances.
- Development and calculation of key financial indicators to measure HECFI performance over the past five years.
- A review of the strategic plan (goal setting), its effectiveness and achievements over the last five years.
- A review and assessment of the impacts of an /all restrictions imposed by City.
- Review impacts of City Cost Allocations including costs not currently charged (i.e. utilities).
- A financial outlook (pro forma) outlining the requirements for a break even business case if possible (no restrictions).
- Review alternate operating options including but not limited to the sale of all or parts of HECFI facilities, lease of all or parts of the HECFI Facilities.
- Assess other similar facilities to determine other operating arrangements.
- **A review of Human Resources policies.**

Report to GIC – Decision point, proceed or stop

PHASE TWO – ALTERNATE OPERATING SCENARIOS

- Prepare and issue a Request for Interest (RFI) or Expression of Interest for the purchase or lease of all or parts of HECFI facilities.
- Summarize options in a report to the GIC.

Report to GIC – Decision point, proceed or stop

- Based on GIC discussions and direction, negotiate a tentative agreement with respect to the future operation of HECFI facilities for approval of City Council.

Appendix C to Report CM11013

KPMG

cutting through complexity™

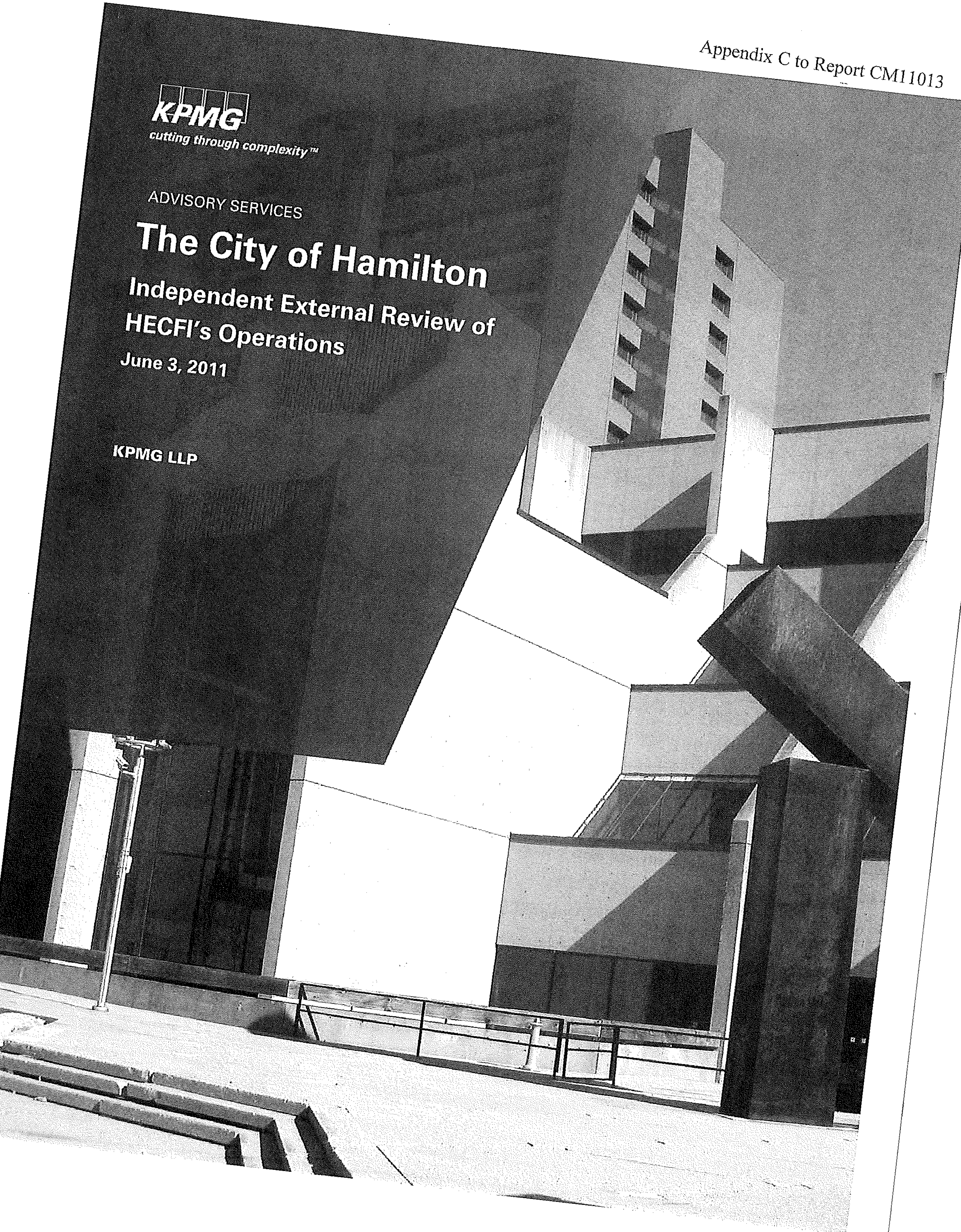
ADVISORY SERVICES

The City of Hamilton

Independent External Review of HECFI's Operations

June 3, 2011

KPMG LLP



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1 Executive Summary

The City of Hamilton is at a crossroads regarding the long-term role of The Hamilton Entertainment and Convention Facilities Inc. ("HECFI"), the arms-length corporation that was established under provincial legislation in 1985 to manage, operate and promote three City-owned facilities – Hamilton Place, the Hamilton Convention Centre, and Copps Coliseum.

After 25 years, HECFI continues to operate these three City facilities that, although structurally sound, are starting to show their age and reduced functionality and customer appeal (e.g. sub-optimal size, limited amenities) when compared to similar competing venues throughout Ontario. At the same time, fundamental changes in the sports, entertainment and convention industries combined with the proliferation of new venues in the Ontario marketplace are making the economics of operating HECFI more difficult each year. This economic trend was manifested in calendar 2010 when HECFI generated a $2.0 million unbudgeted loss that was backstopped by the City.

Commissioned by the City, this report provides an overview of the current operations, financial affairs and organizational structure of HECFI, a benchmarking analysis of HECFI's performance against similar organizations, feedback from several customer interviews, and an overview of the implications of the status quo option vs. alternative operating / ownership options. A number of findings arise from our review.

Current Situation

HECFI was incorporated in 1985 and is a wholly-owned subsidiary of the City of Hamilton. Through its Board of Directors and management team, HECFI manages the day-to-day operations of three special-use facilities located in the downtown core of Hamilton. These facilities are owned by the City and include:

- Hamilton Place (opened in 1973);
- Hamilton Convention Centre (opened in 1981); and,
- Copps Coliseum (opened in 1985).

HECFI is a corporation established under the City of Hamilton Act, 1985. The City is the sole shareholder of HECFI and the owner of all associated facilities. In creating HECFI, the City established a Board of Directors with the authority to manage or supervise the management of the Corporation and the assigned City assets. The City, as the sole shareholder, has approved several versions of a Shareholder Direction that outlines the strategic vision for HECFI as well as related roles and responsibilities. The City can further amend the Shareholder Direction on written notice to the Board. The current Shareholder Direction is dated January 28, 2010.

The HECFI Board of Directors is composed of nine voting members and one non-voting member:

- Voting - Three members of Council, six citizen appointees; and,
- Von-voting ex-officio - Chair person of Tourism Hamilton.

The Board of Directors has established two committees each composed of five Board members:

- Governance and Management Resources Committee – to make recommendations on governance matters, including mandate, Board nominations and evaluations; and,
- Audit and Finance Committee – to monitor HECFI's financial reporting.

Since its inception, HECFI has established relationships with many City departments and with various arm's length organizations. These relationships include:

- City of Hamilton Departments:
  - Finance, Human Resources, Information Technology, Legal;
  - Central Utilities Plant;
  - Tourism Hamilton; and,
  - Economic Development, Downtown & Community Renewal.
- Arm's Length Organizations:
  - Sports Organizations – Hamilton Bulldogs, Hamilton Nationals;
  - Community Arts and Culture Organizations – e.g. Hamilton Philharmonic Orchestra, Opera Hamilton, and the Geritol Follies; and,
  - Various for-profit convention and banquet centres.

Mandate and Governance Issues

HECFI's mandate (and perceived mandate) has evolved since the organization was created in 1985 as a result of various actions and decisions, including:

- Enabling legislation Bill Pr34 (although this largely focused on Hamilton Place) and related amendments;
- A 2004 KPMG study that ultimately prompted certain HECFI governance-related changes with the exception of a clarified mandate; and,
- A Shareholder Direction to the Board that sought to clarify the mandate of HECFI but left various aspects open to interpretation.

As a consequence, two viewpoints now exist as to the current mandate of HECFI:

- Viewpoint 1 - HECFI should be operated in such a manner as to generate broad economic activity with a focus on Hamilton's downtown.
- Viewpoint 2 - HECFI should be operated solely as a business with a profit-making or, at a minimum, break-even focus.

The lack of clarity of mandate and direction results in ongoing friction between two diametrically opposed views; consequently, the following issues have developed:

- The Board is unclear on direction;
- Management struggles with attempting to address two irreconcilable objectives;
- The City, as shareholder, is unclear on mandate;
- Certain community arts and culture organizations have left for new venues; and,
- Tension has developed between the City, the Board and Management.

The tension between the two viewpoints on the Board has resulted in the senior leadership team of HECFI receiving conflicting direction as to the operational mandate of the organization. A two-day strategic planning session held in July 2010 involving both HECFI Board members and management was unsuccessful in creating any consensus towards a three-year strategic plan for the organization.

The differing views as to HECFI's mandate and priorities has also resulted in the Board and senior leadership team entering into new revenue generating ventures that have a higher level of risk and potentially are outside of HECFI's mandate, namely, the [recently-revised] Hamilton Bulldogs and Hamilton Nationals lacrosse marketing agreements.

Operational Commentary

HECFI is comprised of three disparate buildings, targeted at largely disparate audiences:

- Hamilton Place – Hamilton Place is Hamilton's leading performing arts venue and is comprised of two theatres – the Great Hall and the Studio Theatre. Hamilton Place's revenues fluctuate with its ability to contract entertainment acts for which considerable competition exists across Southern Ontario. Historically, the venue's permanent tenants have contributed relatively modest revenues as compared to other users of the facility. Hamilton Place's attendance figures are comparable or greater than those at similar regional venues located throughout Southwestern Ontario. While the Great Hall caters primarily to larger events, the Studio Theatre has become an important incubator for local talent;

- Hamilton Convention Centre – The Convention Centre, whose market focus historically has been to Ontario/Central Canada organizations/associations and selected national events, is now one of Ontario's smallest convention venues. The Hamilton Convention Centre also has perhaps the least attractive hotel package in an increasingly competitive Ontario market. This has resulted in decreased event activity compared to similarly-sized convention venues. Additionally, the venue's high cost structure (i.e., payroll) renders all but the largest of events marginally economic. Given that the Convention Centre's market positioning is not likely to improve, mandate clarification is crucial for management to determine the strategic approach of the venue; and,

- Copps Coliseum – Copps Coliseum is the most visible element of HECFI's operations and is known as an NHL-sized hockey arena with an AHL hockey team as its primary tenant. The size and scale of Copps Coliseum is vastly disproportionate to the revenue potential from permanent (Bulldogs) and transient (entertainment) users. Due to its high-fixed cost structure, the venue's operating costs reflect building size, not its throughput. While the Bulldogs have been a tenant for numerous years, both attendance and ticket pricing at Bulldogs games is some 20% lower than the AHL average. Similar to Hamilton Place events, major entertainment events at Copps Coliseum carry significant risk with only modest potential return.

In addition to the above, we noted the following observations regarding the market positioning of HECFI:

- An increasingly competitive marketplace: Whether for convention, entertainment or sports events, the marketplace in which HECFI operates will continue to face significant competitive pressures;
- Operating in the shadow of Toronto: All three HECFI venues are inhibited in attracting some events given their proximity to Toronto;
- Concentration of entertainment suppliers: The two largest entertainment promoters control the vast majority of touring entertainment acts;
- Facilities inappropriately sized for the market: While Hamilton Place seems more appropriately sized to support the performing arts needs of Hamilton, the situation at HECFI's two other facilities is more problematic (i.e. the Convention Centre is too small and Copps Coliseum is too large);

- High cost base: Labour agreements in place at all HECFI buildings result in relatively high labour costs compared to alternative venues; and,
- Economics of entertainment programming: The economics of large-event programming is such that limited risk is transferred from the venue to the promoter.

Financial Commentary

In the past, a portion of HECFI's annual operating costs have been subsidized by the City through the City's budgeting process. HECFI determines its expected operating shortfall, makes a subsidy submission to the City and, once approved, is then expected to operate within its operating budget for the year.

The following table summarizes the reported operating results of HECFI for the five years ended December 31, 2010:

Year Ended December 31 ($ 000's)	2006	2007	2008	2009	2010
Revenue	$8,329	$10,783	$12,080	$12,335	$10,091
Subsidy from City of Hamilton	2,784	2,867	2,936	2,790	2,790
Total Revenues	11,113	13,650	15,016	15,125	12,881
Less: Operating Expenses	(11,075)	(13,586)	(14,977)	(15,418)	(14,889)
Budget Surplus (Deficit)	38	64	39	(293)	(2,008)

Over the past five years, the annual operating subsidy from the City has averaged $2.83 million; during the past two years, the operating subsidy from the City has remained flat at $2.79 million (with no increase for inflation over the past four years). For the years 2006 to 2008, small budget surpluses were transferred to the City at the end of the year. In 2009 and more so in 2010, additional funding transfers were required from the City in order to cover HECFI's unbudgeted operating shortfalls; these transfers totaled over $2.3 million, the largest component of which was the unbudgeted loss of $2.0 million in 2010.

In 2010, HECFI generated the majority of its budget deficit in the second half of the year (i.e. 40.3% of the budget deficit occurred in the first half of 2010; 20.8% of the budget deficit occurred in Q3, and 38.9% of the budget deficit occurred in Q4):

2010 Cumulative to: ($ 000's)	March 31	June 30	September 30	December 30
Budgeted loss before subsidy from City of Hamilton	$537	$1,049	$2,414	$2,790
Less: Actual loss before subsidy from City of Hamilton	1,033	1,860	3,642	4,798
Cumulative budget deficit	(496)	(811)	(1,228)	(2,008)

The following are the key contributors to the $2.0M unbudgeted operating loss in 2010:

- Decreased show revenue and associated spin-off revenue;
- Decreased revenues and increased expenses relating to sports operations (i.e. Hamilton Bulldogs);
- Fixed cost structure of HECFI; and,
- Unprofitable operations of the Convention Centre hospitality business.

The City of Hamilton provides HECFI with a significant level of direct and indirect financial subsidies, some of which are recorded in HECFI's financial statements and some of which are recorded in the City's financial statements. The historical subsidies for 2006 to 2010 and the budgeted subsidies for 2011 totaled almost $46.7 million (an average of $7.78 million per annum) and are summarized as follows:

Year Ended December 31 ($000's)	2006	2007	2008	2009	2010	2011
Direct subsidies recorded in HECFI financial statements	$3,060	$3,182	$3,222	$3,403	$5,118	$3,567
Indirect subsidies not recorded in HECFI financial statements	2,870	2,830	2,640	2,660	2,711	2,623
Capital subsidies/expenditures	800	800	800	1,525	3,823	1,065
Total	**$6,730**	**$6,812**	**$6,662**	**$7,588**	**$11,652**	**$7,255**

(*) Further details on City subsidies to HECFI are presented in Table 6.18 of this report.

Of all the subsidies, the only two that are largely variable are the annual unbudgeted surplus or deficit generated by HECFI and the one-time capital expenditures incurred by the City on HECFI-managed facilities. Barring any significant changes to the operations of HECFI, total annual subsidies of between $6 million and $8 million (including unallocated utility and capital costs paid by the City) will likely be required for the foreseeable future assuming no further operating budget shortfalls. It is unlikely that any form of operational change, other than an outright sale of the HECFI facilities, would completely eliminate some level of City subsidization.

It should be noted that HECFI does not receive credit for any parking revenues generated by City-owned parking lots as a result of individuals attending HECFI events. Management estimates these parking revenues to approximate $1.0 million per year.

In addition to the above, we noted the following observations regarding the financial operations of HECFI:

- Level of City subsidization: Barring any significant changes to the operations of HECFI, total direct and indirect subsidies of between $6 million and $8 million per year will likely be required for the foreseeable future assuming no further budgetary shortfalls;
- High fixed cost structure: Approximately 80% to 90% of HECFI's operating costs (excluding flow-through costs) are fixed in nature. Accordingly, the profitability of HECFI is largely contingent on the level of utilization of its facilities and the corresponding revenue generated from rentals, the profits earned on promotions and co-promotions, and related ancillary revenue streams. A decrease in the number of HECFI events and the attendance at these events impacts revenues but does not have a large effect on operating costs;
- Need for financial reporting improvements: HECFI's internal and external financial reporting should be improved in a manner that would make the financial information easier to understand, more transparent and more user friendly;
- Lack of long-term projections: A long-term (3 to 5 year) operational plan should be developed once HECFI's mandate has been clarified in order to provide HECFI and its management with long-term financial targets;
- Losses from sports operations: The business arrangement with the Hamilton Bulldogs that was in place from July 2007 to June 2011 was not profitable for HECFI due to the lack of sufficient fan attendance at hockey games. This deal was revised in June 2011 to the former business arrangement whereby HECFI's risk of operating losses was significantly reduced;
- Information overload: A rationalization of what information needs to be gathered, analyzed and reported would assist in simplifying the operations of HECFI.

Overall Conclusions

First and foremost, the City must clearly articulate the role and mandate of HECFI. At present, confusion exists as to the organization's mandate between members of the City, HECFI's Board, and HECFI's management. As the sole shareholder of HECFI, the City needs to clearly state what the mandate and priorities of HECFI are – either a catalyst for providing economic development and revitalization in the downtown core through the hosting of cultural and entertainment events and conventions with associated City subsidization of operations, or a more business-oriented enterprise that is focused on making a profit and minimizing the level of financial subsidies from the City. Performance measures will also need to be selected and monitored to track HECFI's performance against its renewed mandate.

Once the mandate of HECFI has been clarified by the City, four broad options can be evaluated for the future operation of HECFI and/or individual facilities. These four options are as follows:

- *Existing Municipally-Controlled Operating Model* – Under this option, HECFI would continue to operate as a wholly-owned subsidiary of the City, with its own Board of Directors, and day-to-day operations conducted by HECFI management and staff.
- *Third Party Management of HECFI Facilities* – Under this option, the City would continue to own HECFI and its three venues, but would enter into agreements with one or more third parties who would manage the operations of some or all of HECFI's facilities for a fixed period of time. Although the City would lose day-to-day control over HECFI's operations, the intention is that the deeper financial and human resources and industry specialization of these third parties would result in enhanced utilization and economic efficiencies of HECFI's facilities.
- *Long-Term Lease of Facilities* – Under this option, the City would enter into agreements with one or more third parties who would lease HECFI's land and/or buildings pursuant to a long-term lease / partnership arrangement, thereby reducing the amount of ongoing operating or capital subsidization by the City. The City would have minimal ongoing involvement with the HECFI facilities, and would allow the private sector to operate the facilities in a manner as they see fit (beyond any restrictions or obligations determined necessary at the time of lease).
- *Divestiture of Facilities* – Under this option, the City would enter into agreements with one or more third parties who would purchase HECFI's facilities outright, thereby eliminating the need for any ongoing operating or capital subsidization by the City (beyond any restrictions or obligations determined necessary at the time of sale).

A summary of the benefits, challenges, issues and opportunities for each of these four options is presented in Chapter 8 of this report.

If the selected mandate is the promotion of economic development and revitalization in downtown Hamilton, the City should be prepared to continue to provide HECFI with ongoing operating and capital subsidies regardless of the delivery model selected (i.e., the existing municipally-controlled model or a third-party management model). While a private sector operator may generate additional revenue and realize some operating cost efficiencies, a significant subsidy will likely still be required whether HECFI is self operated or contracted out given the revenue generating constraints (e.g. competition), the nature of the facilities (e.g. size, scale and operating/maintenance costs) and the inherent high operating costs (e.g., payroll commitments.

The subsidization of municipally-held sports, entertainment and convention centre venues is not unique to HECFI; it is normal practice throughout North America. Further, the contracting out of convention centre, performing arts and arena operations is becoming more common in North America, but any municipality (including Hamilton) is cautioned about viewing privatization as a cure-all for operating subsidies given the operating characteristics outlined above.

Conversely, if the new mandate has bottom-line profitability as the primary objective, the long-term lease and/or divestiture options may be more appropriate. HECFI will need to implement significant changes to its operations, including a possible change in operating style and/or the exit from some or all of HECFI's current lines of business.

2 Introduction

A. Objectives of the Report

In February 2011, Hamilton City Council passed a motion requesting that a financial and operational review of The Hamilton Entertainment and Convention Facilities Inc. (HECFI) be conducted by an independent external consultant along with the identification and discussion of alternative management / ownership options for HECFI and its underlying facilities. The underlying driver of the request for the HECFI review was a specific desire to better understand the details of a $2.0 million unbudgeted loss generated by HECFI in calendar 2010. KPMG LLP, in association with HLT Advisory Inc. (collectively KPMG), was retained by the City to undertake the HECFI review.

KPMG LLP is a large global provider of professional and advisory services. HLT Advisory Inc. is a Toronto-based firm that specializes in providing consulting and related support services to the Canadian convention centre, hospitality, gaming and entertainment sectors.

The primary objective of the HECFI review is to assist Hamilton City Council in determining whether HECFI's current operations and organizational structure are appropriate to provide efficient and effective service in the future, and whether the status quo meets the mandate of HECFI and the taxpayers of the City of Hamilton.

Accordingly, this report contains the findings from our financial and operational review of HECFI, a benchmarking analysis of HECFI's performance against other similar organizations, and an overview of alternative operating / ownership options. Our report is intended to assist City Council in better understanding HECFI and its operations, and to provide a contextual overview to assist Councillors in assessing whether the City would like to explore other operating / ownership models for HECFI, including a possible privatization.

B. Scope of Review

The scope outlined by the City for the HECFI review was very comprehensive in nature. In the performing the HECFI review, KPMG was instructed by the City to review, amongst other matters, the following areas:

- HECFI's operations and relationship with the City;
- HECFI's key success measures and performance against these measures;
- HECFI's organizational structure, its functionality and effectiveness in terms of its relationship with other municipal bodies such as Tourism Hamilton and Economic Development;
- HECFI's human resources policies and general compliance with them;
- HECFI's marketing plans;
- Financial management strategies and service delivery;
- Strategic and business planning processes in place;
- Capital planning;

- Financial performance against budget;
- Financial performance by cost centers;
- Financial prospects for the future, including:
  - what needs to be done to improve HECFI's bottom line;
  - whether these changes can be done under HECFI's existing operational structure;
  - if not, what alternative structures are there to improve HECFI's operations;
  - what alternative structure(s) would make HECFI more financially viable.
- HECFI-related expenses paid by the City;
- Alternative options for structuring the operations of HECFI; and,
- Benchmarking of HECFI's operating performance and facilities against similar organizations.

In conducting its review, KPMG undertook the following procedures:

- Toured HECFI's facilities;
- Reviewed background information with respect to HECFI (See Appendix A);
- Interviewed members of HECFI's management team and Board of Directors, the mayor and City Councillors, City staff, users of the facilities and key stakeholders such as Tourism Hamilton (See Appendix B);
- Interviewed a number of arm's length parties engaged in the entertainment, sports and hospitality sectors;
- Reviewed publicly-available information in respect of sports and entertainment facilities comparable to HECFI;
- Held discussions with the City's Steering Committee on our mandate and key findings; and,
- Developed our findings and recommendations.

The following report presents the findings of our review based on the procedures as outlined above.

C. Limiting Conditions

We have relied on HECFI and the City to provide us with complete and accurate information in respect of HECFI and its operations. The comments and conclusions contained in our report are based upon our review of this information and our discussions with management and staff of HECFI and the City, amongst other parties, and our review of other publicly-available information as contained in our files. We have not subjected the information provided to us to any audit or other third party verification procedures, other than to review it for reasonableness. Accordingly, our report and comments inherently rely on the accuracy and completeness of the information provided to us.

This report is given as of the date hereof and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting our report which would have been known or expected to have been known as at the report date, but might come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting our report and its conclusions after the date hereof, we reserve the right (but will be under no obligation) to change or modify the report. Moreover, we reserve the right, but will be under no obligation, to complete any additional analyses that might subsequently be required following the receipt of additional information.

Our report and conclusions must be considered as a whole and that selecting portions of the report and its analyses or the factors considered by us, without considering all factors and analyses together, could create a misleading view of the issues and support underlying our comments and conclusions.

Our review of the operations and financial affairs of HECFI does not represent, and should not be construed as, a formal financial audit of the financial statements of HECFI.

D. Change in Hamilton Bulldogs Business Arrangement

In late May / early June 2011, after a period of four hockey seasons, the ownership of the Hamilton Bulldogs terminated the existing management agreement with HECFI and entered into the negotiation of a new multi-year lease agreement whereby HECFI would become more of a traditional arena owner-manager and the Hamilton Bulldogs would re-assume full responsibility for all sales and marketing, ticket sales, game day operations, arena sponsorship and other activities related to the Bulldogs. The terms of this new lease agreement were still under negotiation at the time of release of this report; accordingly, certain comments contained herein may not reflect the terms of the new arrangement.

Furthermore, the overall size and scope of the sports operations department of HECFI will be reduced in future periods. For example, six full-time personnel associated with the Hamilton Bulldogs have already been terminated by HECFI, and the future revenue and expense streams of the sports operations department will be different than as projected. Although certain transitional issues still need to be dealt with, management of HECFI does not anticipate that there will be a significant long-term impact on the future bottom-line performance of HECFI as a result of this change.

We caution that certain comments herein may still reflect HECFI's former management role with respect to the Hamilton Bulldogs.

3 Current Situation

A. Corporate Overview

HECFI was incorporated in 1985 and is a wholly-owned subsidiary of the City of Hamilton. Through its Board of Directors and management team, HECFI manages the day-to-day operations of three special-use facilities located in the downtown core of Hamilton. These facilities are owned by the City and include:

- Hamilton Place (opened in 1973);
- Hamilton Convention Centre (opened in 1981); and,
- Copps Coliseum (opened in 1985).

Over the past 25 years, HECFI's facilities have hosted many memorable sports and entertainment events, as well as numerous conventions and conferences that have been the source of civic pride to the City and its citizens.

B. Facilities Overview

1. Hamilton Place (a.k.a. Ronald V. Joyce Centre for the Performing Arts)

Hamilton Place is an entertainment facility containing two theatres, the 2,193 seat Great Hall and the 350 seat Studio Theatre. The Great Hall is noted for its acoustic features, making it a leading venue for musical and theatrical performances. The Studio Theatre has recently assumed a greater profile in the facility. It has become a favourite venue for smaller local acts, whether musical or theatrical, and has increased the overall utilization of Hamilton Place. Naming rights for Hamilton Place were acquired by the Ronald V. Joyce Foundation in 2006 for an approximate 12-year period.

In 2010, the First Ontario Tapas lounge was created in the southwest corner of the facility to allow for social gatherings during events. Naming rights for the lounge were acquired by First Ontario Credit Union in 2010 for a three year term. The food and bar service is provided by Compass Group Canada Ltd. Employees are represented by the International Alliance of Theatrical Stage Employees, Local B173.

2. Hamilton Convention Centre

The Hamilton Convention Centre offers 19 meeting rooms with over 52,000 square feet of meeting and conference space. The facilities can accommodate groups of 10 to 1,500 people and offer meeting rooms for plenary and breakout sessions as well as food breaks. The facility also has a full service kitchen capable of producing meals for up to 1,350 diners. The kitchen is physically structured to provide platter service rather than plated service, which is the current favoured method of food preparation for conventions. Food preparation and service is provided by HECFI employees represented by United Food and Commercial Workers Local 102.

A summary of the amount of space available at the Hamilton Convention Centre is presented in the following table:

Hamilton Convention Centre – Meeting Room Dimensions and Capacities

		Capacities			
	Sq. Ft.	Theatre	Classroom	Dining	10x10 Booths
Wentworth Room	19,662	1,540	1,250	1,350	121
Chedoke Room	19,662	1,541	1,350	1,350	102
Meeting Space	12,990	Various sizes and configurations up to 525 people			

Source: HECFI

3. Copps Coliseum

Copps Coliseum is a 17,500 seat arena with an NHL ice surface (85' x 200') that can be reconfigured to an international size ice surface (100' x 200'). The facility has a flexible seating capacity (seven different seating configurations) and is capable of seating approximately 19,000 people for concerts. Total exhibit space at the facility is approximately 117,000 square feet (26,000 square feet arena surface, 61,000 square feet exhibit halls and 30,000 square feet in the concourse). Copps Coliseum has twelve private boxes that are available for both hockey and entertainment events.

Copps Coliseum is in good condition given its twenty five year age. During 2008 to 2009, the lower bowl of the Coliseum was renovated with new seating to replace the original multi-coloured seating. The ice plant is scheduled to be replaced during the summer of 2012 at a cost of $1.8 million. This will resolve user complaints about soft ice conditions.

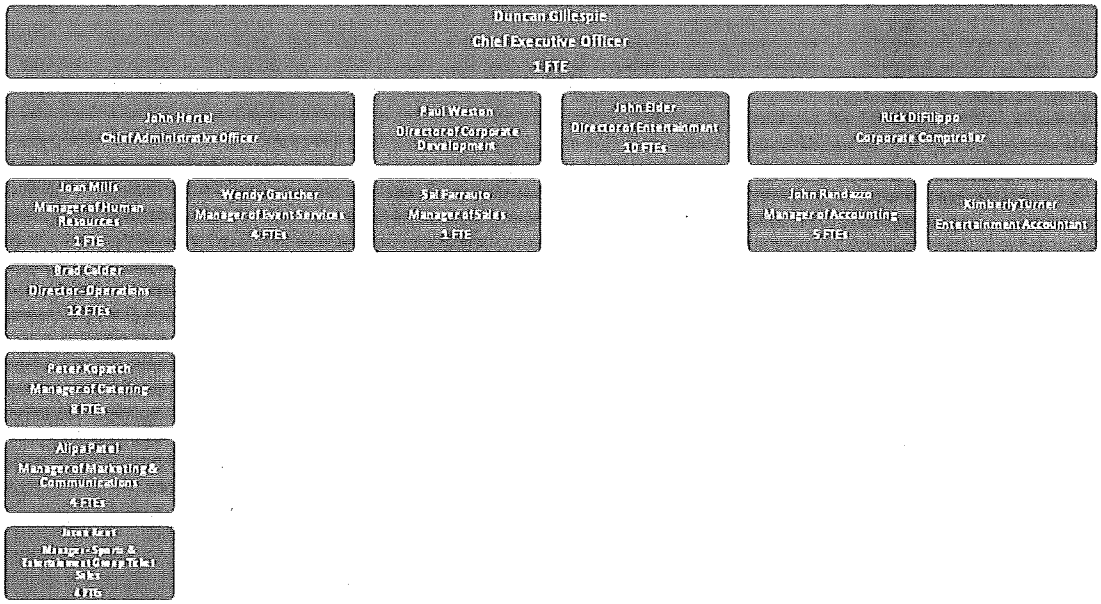
In 2009, an 80 seat licensed restaurant called Gibson's Club Lounge & Restaurant was added to Copps Coliseum. Naming rights to the restaurant were acquired by Gibson's Whiskey. All food preparation and service within Copps Coliseum is provided by Compass Group Canada Ltd.

HECFI employees are represented by the International Union of Operating Engineers, Local 772 (maintenance employees) and International Alliance of Theatrical Stage Employees, Local 129 (stage hands etc.).

C. Management Structure

The management structure for HECFI is led by a Chief Executive Officer (Duncan Gillespie) who is responsible to the Board of Directors for the overall operation of the organization. In addition, there are four senior positions on the management team: Chief Administrative Officer, Director of Corporate and Community Development, Director of Entertainment, and Corporate Comptroller.

The management and full-time employee structure of HECFI (before any personnel changes arising due to the recent termination of the Hamilton Bulldogs management agreement) is illustrated below:



The Chief Administrative Officer (CAO) has responsibility for the administrative functions of the organization - building management and operations, human resources, and marketing and communications. In addition, the CAO has direct operational responsibility for the Hamilton Convention Centre. The CAO works closely with the CEO to lead process and productivity improvements across the organization. In total, the CAO has 39 full-time employees within his operations.

The Director of Corporate Development is responsible for the sale and delivery of the sponsorship portfolio across the three facilities. As well, the Director of Corporate Development has game operation responsibilities for both hockey and lacrosse. There are 2 full-time positions reporting to the Director of Corporate and Community Development.

The Director of Entertainment is responsible for the booking, ticketing, staffing and delivery of entertainment events for HECFI. The Director of Entertainment directly manages the financial settlement with visiting acts, artists or promoters. In addition to the Director of Entertainment, there are 10 full-time employees within these operations.

The Corporate Comptroller is responsible for overseeing the Finance Department's preparation and issuance of financial reports and statements for the three facilities. The Corporate Comptroller provides support to Entertainment on show settlements to ensure accuracy and completeness. In addition, the position provides financial and business advice to senior management and the HECFI Board. There are 7 full-time employees who report through this department.

There were 64 full-time personnel employed by HECFI and approximately 790 part-time positions involved with event delivery and related operations prior to the termination of the Hamilton Bulldogs management agreement in late May 2011. We understand that six full-time employees have been terminated by HECFI since the announcement of the termination of the Bulldogs management agreement.

D. Board Reporting Structure

HECFI is a corporation established under the City of Hamilton Act, 1985. The City is the sole shareholder of HECFI and the owner of all associated facilities, specifically Copps Coliseum, Hamilton Place and the Convention Centre. In creating HECFI, the City established a Board of Directors with the authority to manage or supervise the management of the Corporation and the assigned City assets.

The Board is composed of nine voting members:

- Three members of Council (the Mayor, a member of the Planning and Economic Development Committee and a member of the Audit and Administration Committee)
- Six citizen appointees
- Chair person of Tourism Hamilton (non-voting ex-officio)

Each year, the Board elects the officers of the Board - Chair, Vice-Chairs (2), Treasurer and Secretary. The term of appointment of a Board member is three years with a maximum limit of two consecutive terms. The Chair of Tourism Hamilton is a member of the Board for the length of his / her term as Chair.

The Board's responsibilities are outlined in a Shareholder Direction that was approved by the City. A copy of the current Shareholder Direction, dated January 28, 2010, is attached as Appendix C. The Board's responsibilities are as follows:

a) Establishing annual and long-range strategies and plans consistent with the Shareholder's Business Planning template;

b) Establishing and maintaining appropriate reserves consistent with sound financial principles and the financial performance objectives;

c) Adopting an annual budget;

d) Selecting bankers and other financial institutions and establishing all banking authorities; and,

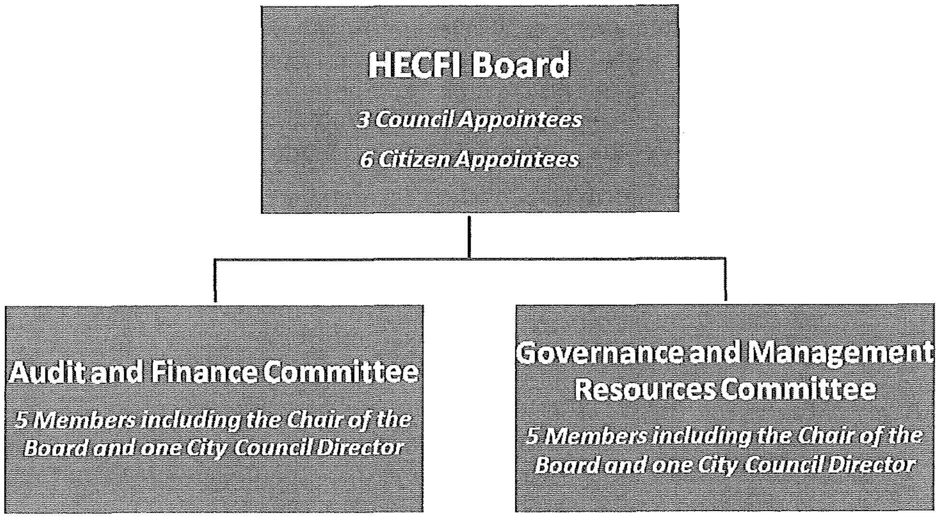
e) Managing and directing all labour and employee relations matters, including recruiting the CEO and conducting annual performance reviews.

In order to carry out these responsibilities, the Board has established two committees each composed of five Board members:

a) Governance and Management Resources Committee – to make recommendations on governance matters, including mandate, Board nominations and evaluations, and to make recommendations on performance management matters relating to the CEO and management policies of the Corporation. The Nominating Committee is a subcommittee of the Governance and Management Resources Committee that is responsible for reviewing, evaluating and selecting new Board members for final approval by City Council.

b) Audit and Finance Committee – to monitor HECFI's financial reporting and disclosure to ensure that accounting functions are performed in accordance with a system of internal financial controls that are regularly assessed and in accordance with GAAP. All members of the Audit and Finance Committee are required to be financially literate in understanding HECFI's financial information.

The Board / Committee structure is illustrated below:



The Board is responsible to annually report to the City on a three year business plan including a ten year capital budget program. Within 120 days after the end of each fiscal year of HECFI, the Board is also responsible for the submission of an annual report that includes the audited financial statements of HECFI. In order to balance its books, HECFI also submits an annual operating budget and funding request to the City for approval.

The external auditor for HECFI is appointed by the City. In addition, the City's internal auditor and any other duly appointed representatives of the City have unrestricted access to the books and records of HECFI.

The City, as the sole shareholder, has established the following limits to the authority of the Board in the management of HECFI. HECFI shall not:

a) Take any action, make any change or enter in to any transaction that requires shareholder approval pursuant to the City of Hamilton Act, 1985, as amended;

b) Take any action, make any change or enter into any transaction with respect to the divestment of the assets;

c) Alter the corporate structure of HECFI in any way, including establishing subsidiaries;

d) Take any action regarding a long-term capital plan for HECFI facilities without shareholder approval; and,

e) Create any deficits or variances from the approved annual budget and operating subsidy without reporting to the shareholder.

The City, as the sole shareholder, may amend the Shareholder Direction on written notice to the Board. The current Shareholder Direction is dated as of January 28, 2010.

E. Relationships with Other City Departments and the Private and Not-For-Profit Sectors

Relationships with the City of Hamilton

HECFI has entered into shared services agreements with City departments for the provision of information technology, legal services, purchasing services and human resources / payroll assistance. These services are provided by the City on an exclusive basis as the sole supplier. Accordingly, all finance, purchasing, information technology and human resource policies for HECFI are consistent with or identical to the City's policies, subject to some modifications to meet HECFI's unique needs.

The City's Central Utilities Plant (CUP) provides certain utilities and mechanical and electrical maintenance services to HECFI's facilities. CUP also co-ordinates certain capital improvements made to the three HECFI venues, which are City-owned facilities.

Tourism Hamilton Inc. (Tourism Hamilton), a subsidiary of the City, has a close relationship with HECFI. In general terms, Tourism Hamilton focuses on preparing City-wide bids for conventions and large scale events and, HECFI, in turn, is responsible for delivering the services. Practically, staff from both organizations work together on marketing and convention bids and serve on host committees together. With respect to the relationship between these organizations, the CEO of HECFI is a non-voting member of Hamilton Tourism's board and the Chair of Tourism Hamilton is a non-voting member of HECFI's board. Tourism Hamilton sees a need for a strong HECFI to support convention business, sporting events and theatre/entertainment opportunities that will spur economic activity in Hamilton and the downtown core in particular.

HECFI has historically had weaker relationships with the Economic Development and Downtown & Community Renewal departments of the City, but liaises with these departments when required to attract business opportunities to Hamilton.

Relationships with the Private Sector – Sports Operations

Prior to the termination of the Hamilton Bulldogs management agreement in late May / early June 2011, HECFI had a sports operations department that had agreements with the Hamilton Bulldogs Hockey Club, LP and the Hamilton Nationals Lacrosse Team LP. In respect of the Bulldogs, during the last four hockey seasons, HECFI was responsible for all non-ice related operations of the team. This includes the following services:

- Game day operations
- Marketing and advertising
- Ticket sales
- Sponsorship

HECFI received all sponsorship revenues and ticket sales in return for an annual fixed payment to the Hamilton Bulldogs. The Bulldogs agreement was concluding the first year of the second three year term, and would have continued for two more years through June 30, 2013.

With the termination of the Bulldogs management agreement, the overall size and scope of the sports operations department of HECFI will be reduced in future periods. For example, six full-time personnel associated with the Hamilton Bulldogs have already been terminated by HECFI, and the future revenue and expense streams of the sports operations department will be different than as projected. Although certain transitional issues still need to be dealt with, management of HECFI does not anticipate that there will be a significant long-term impact on the future bottom-line performance of HECFI as a result of this change (i.e. the Bulldogs will still be a tenant of Copps Coliseum).

In 2011, HECFI entered into another sports marketing agreement to provide marketing, sales and game day operations to the Hamilton Nationals lacrosse team. HECFI receives a fixed management fee for providing these services.

Relationships with the Not-For-Profit Sector – Community Arts and Culture Organizations

During the 38 year history of Hamilton Place there have been three major long-term tenants from community arts and cultural organizations: the Hamilton Philharmonic Orchestra, Opera Hamilton, and the Geritol Follies. Based on our interviews, all three organizations expressed concerns about HECFI's mandate. It has become evident to these community organizations that HECFI has recently shifted its mandate from being supportive of local arts organizations to a mandate of increased focus on financial recovery. At one time, community arts grants from the City covered the full rental cost of Hamilton Place. However, over the past several years, rental costs have increased such that City grants no longer cover HECFI's full rental costs. One organization noted that it received on the same day a letter from the City advising of a 0% increase in its community arts grant for the year and another letter from HECFI notifying it of a 14% increase in rent. Due to these financial pressures, Opera Hamilton and the Geritol Follies have recently moved their offices and operations to Theatre Aquarius and Mohawk College, respectively.

Relationships with the Private Sector – Convention and Banquet Operations

HECFI has historically had a mandate of not competing with the private sector for events such as private banquets and weddings etc., and has not actively solicited these opportunities. However, this business limitation has been lifted in recent years due to the availability of capacity and the fact that the private sector has increased the number of venues and types of activities that compete directly with HECFI. Accordingly, HECFI now compete for weddings and similar social gathering events that can also be provided by the private sector.

HECFI also has discussions with and undertakes joint marketing activities with local hotels when pursuing multi-day events (e.g. conventions, trade shows, conferences, multi-day sporting events) for its three facilities.

4 HECFI Mandate and Governance / Management Practices

A. Evolution of Mandate

Hamilton Entertainment and Convention Facilities Inc. was established in 1985 through Bill Pr34, a Private Act of the Province of Ontario Legislature. Bill Pr34 (the "Act") remains the sole legal expression of the mandate and objects of the corporation.

According to Bill Pr34, the purpose of HECFI is to "maintain, operate, manage, market and promote the Theatre-Auditorium, the Convention Centre and the Trade Centre-Arena for the benefit of the City and the people of the City of Hamilton and in the public interest for the objects of the corporation."

The Objects of the Corporation are also outlined in Bill Pr34 as:

1. To provide facilities and services for performing arts, including the carrying on of all or any of the operations of a theatre, music hall, concert hall, ballroom and cinema;
2. To provide and present educational, social and cultural activities related to the arts or otherwise;
3. To establish educational facilities and provide instruction in all areas of the arts;
4. To present, produce, manage and conduct performances in the performing arts, including plays, dramas, comedies, operas, revues, promenades, and other concerts, musicals and other pieces, ballet shows, exhibitions, variety and other entertainment;
5. To provide facilities and services for amusement and entertainment activities; and,
6. To provide facilities and services for the holding of conventions, meetings, receptions, conferences, exhibitions, displays, sporting events, trade shows and events of every kind.

Since HECFI's inception in 1985, the functions and operations of the enterprise have been modified although corresponding amendments to the Act have not been undertaken. For example, during the 2004 KPMG study, it was noted that HECFI no longer considered either Object 2 or 4 to be part of the (then current) mandate, , most likely a result of the evolution of the organization away from a strictly performing arts venue.

Among other recommendations, the 2004 KPMG study recommended that:

> *"To be effective, the City must first clearly articulate the mandate of HECFI—or role—that it wants HECFI to play in the economic and cultural fabric of Hamilton. The board of directors will then be able to refine the mission statement of HECFI to address the City's requirements. Ultimately HECFI should be able to develop measurable goals and objectives as stated in a business plan that the City and Board could use to measure annual performance."*

Following the 2004 KPMG study, certain amendments were made to the Act to address governance issues (e.g., number and nature of HECFI directors) but none were made to address the mandate specifically. Instead, the City of Hamilton's Strategic Planning and Budgets Committee issued a Shareholder Direction to HECFI in 2008 (which was revised in January 2010) that, among other objectives, sought to bring clarity to HECFI's role and mandate. Section 2.2 of the Shareholder Direction set out the Shareholder's Objectives (since the City of Hamilton is the sole shareholder of HECFI) as:

a) HECFI shall assist the City in achieving the City's overall priorities in the spheres of Vision 2020, economic development, downtown revitalization, tourism and quality of community life;

b) HECFI shall maintain, operate, manage and promote the City's assets as assigned by the City from time to time, including Hamilton Convention Centre, Hamilton Place Theatre and Copps Coliseum;

c) HECFI shall protect the City's assets for long-term sustainability;

d) HECFI shall work with key stakeholders—departments, agencies and private partners—to maximize the economic development and community potential of the City facilities over which HECFI has been given management responsibility.

In Section 3.1, the Shareholder Direction also sets out the Mandate as:

The purpose of HECFI is to generate economic and tourism activity in the City while providing community benefits through the management of its facilities.

Subject to the ongoing ability of HECFI to meet the objectives of the Shareholder set out in this Direction [Section 2.2, above], and the ability of the Board to demonstrate the same, HECFI may engage in any of the following business activities:

a) Maintain, operate, manage and promote the City's assets within its mandate, including Hamilton Convention Centre, Hamilton Place Theatre and Copps Coliseum;

b) Engage in partnership to leverage key market opportunities for the City; and,

c) Seek to reach financial self-sufficiency.

Despite the attempt at clarifying HECFI's mandate through the Shareholder Direction, no clear interpretation or prioritization of mandate exists, either among Board members or between the Board and HECFI management. Interviews with management and individual Board members suggest two, almost wholly differing, positions exist with respect to HECFI's mandate. Supporters of each position are able to refer to sections of the Shareholder Objectives and/or Mandate, as set out in the Shareholder Direction, to support their view. Broadly, the two positions see HECFI as either:

- An economic development creator and community service where the focus is not on HECFI's bottom line but the economic spin offs created in the downtown core (by attendees at HECFI events) as well as the community building aspects of sport, arts and cultural programming; or,
- A business designed to operate the three HECFI venues on a profit-making (or at least break-even) basis. This position recognizes the economic development potential from HECFI venues and programming but believes the current level of City subsidization outstrips current benefits.

The balancing act between the economic development objectives from and the required subsidization for convention centre, sports and related public infrastructure assets is an ongoing challenge for a wide range of municipal and provincial/state governments across North America. This balancing act is best addressed when the funding entity (e.g. municipal or provincial entity) provides clear and unambiguous direction to the governing body / Board that manages the venue. Such definitive direction is lacking in Hamilton with respect to HECFI and its mandate.

B. Comparison of Mandates for Similar Facilities

The lack of clarity with respect to HECFI's mandate (and the associated debate amongst and between HECFI management and the Board) was discussed in the previous section. While the lack of a clear mandate is problematic, the situation is not unique to HECFI as mandate and purpose are often the subject of debate in similar complexes (especially several decades following their creation).

However, another complicating factor with HECFI is the disparate types of buildings within the organization's control. This complication is best evidenced through the Corporate Objects set out in the original Act when the focus was largely Hamilton Place. The Objects clearly spoke to a cultural and artistic focus even including the responsibility to "provide education" and "manage performances". As the organization evolved through the inclusion of the Convention Centre and Copps Coliseum, the Objects were interpreted in different ways.

The following is a summary of the mandates of selected Canadian organizations with multiple venues that are comparable to HECFI:

Sample Mandate and Governance Characteristics: Multi-Purpose Organizations	Halifax	Saskatoon	St. John's	Penticton
Building Convention Centre (total exhibit space + total meeting	47,397 sq. ft.	81,500 sq. ft.	18,200 sq. ft.	37,346 sq. ft.
Arena (Seats)	10,595	N/a	6,250	Two arenas (5,100 and 2,500)
Performing Arts Venue (Seats)	N/a	2,003	N/a	N/a
Mandate	Trade Centre Limited creates economic and community benefits by bringing people together in Halifax and Nova Scotia.	TCU Place exists to benefit our communities by setting the stage and providing excellent facilities and services for business, cultural, social and educational experiences.	N/a	The mission of the Penticton Trade and Convention Centre is to bring conventions, tradeshows and events to the City of Penticton to help further the economic growth of Penticton, BC and by doing so we will provide our customers with a high quality facility and services.
Land and buildings owned by:	Province of Nova Scotia	City of Saskatoon	City of St. John's	City of Penticton
Responsibility for operating control:	Trade Centre Limited, special purpose company created through Order in Council	Centennial Auditorium & Convention Centre Board of Directors	City of St. John's through St. John's Sports and Entertainment	City of Penticton
Structure of Operating Control Entity	Single-purpose corporation	Single-purpose agency	Special-purpose corporation	Global Spectrum Facility Management
Person Responsible Reports to:	Board of Directors	Board of Directors	Board of Directors	Chief Administrative Officer
Other Reporting Relationships:	Board of directors reports to Minister of NS Economic and Rural Development	Board reports to Council	N/a	Mayor and Council
Board	Yes	Yes	Yes	Yes
Board Structure Number	Not less than (7) not more than twelve (12)	12	7	9
Composition	-President (ex off) -4 City Halifax -Balance provincial appointments	-Mayor -City Manager -2 appointed City Councillors -8 Public	-6 private -1 public -2 Ex-officio	Mixed with Council Chair
Term	City reps 2 yrs Others 3 years	Serve for a minimum of 2 years, which is one term, with a maximum of 6 years	Typically 2 year term. Can request extension.	1 year
Max. no. of consecutive terms	Two	Two	Two	N/a

Source: HLT Advisory based on venue websites and interviews
N/a- Not applicable

n/s: not supplied
n/a: not applicable

Appendix D contains a summary of the mandates of additional selected Canadian arena, convention centre and performing arts venues that have comparable components to HECFI.

C. Role of Board and Management

The lack of clarity around HECFI's mandate and the lack of prioritization of the mandate in the Shareholder Direction have led to the development of two different viewpoints on the Board. One viewpoint sees HECFI as a composite of City facilities that are operated in such a manner as to generate broad economic activity with a focus on Hamilton's downtown. The other viewpoint believes HECFI should be operated solely as a business with a profit-making or, at a minimum, break-even focus. The tension between the two viewpoints on the Board has resulted in the senior leadership team of HECFI receiving conflicting direction as to the operational mandate of the organization. For example, a two-day strategic planning session held in July 2010 involving both HECFI Board members and management was unsuccessful in creating any consensus towards a three-year strategic plan for the organization.

In 2008, Bart and Company Inc. conducted a governance workshop for the Board and Senior Leadership that resulted in the establishment and adoption of good governance practices, including governance principles, a charter, and job descriptions for Board members and mandates for Board committees. Since their adoption, certain behaviours have been exhibited by the Board that, at times, have been inconsistent with the adopted good governance practices.

It is evident that the Board is split between individuals who hold the position that HECFI is a business whose primary purpose is the operation of three facilities with minimal financial losses, and individuals who view HECFI's primary mandate as a generator of economic activity in the City and downtown core. The differing views as to HECFI's mandate and priorities has resulted in, in part, the Board and senior leadership team to enter into new revenue generating ventures that have a higher level of risk and are potentially outside of HECFI's mandate, namely, the current Hamilton Bulldogs and Hamilton Nationals lacrosse marketing agreements. As detailed in the following sections, these ventures have had questionable success.

D. Ongoing Monitoring

HECFI recently introduced a series of internally-developed "dashboards" designed to provide senior management with timely insights into overall financial performance as well as performance by venue (e.g., Copps Coliseum, Hamilton Place) and departmental activity (e.g., sponsorship, Bulldogs).

The dashboards are almost exclusively top-line revenue based, reflecting management's focus on financial performance. However, the top-line revenue focus of the dashboards does not necessarily reflect the profitability nor the risks involved in achieving top-line revenues. Clarification of the mandate (on a venue-by-venue basis) should eventually be reflected in any form of ongoing monitoring to enable the City and the Board to determine if the mandate is being achieved.

For example:

- An economic development-focused mandate, might be measured through number of out-of-town conventions (and associated delegates), hotel room night stays, parking revenues or measures that are not necessarily a part of HECFI's financial results.
- A business-focused break-even (or profit generating) mandate will be measured quite differently with more scrutiny of event profitability on an event-by-event basis.

No matter which mandate (or combination of mandates if different between buildings) is selected, certain basic revenue and cost indicators must be tracked on a regular and consistent basis. Suggested performance indicators of HECFI could include, at a minimum:

- Venue utilization showing past and forecasted events as well as the number of dark nights;
- Event summary (total and by venue, showing past and forecasted events) including attendance, revenue and direct costs;

- Performance against budget ($'s) / municipal subsidization levels;
- Average revenue per attendee per event (more applicable for Copps Coliseum and Hamilton Place);
- Average ancillary revenue per attendee;
- Average ticket price (may not be applicable);
- Number of sponsors and total sponsorship $'s;
- Website hits;
- Average monthly deferred revenue (monitors ticket sale proceeds collected in advance of future events); and,
- Some measure of the risk implied in promotions and co-promotions.

Other performance measures may be necessary depending on the revised mandate(s).

E. Strategic Planning and Long-Term Projections

HECFI is currently operating pursuant to a three-year strategic plan for 2008 to 2010 that was developed in 2008. In July 2010, a two-day strategic planning session was held with HECFI management and Board members, with facilitation by an experienced external consultant. Although some progress was made towards the development of a new strategic plan for HECFI, the process was ultimately deferred when consensus could not be reached with respect to the mandate of HECFI. Accordingly, HECFI continues to operate pursuant to the strategic plan developed in 2008.

As previously noted, the Shareholder Direction requires that HECFI's Board submit the following documents to the City for approval on an annual basis:

- a three-year Business Plan;
- a ten-year Capital Plan; and,
- an annual Budget or Operating Plan, complete with a request for a fixed operating subsidy.

A three-year Business Plan and related financial projections for HECFI would normally flow from the strategic planning exercise. Due to the deferral of the strategic planning process, no formal detailed multi-year operating plan currently exists for HECFI. However, management has prepared a high-level operating plan that has been presented to the Board for discussion purposes and approval.

A one-year operating budget for calendar 2011 was developed by HECFI management during the late summer and early fall of 2010. The development of the annual budget incorporates input from various members of HECFI management and staff. While the expenses of HECFI are generally easier to estimate, the budgeting of the amount and timing of revenue streams is more difficult due to uncertainty as to the number of and timing of events (e.g. concerts, conventions etc.), and the expected number of attendees at these events. Consultation with City staff is also required in order to incorporate City cost charge-backs and operating subsidies into the budget. A detailed budget for 2011 was developed by HECFI management and approved by the Board.

HECFI's annual budget is also subject to approval by City Council since it receives a significant amount of annual operating and capital funding from the City. In order to balance its books, HECFI's operating budget for 2011 incorporates a municipal contribution or subsidy of $3.247 million plus a $366k municipal loan. The loan from the

City is intended to be repaid by HECFI from operating surpluses generated in future years. This budget was submitted to and approved by City Council in 2011 subject to the receipt of this report. Further discussion of HECFI's 2011 budget is found in Chapter 6 of this report.

In prior years, management had limited formal processes in place that could be used to forecast impending shortfalls or surpluses in budgeted revenues and bottom-line profit during the remainder of a fiscal year. In late 2010 and early 2011, management created a series of "dashboard" tools that are now used to assist in forecasting revenues, enabling management to proactively seek new events to fill dark days at the three HECFI venues.

A rolling 10-year capital plan and related capital reserves is prepared by HECFI management based on a review of the capital needs of its facilities. In general, HECFI is directly responsible for the cost of new equipment, seating, chattels, and cosmetic capital requirements. HECFI's 10-year capital plan for 2011 has been submitted to City Council and has been approved. The City also prepares a separate 10-year capital plan for City-owned facilities including the HECFI properties. The City is responsible for funding mechanical and electrical projects, as well as major structural improvements, relating to HECFI facilities.

Based on discussions with management, we understand that the HECFI facilities, although aging, are structurally sound and in a good state-of-repair. However, as time progresses, HECFI's facilities are, and will continue to become, outdated compared to newer sports and entertainment venues, and will require major upgrades and capital renewal investments in order to remain vibrant, visually-appealing, technologically-current, and customer-friendly. Fortunately, most of these major capital expenditures are a mid to long-term cost for the City, which owns the facilities.

5 Operational Commentary on HECFI Venues

A. Overview

HECFI operates three different venues in the downtown core of Hamilton which hold different types of events and attract different clientele. Hamilton Place and Studio (two separate venues treated as one venue for purposes of our report) provides a venue for artistic and theatrical productions, smaller concerts, comedies, convocations, and other similar events. The Hamilton Convention Centre offers traditional convention centre events (conventions and conferences, meeting rooms, trade show exhibitions, banquets) complete with full food and beverage capabilities. Copps Coliseum is a larger capacity arena that caters to sporting events (Bulldogs hockey, figure skating exhibitions), major concerts and other family entertainment events.

HECFI operates its venues under three different business or revenue generation models as well – rentals, co-promotions and promotions. These three business models are not specific to HECFI's facilities but are typical for sporting, entertainment and convention venues throughout North America; however, the relative revenue mix from these three models varies from venue to venue and from year to year.

A brief description of the three business models is as follows:

- Rentals—where the HECFI venue is rented to a facility user or promoter for a fixed fee plus the recovery of out-of-pocket costs for event set-up, stage hands, etc. All conventions and almost all other activities in the Hamilton Convention Centre are classified as rentals.
- Co-Promotion—where HECFI shares revenue and cost risk with a facility user / promoter for a given event. These arrangements are often a requirement of the performer and transfer significant risk (i.e., the risk of ticket sales) to the venue while retaining much of the upside benefit (i.e., a significant proportion, often in excess of 80%, of the total revenue, with a guaranteed minimum payment); and,
- Promotion—where HECFI takes 100% of the risk of the event and responsibility for performer fees and all marketing and associated costs, in exchange for 100% of ticket sales and ancillary revenues.

A more detailed discussion of the three HECFI venues and their current competitive environments is presented in the balance of this chapter.

B. Hamilton Place / Studio

i) Operating Environment

Hamilton Place consists of two performance venues: the 2,193-seat Hamilton Place theatre or "Great Hall" and the 350-seat Studio Theatre. Acoustically, the Great Hall is regarded as an exceptional facility while the Studio Theatre has found a niche for up-and-coming artists in the Hamilton area.

Hamilton Place, however, is constrained by its location amid a myriad of competing performance venues within a reasonable drive including venues in Buffalo, Niagara Falls and Toronto. The audience capture area makes the operating environment intensely competitive not only from the perspective of generating visitation but also when competing for performers.

Any of the venues in the following table could compete with Hamilton Place (the Great Hall primarily, assuming the Studio Theatre is largely focused on the local community), and in some cases with Copps Coliseum for a given performer. Each of these venues operates with different objectives which also causes challenges when competing for acts. For example, the casino venues use entertainment as a marketing tool (with a significant number of tickets given away) while some of the arena buildings are looking to "fill in" event days amid hockey and other permanent user groups.

HECFI Market Area Entertainment Venues

Venue	City	Capacity	Permanent Tenant	Owner	Operator
Casino Entertainment Venues					
Seneca Niagara Casino	Buffalo	2,200	n/a	Seneca Gaming Corp.	Seneca Gaming Corp.
Seneca Allegany Casino	Buffalo	2,000	n/a	Seneca Gaming Corp.	Seneca Gaming Corp.
Casino Rama	Orillia	5,116	n/a	Ontario Lottery & Gaming Corp.	Penn National Gaming
Fallsview Casino	Niagara Falls	1,500	n/a	Ontario Lottery & Gaming Corp.	Falls Management Company
Performing Arts Venues					
Hamilton Place	Hamilton	2,193	Hamilton Phil. Orchestra	City of Hamilton	HECFI
Molson Amphitheatre (Outdoor)	Toronto	16,000	n/a	Province of Ontario	Live Nation
Massey Hall	Toronto	2,753	n/a	The Corporation of Massey Hall and Roy Thomson Hall	The Corporation of Massey Hall and Roy Thomson Hall
Canon Theatre	Toronto	2,300		Mirvish Productions	Mirvish Productions
Roy Thomson Hall	Toronto	2,800	Toronto Symphony Orchestra	The Corporation of Massey Hall and Roy Thomson Hall	The Corporation of Massey Hall and Roy Thomson Hall
Sony Centre	Toronto	3,187	n/a	City of Toronto	Independent Board of Directors
Kleinhans Music Hall	Buffalo	2,839	Buffalo Philharmonic	Buffalo Philharmonic Orchestra	Kleinhans Music Hall Mgmt.
Shea's Performing Arts Centre	Buffalo	3,019	n/a	N/A	N/A
Living Arts Centre	Mississauga	1,200	n/a	City of Mississauga	Independent Board of Directors
Theatre Aquarius	Hamilton	750	n/a	Theatre Aquarius	Theatre Aquarius
Lincoln Alexander	Hamilton	300	n/a	Oscar Kichi	Concord Management
Mid-Sized Arenas					
Copps Coliseum	Hamilton	18,500	Hamilton Bulldogs	City of Hamilton	HECFI
Ricoh Coliseum	Toronto	9,250	Toronto Marlies	City of Toronto	Maple Leafs Sports and Ent.
Hershey Centre	Mississauga	4,800	Mississauga St. Michaels Majors	City of Mississauga	SMG
Major Arenas					
Air Canada Centre	Toronto	19,800	Toronto Maple Leafs, Toronto Raptors	Maple Leafs Sports and Entertainment	Maple Leafs Sports and Ent.
HSBC Arena	Buffalo	19,276	Buffalo Sabres, Buffalo Bandits	Erie County and City of Buffalo	Tony Pegula/Buffalo Sabres

Source: HLT Advisory Inc. based on individual venue websites.
n/a-not applicable

A number of other local competing performing arts venues would include The Sanderson Centre (Brantford), Oakville Place (Oakville), The Centre in the Square (Kitchener) and the Shaw Festival Theatre in Niagara-on-the-Lake.

With the exception of a rumoured expansion of the entertainment centre at Fallsview Casino (to 5,000+ seats) and the completion of the Burlington Performing Arts Centre (approximately 750 seats) in September 2011, no significant new supply of local performance venues is expected over the short term.

ii) Market Realities

The competitive challenges facing Hamilton Place are significant.

Strengths	Weaknesses
▪ Quality permanent tenant (Hamilton Philharmonic Orchestra) ▪ Established relationships with national event managers (Live Nation Canada) ▪ Knowledgeable management team	▪ Competitive facilities in nearby markets ▪ Nature of contracting relationship places a disproportionate share of economic risk on the venue (all

▪ Studio Theatre and Great Hall (and Copps) offer a range of venue configurations ▪ Superior acoustics	downside, limited upside) ▪ Higher labour costs ▪ Ticket prices achieved in Hamilton are lower than Toronto (even lower than some other regional markets such as London) (no mechanism exists to track pricing) ▪ Technical capability is falling behind competitive venues ▪ Facility is tired and requires some improvements to freshen visual appeal
Opportunities	**Threats**
▪ Closer relationships with regional promoters	▪ Increasing consolidation of entertainment event management leads to pressure on performer costs and exclusive relationships with fewer venues ▪ Aging/changing audience demographics and the challenge of selecting acts that meet consumer preferences

iii) **Sources of Revenue**

The table below summarizes attendance and ticket sales for each of the last five years.

Hamilton Place Historical Attendance & Revenue by Venue

		Paid Attendance	Gross Ticket Sales
Hamilton Place			
	2010	103,803	$5,403,699
	2009	99,719	$4,863,145
	2008	132,541	$6,723,426
	2007	98,014	$4,350,724
	2006	94,846	$3,965,849
Studio Theatre			
	2010	11,584	$352,322
	2009	12,771	$396,422
	2008	8,896	$213,253
	2007	7,233	$165,194
	2006	5,055	$94,063
Combined			
	2010	115,387	$5,756,021
	2009	112,490	$5,259,567
	2008	141,437	$6,936,679
	2007	105,247	$4,515,918
	2006	99,901	$4,059,912

Source: Hamilton Entertainment and Convention Facilities Inc.

HECFI revenues from Hamilton Place events (ticket commissions, food and beverage, and other) are summarized below

Hamilton Place HECFI Revenue (000s)				
	Rentals, License Fees, and Shows*	Food and Beverage	Other	Total
2010	$580	$91	$1,949	$2,620
2009	$588	$345	$2,036	$2,969
2008	$591	$338	$2,305	$3,234
2007	$404	$285	$1,707	$2,396
2006	$375	$257	$1,375	$2,007

Source: Hamilton Entertainment and Convention Facilities Inc.
**HECFI's share of Gross Ticket Sales.*

Peak revenues were achieved in 2008 and 2009, with a significant fall off experienced in 2010 (consistent with the decline in entertainment activity at Copps Coliseum as well as across the Canadian live performance sector). The Studio Theatre remains a strong (and high margin) contributor to HECFI, despite the revenue shortfalls experienced in 2010. From a community perspective, the Studio Theatre also provides a venue for local artists that is not available elsewhere in Hamilton.

iv) Comparative Analysis

Public sector support of performing arts centres is common across Ontario and Canada. The quantum and nature of support varies widely and is most often a function of facilities (i.e., size and scale of historical capital commitments to physical structures) as well as local arts and culture activism.

For the most part these structures, and the activities within them, are governed directly or indirectly by a municipal authority. The table below summarizes activity and associated subsidies of selected Ontario performing arts venues:

HECFI Comparables- Performing Arts Venues							
	City	Capacity	Permanent Tenant	Owner	Operator	Annual Attendance	Annual Subsidy ($'000's)
Hamilton Place	Hamilton	2,193	Hamilton Philharmonic	City	HECFI	199,591	985*
The Grand Theatre	Kingston	776	Kingston Symphony Orchestra	City	City of Kingston	20,295	375
Centre in the Square	Kitchener	2,047	Kitchener-Waterloo Symphony, KW Philharmonic Choir, and Opera Ontario (K-W)	City	Governed by 14-member independent board	118,364	1,582
Centennial Hall	London	1,637	Orchestra London	City	Jones Entertainment Group	93,061	70
River Run Centre	Guelph	785	Guelph Symphony Orchestra	City	City of Guelph	n/a	385
Living Arts Centre	Mississauga	1,200	n/a	City	Independent Board of Directors	86,474	1,090

Source: Based on various venue websites and financial statements as well as Municipal Operating Budgets. Attendance and Annual Subsidies are for the most recent year available.
n/a- not available
**Based on departmental operating loss plus allocation of shared HECFI expenses.*

Hamilton Place has produced annual attendance figures well above or comparable to other Ontario performing arts centres. These results reflect the importance of "local" performance offerings (e.g., Hamilton Philharmonic Orchestra) as well as interest in touring artists drawing from regional marketplaces (e.g., where Hamilton is not competing with major Toronto venues for such artists).

C. Hamilton Convention Centre

i) Operating Environment

The Hamilton Convention Centre opened in 1981 offering about 54,000 square feet of rentable area. The Hamilton Convention Centre was one of Ontario's original purpose-built convention facilities, followed by the Ottawa Congress Centre in 1983 (a completely rebuilt Ottawa Convention Centre opened in April 2011), the Metro Toronto Convention Centre (1984), and the London Convention Centre (1993). The Scotiabank Convention Centre (Niagara Falls) opened in April 2011.

The Hamilton Convention Centre is among the smallest convention centre venues in Ontario and is also supported by the smallest number of adjacent, downtown hotel rooms.

Ontario Convention Facility and Hotel Supply Summary

	Exhibit Space (sf)	Meeting/ Ballroom Space (sf)	Total Rentable Space (sf)	Downtown Hotel Rooms	Hotel Rooms/ 1,000 sq. ft. of Total Space
Metro Toronto Convention Centre	453,648	113,227	566,875	16,500	28.7
Ottawa Congress Centre	64,993	83,744	148,737	7,000	47.1
Scotiabank Convention Centre	81,140	42,965	124,105	12,500	100.7
Hamilton Convention Centre	19,662	32,652	52,314	765	14.6
London Convention Centre	-	43,357	43,357	1,900	43.8

Source: HLT Advisory Inc, individual convention centres

The lack of hotel supply has been identified by HECFI management as a significant limiting factor in marketing convention space, particularly to larger conventions. Hamilton has fewer convention-quality, downtown hotel rooms than any of the competitive Ontario convention venues, and notably less hotel room availability than the more directly comparable destinations (for Ontario regional events) of Niagara Falls, Ottawa and London.

ii) Market Realities

The Convention Centre operates in an intensely and increasingly competitive marketplace and offers relatively few advantages or unique selling propositions over its principal competitors.

A summary of strengths, weaknesses, opportunities and threats follows:

Strengths	Weaknesses
▪ Unique mix of venues ▪ Existing client base with proven track record ▪ High quality food offerings	▪ Smallest Ontario convention centre; limits convention size ▪ Lack of hotel rooms ▪ Signs of building age (colour scheme, limited AV and technological capabilities) ▪ Image of Hamilton and its downtown in particular ▪ In the "shadow" of Toronto: competitive impact

	▪ Higher cost, unionized labour
Opportunities	**Threats**
▪ Closer marketing alliances with local business generators (e.g., academic institutions) ▪ Closer marketing alliances with "competing" venues to offer broader space offerings ▪ Closer marketing alliances with adjacent hotels and banquet centres ▪ Ability to cross-sell other HECFI facilities	▪ New and more contemporary supply in Niagara Falls and Ottawa ▪ Local private venues compete aggressively on social/catering business (e.g. Carmen's, Michelangelo's, Liuna Station, Sheraton Hotel)

The lack of clarity and prioritization with respect to mandate in the Shareholder Direction is also problematic as Convention Centre management are unclear as to how aggressive to approach local catering and social events that can be accommodated within other private venues.

iii) Sources of Revenue

Over the past several years the Convention Centre has consistently generated annual revenues between $3.5 million (2010) and $3.8 million (2007). Revenues for 2011 are budgeted at $3.6 million.

Revenues are comprised primarily of space rentals (i.e., the charges for exhibition and meeting spaces as well as ballrooms), commissions for contracted services (e.g., A/V, telecom) as well as food and beverage. The single largest revenue source at the Hamilton Convention Centre, and most Canadian convention centres, is food and beverage. However, the operating margins from food and beverage are substantially smaller than space rental which has resulted in some convention centres looking to alternate operational approaches. The Convention Centre self-operates all food and beverage activities (i.e., kitchen and serving staff are Convention Centre employees) rather than using a contracted-out approach. No consensus exists across Canadian convention centres with respect to the "right" approach for food and beverage management with Toronto, Ottawa, Edmonton and London also self operating while Montreal, Calgary and Vancouver have elected to contract out.

Privately operated exhibit and/or banquet halls in the Hamilton region also offer facilities for events ranging from trade and consumer shows to social catering events (e.g., banquets, weddings) to special functions. Several such facilities have been developed in Hamilton, some since the completion of the 2004 KPMG study.

Competitive Convention/Banquet Facilities						
		---Exhibit Space---		---Meeting Space---		
	City	Total (sq. ft.)	Largest Space (sq. ft.)	Total Meeting Space (sq. ft.)	Largest (sq. ft.)	Largest Banquet
Convention/Banquet						
Hamilton Convention Centre	Hamilton	19,662	19,662	32,652	19,662	1,350
The Careport Hamilton Centre	Hamilton	170,000	170,000	-	-	-
The Grand Olympia	Stoney Creek	-	-	18,670	11,520	480
Burlington Convention Centre	Burlington	-	-	13,812	12,300	1,200
Michaelangelo's Banquet Centre	Hamilton	-	-	1,300	13,000	1,600
Banquet Facilities						
Geraldo's at LaSalle Park	Burlington	-	-	-	-	350
Liuna Station	Hamilton	-	-	-	-	700
Carmen's	Hamilton	-	-	-	-	1,150
Hotels						
Sheraton Hotel	Hamilton	-	-	17,000	5,932	600
Crowne Plaza	Hamilton			18,315	3,600	372

Source: HLT Advisory Inc. based on data collected from various convention centre and banquet hall websites.

These competing facilities present HECFI management, in the midst of addressing financial shortfalls, with a delicate balancing act. Accommodating banquets is one means of generating additional revenue, particularly when traditional convention business is eroding, however it places HECFI in a position of competing with private-sector operators. Most convention centres have developed rules of engagement with respect to soliciting such business, however, in the case of Hamilton, developing such rules would be problematic without a more clearly defined mandate.

iv) Comparative Analysis

Comparing the Hamilton Convention Centre to a comparative set of convention centres[1] illustrates the operating challenges discussed earlier. Revenues fall below those of the comparative set as do the number of events. The Convention Centre's annual operating subsidies also outpace those of the comparable set, however, not to the degree expected given the revenue and event variances.

[1] The comparative set is drawn from the Convention Centres of Canada annual benchmarking survey and includes the convention centres in London, Saskatoon, Halifax and Victoria.

Comparative Event and Revenue Summary (Hamilton Convention Centre and Comp Set) 2007 - 2010								
	Hamilton Convention Centre				Similarly Sized Convention Centres			
Event Breakdown	2007	2008	2009	2010	2007	2008	2009	2010
Convention/Conferences	19	20	38	20	37	40	42	44
Trade Shows	-	1	2	3	6	7	7	9
Consumer Shows	12	10	17	6	8	9	8	9
Meetings	282	322	309	499	312	270	255	201
Food & Beverage Events	197	241	220	120	136	159	150	122
All Other Events	45	46	37	83	35	31	32	43
Total	555	640	623	731	534	516	493	427
Gross Revenue ($000's)	3,715	3,839	3,767	3,511	5,430	6,837	6,217	$6,286
Operating Subsdy ($'000's)	1,432	1,762	1,661	1,585	785	1,319	1,003	$881

Source: HLT Advisory based on Convention Centre of Canada database
Note: Similarly sized convention centres include: Halifax, Saskatoon, London and Victoria.

The most significant event shortfall at the Hamilton Convention Centre is in the convention category and the apparent shortfall in space rental and food and beverage pricing, compared with similarly-sized convention centres. We understand the decline in convention activity has resulted from increased convention centre supply in Ontario and the attractiveness of other destinations. In addition, the southern Ontario hotel community is increasingly active in the meetings and convention sector and in many cases offers comparable space available to the Convention Centre (more than a dozen hotels in the greater Toronto/Hamilton/Niagara Falls corridor offer a single ballroom/exhibit space in excess of 10,000 square feet). The lack of trade and consumer shows is at least partly a result of more competitive buildings (e.g., free parking, easier access for Hamiltonians) in the local market, many operating with a lower cost base.

The inability of the Hamilton Convention Centre to charge comparative prices for food and beverage is problematic as evidenced by the following table.

Convention Centre Menu Price Comparison

	Hamilton	Sheraton Hamilton	Burlington Convention Centre	Halifax	London	Saskatoon	Victoria	Toronto	Ottawa
Coffee	$1.65	$2.65	$2.25	$3.25	$3.33	$2.25	$4.50	$3.60	$3.75
Stuffed Chicken Breast	$28	$44	$33	$40	$39	$37	$55	$57	$54
Prime Rib	$33	$48	$35	$42	$44	$40	$61	$63	$62

Source: Based on convention centre menus.
Note: Entrée prices include soup,salad and dessert.

We are not aware of methodology used to track pricing or pricing sensitivity.

While we have not examined the details of specific union agreements, Convention Centre management has identified union contract provisions (i.e., wage scales, minimum hours per shift, lack of flexibility in position descriptions) as a significant operating cost issue. Using the Convention Centres of Canada benchmarking database provides an interesting comparison of payroll as a percentage of total event revenue (i.e., all space rental, food and beverage, A/V commission associated with an event but excluding any non-event revenue). The Convention Centre's payroll over the last four years is virtually 100% of event revenue and substantially higher than the comparative set.

Payroll as a Percentage of Event Revenue (Hamilton Convention Centre and Comp Set) 2007 - 2010								
	Hamilton Convention Centre				Similarly Sized Convention Centres			
	2007	2008	2009	2010	2007	2008	2009	2010
Gross Revenue ($000's)	3,715	3,839	3,767	3,511	$5,430	$6,837	$6,217	$6,286
Payroll ($'000's)	3,112	3,361	3,568	3,457	2,547	2,956	2,881	$2,847
Payroll %	83.8%	87.5%	94.7%	98.5%	46.9%	43.2%	46.3%	45.3%

Source: HLT Advisory based on Convention Centre of Canada database
Note: Similarly sized convention centres include: Halifax, Saskatoon, London and Victoria.

The HCC will continue to operate in a highly competitive marketplace, facing pricing and operating cost challenges, and is likely to require ongoing subsidization by the City of Hamilton.

D. Copps Coliseum

i) Description

Copps Coliseum opened in 1985 offering 17,500 seats surrounding an NHL-sized ice surface, which can be expanded to international or Olympic size dimensions when required. Copps has multiple seating configurations including the capability of holding concerts of up to 19,000 attendees.

Copps is home to the Hamilton Bulldogs and serves as a venue for concerts, consumer shows, amateur sport events and a variety of other activities. The number of event days on an annual basis, between 2007 and 2010, has ranged between 83 and 91 events. However, attendance levels are much more volatile and have ranged between 693,438 in 2007 to 417,232 in 2010. The decrease in concerts and other productions has been the greatest factor in attendance variation.

Copps Coliseum Events/Performance and Attendance								
	2007		2008		2009		2010	
	Events	Attendance	Events	Attendance	Events	Attendance	Events	Attendance
Amateur Sports[1]	5	14,939	5	30,021	1	3,924	3	2,929
Hamilton Bulldogs	49	242,989	37	169,215	41	174,323	51	181,409
Other Professional Sports[2]	7	147,620	5	30,009	5	35,071	5	32,196
Concerts	14	100,333	20	128,272	18	159,529	11	70,149
Attractions- Family Shows	2	52,102	3	48,217	2	50,998	5	88,065
Conventions	1	2,000	0	-	1	200	0	-
Trade/Consumer Shows	1	5,165	2	5,713	4	23,967	3	16,863
Other[3]	12	128,290	14	64,086	11	75,788	8	25,621
Total	91	693,438	86	475,533	83	523,800	86	417,232

Source: HECFI
1- Total "Amateur Sports" attendance in 2008 was increased by a World Junior Hockey Exhibition game which 15,994 people attended.
2- Total "Other Professional Sports" attendance in 2007 was aided by the Tim Hortons Brier with 111,398 total attendees.
3- Total "Other" attendance in 2007 was aided by a Jahova's Witnesses event with 85,800 total attendees.

Since its opening in 1985, the attraction of an NHL team to Hamilton has been a primary goal of Copps Coliseum management. However, opinions vary widely on both the likelihood of this occurring and the impact on the current hockey tenant, the AHL's Hamilton Bulldogs. Bulldog attendance is in the lower third of the overall league (while playing in an arena with the second largest seating capacity).

From a revenue perspective, the Bulldogs average paid ticket price of $13.28 during the 2009/2010 season compares to the American Hockey League average paid ticket price of US$15.25 during the 2010/2011 season.

Arena Profiles- Hockey Operations (Sorted by Average Attendance)

Venue	City	Team	Capacity Hockey	Average Attendance 2010-2011	Closest NHL Team	Distance (KM)*
AHL						
Giant Center	Hershey	Hershey Bears	10,500	9,800	Philadelphia Flyers	163
MTS Centre	Winnipeg	Manitoba Moose	15,015	8,404	Calgary Flames	1,327
Allstate Arena	Rosemont	Chicago Wolves	16,692	7,453	Chicago Blackhawks	30
Dunkin' Donuts Center	Providence	Providence Bruins	11,940	7,324	Boston Bruins	81
Van Andel Arena	Grand Rapids	Grand Rapids Griffins	10,834	7,241	Detroit Red Wings	252
Quicken Loans Arena	Cleveland	Lake Erie Monsters	19,941	6,568	Pittsburgh Penguins	215
AT&T Center	San Antonio	San Antonio Rampage	13,400	6,411	Dallas Stars	437
Mohegan Sun Arena at Casey Plaza	Wilks-Barre	W-B/Scranton Penguins	8,350	6,360	New Jersey Devils	193
Houston Toyota Center	Houston	Houston Aeros	17,800	6,326	Dallas Stars	389
Time Warner Cable Arena	Charlotte	Charlotte Checkers	14,100	6,312	Carolina Hurricanes	248
Bradley Center	Milwaukee	Milwaukee Admirals	17,800	5,796	Chicago Blackhawks	148
XL Center	Hartford	Connecticut Whale	15,635	5,695	Boston Bruins	164
Verizon Wireless Arena	Manchester	Manchester Monarchs	10,019	5,461	Boston Bruins	89
Cedar Park Center	Cedar Park	Texas Stars	6,600	5,340	Dallas Stars	296
Carver Arena	Peoria	Peoria Rivermen	10,129	5,196	Chicago Blackhawks	270
War Memorial at Oncenter	Syracuse	Syracuse Crunch	6,230	5,154	Buffalo Sabres	244
Ricoh Coliseum	Toronto	Toronto Marlies	7,851	4,694	Toronto Maple Leafs	4
Cumberland County Civic Center	Portland	Portland Pirates	6,733	4,655	Boston Bruins	171
Norfolk Scope Arena	Norfolk	Norfolk Admirals	8,725	4,490	Carolina Hurricanes	305
Metro Centre	Rockford	Rockford Ice Hogs	5,767	4,360	Chicago Blackhawks	143
Copps Coliseum	Hamilton	Hamilton Bulldogs	17,500	4,257	Toronto Maple Leafs	66
Cox Convention Center	Oklahoma City	Oklahoma City Barons	13,399	4,155	Dallas Stars	327
Webster Bank Arena	Bridgeport	Bridgeport Sound Tigers	8,500	4,140	New York Rangers	94
DCU Center	Worcester	Worcester Sharks	14,800	4,068	Boston Bruins	68
Blue Cross Arena	Rochester	Rochester Americans	10,659	3,872	Buffalo Sabres	122
Abbotsford Entertainment & Sports Center	Abbotsford	Abbotsford Heat	7,046	3,807	Vancouver Canucks	72
MassMutual Center	Springfield	Springfield Falcons	6,875	3,717	Boston Bruins	147
Broome County Veterans Memorial Arena	Binghamton	Binghamton Senators	4,710	3,652	New Jersey Devils	269
Glens Falls Civic Center	Glens Falls	Adirondack Phantoms	4,806	3,575	Boston Bruins	352
Times Union Center	Albany	Albany Devils	14,236	3,114	New York Rangers	237
		Average	**11,220**	**5,380**		
OHL						
John Labatt Centre	London	London Knights	9,100	8,948	Toronto Maple Leafs	194
Ottawa Civic Centre	Ottawa	Ottawa 67's	9,862	7,881	Ottawa Senators	25
Kitchener Memorial Auditorium	Kitchener	Kitchener Rangers	7,100	6,341	Toronto Maple Leafs	106
WFCU Centre	Windsor	Windsor Spitfires	6,500	6,111	Detroit Red Wings	14
Essar Centre	Sault Ste. Marie	Sault Ste. Marie Greyhounds	5,000	4,552	Detroit Red Wings	561
Sleeman Centre	Guelph	Guelph Storm	5,100	3,657	Toronto Maple Leafs	95
Barrie Molson Centre	Barrie	Barrie Colts	4,195	3,490	Toronto Maple Leafs	101
Hershey Centre	Mississauga	Mississauga St. Michael's Majors	5,800	3,006	Toronto Maple Leafs	32
Gatorade Garden City Complex	St. Catharines	Niagara IceDogs	3,145	2,900	Buffalo Sabres	58
K-Rock Centre	Kingston	Kingston Frontenacs	5,700	2,848	Ottawa Senators	191
Peterborough Memorial Centre	Peterborough	Peterborough Petes	4,329	2,592	Toronto Maple Leafs	138
Powerade Centre	Brampton	Brampton Batallion	4,800	1,750	Toronto Maple Leafs	36
		Average	**5,886**	**4,506**		

Source: HLT Advisory Inc. based on individual arena and league websites.
**Distance in Kilometres to closest team is using driving distances provided by Google Maps.*

Moreover, the average attendance at Bulldog's games at Copps Coliseum is even lower than 4,257 after removing the impact of two regular season games that are held at the Molson Centre in Montreal.

ii) Market Realities

Strengths	Weaknesses
▪ Hockey is a galvanizing link for all HECFI facilities ▪ Copps is a focal point in downtown Hamilton ▪ Flexibility of building permits multiple use types of use ▪ Provides Hamilton with an opportunity	▪ Dated building in a market with state-of-the-art facilities (ACC and HSBC Arena in Buffalo) ▪ Higher cost, unionized labour ▪ Operating costs associated with size of building (size not warranted by demand)

to host "top level" concerts and entertainment events	▪ Utility costs are high ▪ Limited private boxes and corporate sponsorship/sales opportunities (advertising panels, scoreboard)
Opportunities	**Threats**
▪ NHL team relocation ▪ Increased usage of the building as a community focal point (community events)	▪ Prospect of NHL team relocation prevents other decisions and limits ability to market Bulldogs effectively ▪ Deferred maintenance will require significant capital investment at some point

iii) Sources of Revenue

Revenues generated at Copps Coliseum are largely a function of attendance, through ticket sales and ancillary revenues (e.g. commissions from food and beverage and related concessions such as concert souvenirs).

Copps Coliseum Historical Attendance & Revenue

	Attendance		Revenue	
	Paid	Total	Gross Ticket Sales	HECFI Revenue
2010	323,907	417,231	$10,417,890	$3,960,000
2009	422,452	521,800	$16,728,880	$5,599,000
2008	402,552	475,531	$15,527,924	$5,007,000
2007	480,431	693,478	$13,332,951	$4,672,000
2006	344,855	460,598	$9,471,550	$3,012,000

Source: Hamilton Entertainment and Convention Facilities Inc.

In addition to revenue generated through ticketed events, HECFI also rents ice time at Copps Coliseum for amounts ranging from $350 to $450 per hour. Such practice is common among AHL and OHL arenas and can generate substantial revenue when promoted for special events (e.g., charity games etc.).

iv) Comparative Analysis

The majority of AHL and OHL arenas in Canada are between 5,000 and 9,000 seats and therefore more appropriately sized for their host communities. In addition to hockey, these arenas are used for a variety of other events including ice rental (tournaments, charity events, corporate groups). Profitability is most often a function of the hockey team attendance.

Comparable Arena Profiles

Venue	CMA Population 2011*	Ownership	Management	Ticketed Event Days 2010 Hockey	Musical	Other	Capacity	Annual Subsidy
Ricoh Coliseum (Toronto)	5,834,408	City of Toronto	Maple Leafs Sports and Entertainment	42	8	60	7,851	$0
Copps Coliseum (Hamilton)	753,490	City of Hamilton	City through HECFI	41	16	19	17,500	
John Labatt Centre (London)	500,916	London Civic Corporation	Global Spectrum	38	55	69	9,100	$0
Kitchener Memorial Auditorium	508,937	City of Kitchener	City of Kitchener	34	2	5	7,100	$751
WFCU Centre (Windsor)	339,169	City of Windsor	Global Spectrum	38	11	28	6,500	$321
Sleeman Centre (Guelph)	141,357	City of Guelph	City of Guelph	35	2	-	5,100	$178
Hershey Centre (Mississauga)	5,834,408	City of Mississauga	SMG	32	n/a	n/a	5,800	n/a
Gatorade Garden City Complex (St. Caths.)	409,841	City of St. Catharines	City of St. Catharines	32	-	-	3,145	$897
K-Rock Centre (Kingston)	162,856	City of Kingston	SMG	29	n/a	n/a	5,700	n/a
Mile One Centre (St. John's)	196,673	City of St. John's	City through St. John's Sports and Ent.	-			6,250	$745
General Motors Centre (Oshawa)	369,890	City of Oshawa	Global Spectrum	32	18	26	5,113	$614

Source: HLT Advisory Inc. based on individual OHL and AHL Arena/League websites, mapInfo population data based on Statistics Canada, and past event data.
**Toronto and Mississauga are both located in the same Census Metropolitan Area.*
Hockey event days were determined using 2009/2010 and 2010/2011 ohl and ahl schedules.

E. Overall Operations

The following observations regarding the market positioning of HECFI venues were noted:

- ***An increasingly competitive marketplace***: Whether for convention, entertainment or sports events, the marketplace in which HECFI operates will continue to face significant competitive pressures. Not only will supply additions (for all venue types) continue to occur (Niagara Falls and Ottawa both added new convention facilities in 2011), but competition from existing venues will be more pronounced as pressure on public support continues to mount in many destinations.
- ***Operating in the shadow of Toronto:*** All three HECFI venues are inhibited in attracting some events given their proximity to Toronto. Major entertainment events look to the Air Canada Centre as an alternative while more intimate events consider a broad range of Toronto venues (e.g., Massey Hall). Given cost and logistical issues, many promoters will consider two shows in Toronto (knowing concert goers will consider traveling for the "right" event) rather than a show in each of Toronto and Hamilton. For those promoters prepared to travel, the emergence of casino and smaller arena venues adds a new range of competitive options.
- ***Concentration of entertainment suppliers:*** The two largest entertainment promoters (i.e., Live Nation—and its Canadian affiliate Live Nation Canada—as well as AEG) control the vast majority of touring entertainment acts. These two promoters also control numerous North American entertainment venues (e.g., Molson Amphitheatre in Toronto) and TIcketMaster. The consolidation of entertainment talent within these two entities produces challenges in accessing, booking (including costs) and showcasing entertainment events. The positioning of Copps Coliseum in the larger Toronto market area (including not only major venues such as the Air Canada Centre but also smaller venues and casinos) makes the challenges that much more acute.
- ***Facilities inappropriately sized for the market:*** While Hamilton Place seems more appropriately sized to support the performing arts needs of Hamilton, the situation at HECFI's two other facilities is more problematic. The Hamilton Convention Centre, now Ontario's smallest convention centre (and challenged with a lack of adjacent hotel rooms) is arguably too small to meet the needs of all but the smallest regional convention organizers. Copps Coliseum on the other hand is far too large to support the current hockey franchise and is larger than necessary for all but a handful of entertainment events. The operating costs associated with these buildings (notably Copps Coliseum) do not reflect their revenue potential given the market mismatch.
- ***High cost base:*** Labour agreements in place at all HECFI buildings (but most notably at Hamilton Convention Centre and Copps Coliseum) result in relatively high labour costs compared to alternative venues. This inhibits HECFI's ability to attract certain

events in the facility as well as reduces the profitability of other events (e.g., food and beverage functions associated with conventions).

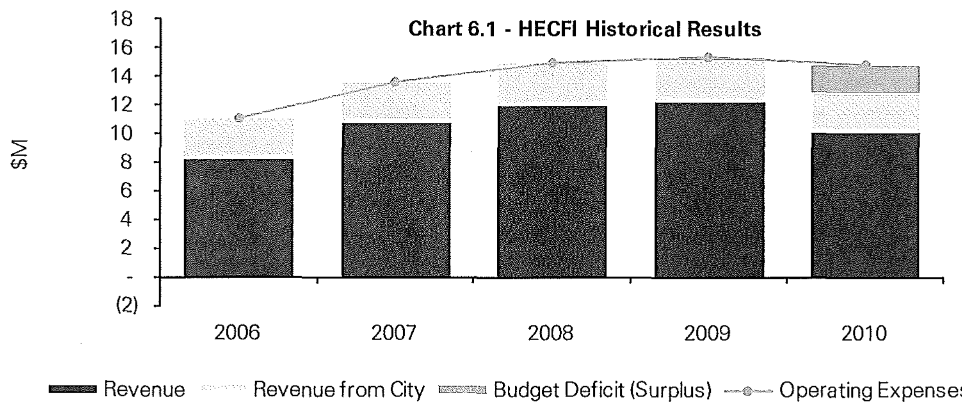
- ***Economics of entertainment programming:*** While exacerbated by the concentration of event promotion between Live Nation and AEG, the economics of large-event programming is such that limited risk is transferred from the venue to the promoter. On "Co-Promotion" and even "Promotion" type events, the venue is accepting risk of hundreds of thousands to millions of dollars to guarantee artist performance fees while receiving relatively modest profit-sharing percentages. This situation is not unique to HECFI where, with the exception of 2010, such events have been profitably managed. Industry trends suggest that the limited upside potential of these entertainment events is not likely to shift to the benefit of venues.

6 Financial Analysis

A. Summary of Historical Performance

As a wholly-owned subsidiary of the City, HECFI prepares its own stand-alone financial statements which are subject to an annual audit. As part of our engagement, we conducted a review of the historical financial performance of HECFI for the five years ended December 31, 2010. Summarized in Appendices E-1 and E-2 are the audited income statements and balance sheets of HECFI for the past five years, respectively, as presented in HECFI's audited financial statements.

The revenues and expenses of HECFI for the 2006 to 2010 years along with the operating subsidies / revenues from the City and any budget deficits or surpluses are summarized in the chart below:



As noted above, HECFI generates an annual operating shortfall which is covered by the City of Hamilton through a fixed cash transfer to balance the budget plus an additional cash payment (or recovery) that is based on HECFI's actual financial performance against budget. Prior to 2009 and 2010, HECFI's actual operating results were close to its initial budget.

Table 6.1 HECFI Income Statement Summary

Year ended December 31, ($000's)		**2006 audited**	**2007 audited**	**2008 audited**	**2009 audited**	**2010 audited**
Revenue	$	8,329	10,783	12,080	12,335	10,091
Revenue from City		2,784	2,867	2,936	2,790	2,790
Operating expenses		(11,075)	(13,586)	(14,977)	(15,418)	(14,889)
Budget Deficit (Surplus)		(38)	(64)	(39)	293	2,008

i) Historical Revenue Analysis

With its three unique sports, entertainment and convention facilities, HECFI has a diverse stream of revenues. Summarized below are the historical revenues of HECFI as presented in its annual financial statements on a combined venue basis:

Table 6.2 Summary of HECFI Revenue

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited
Revenue						
Rentals, license fees and shows	$	2,027	2,501	2,862	2,722	2,065
Food, beverage and concessions		2,750	3,212	3,057	3,136	2,754
Box office		478	695	1,122	1,125	808
Sports operations		-	379	636	548	252
Other		492	624	774	708	520
Revenue before recoveries		5,747	7,411	8,451	8,239	6,399
Recoveries		2,582	3,372	3,629	4,096	3,692
Total	**$**	**8,329**	**10,783**	**12,080**	**12,335**	**10,091**

The "rentals, license fee and shows" revenue line encompasses revenues earned by HECFI from the rental of its three facilities to third party users and promoters, the net profit / loss on promotions and co-promotions undertaken by HECFI, and the casual rental of ice time at Copps Coliseum. Based on a review of the financial information and through discussions with HECFI management, it is understood that the year-over-year variation in revenues is largely attributable to two main factors: fluctuations in the profitability of promotions and co-promotions (i.e. show revenues) and fluctuations in the rental of venues and attendance at events. Management noted that concerts as a whole are a very significant source of fluctuation, including both rental concerts and promoted/co-promoted concerts.

The following is a summary of the composition of HECFI's rental, license fees and show revenues over the past five years. It should be noted that promotion and co-promotion shows are primarily held at Copps Coliseum and Hamilton Place, with a few shows held each year at the Hamilton Convention Centre. In addition, promotions and co-promotions (show revenues) do not include Hamilton Bulldog revenues, as these sales are included within sports operations revenues.

Table 6.3 Rental, license fee and show revenue

Year ended December 31, ($000's)		2006	2007	2008	2009	2010
Rentals and license fees	$	1,869	2,224	1,963	2,238	2,032
% of total		92%	89%	69%	82%	98%
Promotions and co-promotions		158	277	899	484	33
% of total		8%	11%	31%	18%	2%
Rental, fee and show revenue	**$**	**2,027**	**2,501**	**2,862**	**2,722**	**2,065**

While rentals and license fee revenues are relatively stable from year to year, the net profit from promotions and co-promotion shows (i.e. HECFI's proportionate profit after deducting all event expenses from event revenues) is more volatile. For example, 2008 was a strong year for HECFI with net show revenues of $899,000; conversely, 2010 was an extremely difficult year for HECFI's entertainment segment with net show revenues of only $33,000. The high risk inherent in larger promotion and co-promotion events, where the venue guarantees significant artist performance fees and assumes the risk of ticket sales in exchange for modest participation in upside event profitability, contributes to variability of this revenue stream.

Presented below is a summary of the attendance, show revenues and ancillary revenues associated with promotions and co-promotions from 2006 to 2010.

Table 6.4 Promotion and Co-promotion Summary

	Total Attendance	Paid Attendance	Show Revenue	Ancillary Revenue	Total Revenue
Fiscal Year					
2006	117,845	101,142	$ 157,958	$ 385,879	$ 543,837
2007	121,367	110,060	277,193	374,043	651,236
2008	236,811	217,958	899,123	908,262	1,807,385
2009	204,788	192,213	483,864	920,024	1,403,888
2010	161,319	143,765	33,050	516,341	549,391
Total	**842,130**	**765,138**	**$1,851,188**	**$3,104,549**	**$ 4,955,737**

Show revenues relate to the net profit/loss directly attributable to the promotion / co-promotion of events. While ancillary revenues are not shown as a separate line on HECFI's income statements, management also tracks ancillary revenues (e.g. ticket surcharges plus commissions from merchandise sales, ticket sales, and concessions etc.) from specific events and shows. A five year summary of HECFI's promotion and co-promotion revenues for the years 2006 to 2010 is included in Appendix E-3. As noted above, ancillary revenues represent a significant component of HECFI's overall revenues and are positively correlated to the attendance levels and number of events at HECFI venues.

With the exception of the Convention Centre, all food and beverage operations of HECFI (as shown in Table 6.2) are contracted out to a third party (currently Compass Canada). Accordingly, food and beverage revenues reflect the gross revenues from the Convention Centre plus the net commissions earned from Compass Canada's sales at Hamilton Place and Copps Coliseum. (Note that prior to 2010, Hamilton Place food and beverage sales were presented on a gross basis with a corresponding expense as the food and beverage function was performed directly by HECFI staff).

The "sports operations" revenue line consists of ticket sales, sponsorship revenues, concession commissions and other revenues earned by HECFI through its agreement with the Hamilton Bulldogs Hockey Club (the "Bulldogs"), net of an annual fee payable to the Bulldogs for associated marketing / licensing rights. Also included in this revenue line is an annual subsidy of approximately $220,000 that is provided by the City specifically related to Bulldogs operations (see discussion in the "Subsidy" section of this chapter). HECFI has chosen to present its sports operations revenues on a net basis (i.e. net of the annual license fee paid to the Bulldogs), which understates its gross revenues. The revenue variations are primarily the result of fluctuations in corporate ticket sales and sponsorship revenues. Over the past four years, HECFI has used various sales and marketing structures in an attempt to stabilize and grow the base of both corporate sponsors and ticket purchasers for the Bulldogs. No sports operations revenues are shown for 2006 as HECFI did not have its current license agreement with the Bulldogs; instead, HECFI received direct rental income and some minor ancillary commissions from concessions etc. which are included in different revenue streams.

Recoveries (as shown in Table 6.2) represent direct billings of event-related costs (e.g. stagehands, security personnel, ushers, advertising costs, etc.) to event promoters for which a corresponding expense exists and, accordingly, vary annually based on the number and type of events held at HECFI facilities. Recovery revenues are largely offset by direct costs which are included in various parts of the expense section of the income statement.

ii) Historical Expense Analysis

HECFI has a cost structure that is largely fixed in nature and, with the exception of recoverable expenses, does not vary significantly with revenue fluctuations. Accordingly, in order to cover its fixed costs, HECFI must host a lot of venue events and hope for strong attendance which generates strong direct revenues (e.g. rent, ticket sales) and ancillary revenue streams (e.g. concessions, ticket commissions, etc.)

Summarized below are the historical expenses of HECFI as presented in its annual financial statements on a combined venue basis:

Table 6.5 Summary of HECFI Expenses

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited
Expenses						
Events delivery	$	2,231	2,733	3,090	3,472	2,951
Hospitality operations		2,452	2,816	2,889	3,178	3,068
Building operations		2,588	2,994	3,118	3,261	3,181
Sales and promotion		1,860	2,405	2,750	2,715	2,589
Administration		1,604	1,793	1,907	1,626	1,702
Sports operations		-	490	881	801	1,035
Box office		340	355	342	365	363
Total operating expenses		**11,075**	**13,586**	**14,977**	**15,418**	**14,889**
Recoveries		(2,582)	(3,372)	(3,629)	(4,096)	(3,692)
Operating expenses net of recoveries	**$**	**8,493**	**10,214**	**11,348**	**11,322**	**11,197**

As shown in the preceding table, HECFI's operating expenses excluding recoverable expenses have remained virtually flat over the past three years at slightly over $11 million per annum, notwithstanding the variability in revenues. This is largely the result of the fixed nature of the costs (i.e. a significant number of full-time salaried employees plus fixed maintenance costs for the three large venues).

Excluded from HECFI's reported annual expenses are some utility costs (paid directly by the City), building depreciation charges (facilities are not recorded on the financial statements of HECFI), and some other administrative services that have been provided by the City without any cost charge-back to HECFI.

As a result of the largely fixed nature of its expenses, variations in rental, license fees and show revenues and sports operations revenues have a significant impact on HECFI's financial results as there are minimal non-recoverable variable costs associated with these revenue streams.

iii) Revenue and Transfers from / to the City

During its annual budgeting process, management estimates the funding requirement that HECFI will need from the City in order to cover its budgeted operating deficiency. For financial reporting purposes, this amount is classified as "Revenue from the City". At the end of the year, budget surpluses are transferred to the City while budget deficiencies are transferred from the City.

Summarized below are the historical City revenues and transfers as presented in the annual financial statements of HECFI:

Table 6.6 Net Revenue and Transfers from City

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited
Revenue from the City	$	2,784	2,867	2,936	2,790	2,790
Budget deficit (surplus)		(38)	(64)	(39)	293	2,008
Net revenue and transfers from City	**$**	**2,746**	**2,803**	**2,897**	**3,083**	**4,798**

Over the past five years, revenue/budgeted subsidies from the City have averaged $2.83 million; during the past two years, revenue/budgeted subsidies from the City have remained flat at $2.79 million (with no increases for inflation over the past four years). For the years 2006 to 2008, small budget surpluses were transferred to the City at the end of the year. In 2009 and more so in 2010, additional funding transfers were required from the City in order to cover the unbudgeted operating shortfall (the difference between revenue, expenses and budgeted revenue from the City); these unbudgeted funding transfers totaled over $2.3 million, the largest component of which was the 2010 transfer of just over $2.0 million.

B. What Went Wrong in 2010

As highlighted in the preceding section, after including the receipt of $2.79 million of budgeted City operating subsidies, HECFI recorded a $2.01 million loss in calendar 2010.

Summarized below are the budgeted and actual results for 2010, presented cumulatively by quarter.

Table 6.7 2010 Quarterly Results					
2010 cumulative to, ($000's)		March 31 2010	June 30 2010	September 30 2010	December 31 2010
Budget					
Revenue	$	3,418	6,537	7,727	11,145
Expenses		3,955	7,586	10,141	13,935
Net expense before revenue from the City		537	1,049	2,414	2,790
Revenue from the City		537	1,049	2,414	2,790
Net revenues (expenses)		-	-	-	-
Actual					
Revenue		2,801	6,067	7,206	10,091
Expenses		3,834	7,927	10,848	14,889
Net expense before revenue from the City		1,033	1,860	3,642	4,798
Revenue from the City		537	1,049	2,414	2,790
Cumulative budget deficit	$	**496**	**811**	**1,228**	**2,008**

As noted above, HECFI had a difficult year in 2010 from a financial perspective. Moreover, HECFI generated its budget deficit primarily in the second half of the year (i.e. 40.3% of the budget deficit occurred in the first half of 2010; 20.8% of the budget deficit occurred in Q3, and 38.9% of the budget deficit occurred in Q4).

Based on a review of the June 2010 HECFI Board minutes, management indicated that the year-to-date budget deficit (i.e. a $846k deficit through May 31, 2010) was projected to be narrowed to $250k by the end of the year through cost savings and revenue generation in excess of budgeted amounts. At that time, management believed that the following would enable the budget gap to be closed to $250k by the end of 2010:

- Entertainment-related revenues, which were largely in line with budget, would continue to meet or exceed targets;
- Sports operations (i.e. Bulldogs), which were behind budget, would improve with enhanced sponsorship sales, increased season ticket sales and a new pricing strategy;
- A change in the management of the hospitality operations of the Convention Centre, which were significantly behind budget, would help turn around these operations; and,
- Cost reductions, primarily through personnel costs, would help narrow the budget gap.

Over the course of the next seven months, the budget gaps could not be narrowed; conversely, by the end of 2010, the deficit increased to $2.01 million. The following are the key contributors to the significant unplanned operating loss in 2010:

- *Decreased rental, license fees and show revenue and associated spin-off revenue:* Rental, license fees and show revenue decreased by $657k in 2010 compared to the prior year. Management attributes this decline to the economic downturn and the related effect on discretionary sports and entertainment spending in the economy.

Specifically, in the second half of 2010, approximately 15 budgeted HECFI entertainment events were either cancelled by promoters or failed or materialize. Of the $657k decline in revenues, $450k is attributable to a decline in the profitability of promotions and co-promotions. In 2010, three promotions / co-promotions in the fall of 2010 accounted for losses (i.e. negative revenues) totaling nearly $400k; in contrast, during the preceding four years (2006 to 2009), the total losses associated with the bottom three shows for each year (i.e. 12 events) amounted to only $315k. In effect, HECFI experienced a significant decline in the number of concerts and entertainment events in the second half of 2010; furthermore, several of the events that did occur resulted in large losses to HECFI.

The table below highlights the significance of the decline in HECFI's promotion and co-promotion revenue and the impact of the bottom three shows relative to prior years:

Table 6.8 Promotion and Co-Promotion Revenues

Year ended December 31, ($000's)		2006	2007	2008	2009	2010
Revenue from top 3 shows	$	168	157	360	132	149
Revenue from bottom 3 shows		(103)	(52)	(59)	(100)	(395)
Revenue from remaining shows		93	172	598	452	279
Total Revenues	**$**	**158**	**277**	**899**	**484**	**33**

The decline in HECFI's rental, license fee and show revenues also resulted in a corresponding decrease in food and beverage sales at Copps Coliseum ($197k), box office revenues across all locations ($317k), and souvenir commissions at Hamilton Place and Copps Coliseum ($96k).

- *Decreased revenues and increased expenses relating to sports operations:* Sports operations (i.e. the Bulldogs) revenue decreased by $296k in 2010 compared to the prior year, while related expenses increased $234k. The table below summarizes the revenues less expenses from sports operations over the past five years:

Table 6.9 Sports Operations Summary

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited	2011 budget
Sports operations revenue	$	-	379	636	548	252	1,046
Sports operations expenses		-	490	881	801	1,035	1,075
Annual (deficit) surplus	**$**	**-**	**(111)**	**(245)**	**(253)**	**(783)**	**(29)**

(*) Sports operations revenues are presented net of the annual license fee paid to the Bulldogs for the right to all revenue streams (ticket sales, concession commissions, sponsorship revenues etc) generated from Bulldog operations. No license agreement existed with the Bulldogs in 2006.

Similar to the decline experienced in rental, license fees and show revenues, management attributes the decline in sports operations revenue to the economic downtown. The decline in revenues was primarily the result of decreased ticket sales ($200k less than 2009) and decreased sponsorship revenue ($115k less than 2009). The decrease in sponsorship revenue is largely attributable to the transition between J-Core Marketing and HECFI for sponsorship responsibilities and the challenges experienced by HECFI in renewing sponsorship contracts. Compounding the effect of the decreased sports operations revenues was an increase in sports operations expenses. The increased costs (i.e. primarily HECFI personnel expenses) were largely associated with assuming the sales and marketing function of the Bulldogs in-house, as opposed to contracting out the service to a third party as was done in prior years. We note that HECFI only recovered in-house control over certain marketing and sales functions such as Bulldog group ticket sales in the spring of 2010.

As previously noted, the Hamilton Bulldogs recently terminated the existing management agreement with HECFI. The termination of the management agreement and its replacement with a new lease agreement will reduce the size and scope of the sports operations department of HECFI, and simplify future revenue streams.

- *Fixed cost structure of HECFI:* As explained previously, variations in rental, license fees and show revenues and sports operations revenues have a significant impact on HECFI's financial results as, except for Convention Centre hospitality service, there are minimal non-recoverable variable costs associated with these revenue streams. The operating results for 2010 illustrate this concept; despite "implementing a program of spending reductions during the year due to the revenue shortfalls", the efforts of management were only able to yield a cost savings of approximately $127k across the organization, while revenues (excluding recoveries) declined by $1.84 million.
- *Convention Centre Hospitality Business:* As discussed above, management believed that the budget deficit from the Convention Centre's hospitality business could be reduced. During the June 2010 Board meeting, the expectation was that the deficit at year-end with respect to hospitality operations would be $260k unfavourable; as at year-end, the operating deficit ended up at $465k. Management attributes the additional decline to the fulfillment of contracts with thin margins as negotiated by former management, some cancelled business and reduced attendance at events.

Management was able to narrow the budget gap somewhat through its cost savings initiatives.

In various discussions with management, it was noted that, as a whole, the entertainment industry suffered a significant decline in 2010 as a result of economic challenges. Management particularly noted the difficulties experienced by Live Nation, the largest North American entertainment promoter, during 2010. In a conference call with analysts in February 2011, the CEO of Live Nation noted the following with respect to the industry:

> "In the past year, the industry failed economic headwinds, with all event categories feeling the impact. [Live Nation] theater ticket [sales] were down 12%, concerts down 10%, sports down 1% and family flat, resulting in an overall global decline in the 8% range. Our research indicates that fans still view concerts as a top entertainment spend, and their pull-back was price-driven and not a systemic overall issue with the core concert product. We believe long-term concert attendance will improve. Concerts are a unique place and experience for fans, and it's not duplicatable. But, the category does have resistance for certain segments and certain prices."

We compared the trends noted by Live Nation to those experienced at Copps Coliseum in 2010. The following table is a summary of Live Nation attendance trends to those for Copps Coliseum, segregated between concerts and other events.

Table 6.10 Attendance Trends				
000's	2007	2008	2009	2010
Live Nation Events	**46,437**	**52,114**	**52,148**	**47,262**
	-	***12%***	***0%***	***-9%***
Copps Coliseum - Concerts	100	117	160	70
	-	*17%*	*37%*	*-56%*
Copps Coliseum - Other	593	359	364	347
	-	*-39%*	*1%*	*-5%*
Copps Coliseum - Total	**693**	**476**	**524**	**417**
	-	***-31%***	***10%***	***-20%***

As presented above, the drop-off in attendance figures at Copps Coliseum in 2010, particularly on the concert side of the business, was significantly more pronounced than that of Live Nation. Due to the diversification of Live Nation across global geographies and lines of business and its ongoing growth into new markets, Live Nation only represents a high-level comparative for concert activity at Copps Coliseum.

C. Financial Analysis by Venue

As part of the scope of the engagement, a financial review of the individual HECFI venues has been completed. Summarized in Appendices E-4 through E-6 are the estimated historical operating results for the five years 2006 to 2010 and the budgeted operating results for 2011 for each of the three HECFI facilities. Management generally does not prepare financial results for each of the venues on a stand-alone basis as they are of the view that such statements would not conform with the manner in which HECFI operates (i.e. on an integrated basis). However, for purposes of this report, stand-alone operating results were estimated for each of the HECFI facilities as follows:

- *Revenues:* With the exception of immaterial marketing and interest revenues which were allocated evenly among the three facilities, all revenues were allocated to venues based on where the revenue was earned (i.e. where the show was performed, where the food sale took place, etc.).
- *Direct expenses:* Similar to revenues, direct expenses represent those costs that could be directly allocated to the various facilities on the basis of where the expense was incurred (i.e. which facility the employees work in, where the revenue associated with the expense was earned, etc.).
- *Indirect expenses:* Indirect expenses represent corporate administration expenses (e.g. executive positions, finance and sales departments, insurance and City cost allocations) that cannot be directly allocated to a particular facility. For purposes of the individual facility operating results, these costs were evenly allocated to the three facilities (i.e. one-third to each facility).

i) Copps Coliseum

As shown in the table below, on a contribution margin basis (i.e. revenues less direct expenses), Copps Coliseum has been profitable in all years except 2010 and is budgeted to return to profitability in 2011.

Table 6.11 Copps Coliseum Contribution Margin

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited	2011 budget
Revenue	$	3,012	4,672	5,007	5,599	3,960	4,920
Direct expenses		2,757	3,855	4,346	4,912	4,855	4,554
Contribution margin	**$**	**255**	**817**	**661**	**687**	**(895)**	**366**
Contribution margin %		*8.5%*	*17.5%*	*13.2%*	*12.3%*	*-22.6%*	*7.4%*

Prior to 2010 when a contribution margin of -22.6% was experienced, contribution margins averaged 12.9% of revenues with a high of 17.5% in 2007 and a low of 8.5% in 2006. The contribution margin is budgeted to be 7.4% in 2011. A more detailed summary of the operating results of Copps Coliseum is presented in Appendix E-4.

After adjusting for the impact of cost recoveries and before any consideration of sports operations expenses, it appears that the direct operating expenses of Copps Coliseum are largely fixed between $1.8 million and $1.9 million per annum:

Table 6.12 Operating Expenses of Copps Coliseum

Year ended December 31, ($000's)		2006	2007	2008	2009	2010	2011	Average
Operating								
Events delivery	$	1,041	1,368	1,398	1,888	1,481	1,408	**1,431**
Building operations		1,350	1,486	1,623	1,563	1,646	1,499	**1,528**
Sales and promotion		168	262	238	412	483	350	**319**
Box office		198	249	206	248	210	222	**222**
		2,757	3,365	3,465	4,111	3,820	3,479	**3,500**
Recoveries		(1,127)	(1,603)	(1,491)	(2,224)	(1,914)	(1,655)	**(1,669)**
Expenses net of recoveries	**$**	**1,630**	**1,762**	**1,974**	**1,887**	**1,906**	**1,824**	**1,831**

(*) As noted above, operating expenses in Table 6.11 exclude expenses related to sports operations.

Accordingly, the variability in the contribution margin generated by Copps Coliseum is driven by two key factors:

- *Profitability of sports operations:* As discussed in the preceding section and as illustrated in Table 6.9, the lack of profitability and the quantum of the annual loss associated with the sports operations (i.e. Bulldogs) have a material impact on the ability of Copps Coliseum to generate a positive contribution margin. The risk of generating operating losses from the Bulldogs has been significantly reduced with the recent termination of the Hamilton Bulldogs management agreement, as HECFI will no longer be required to pay a fixed annual fee to the Bulldogs.
- *Concert activity:* Concerts are a significant source of revenue fluctuation and include both promoted / co-promoted concerts and rental-based concerts. Concerts have

minimal non-recoverable variable costs associated with them and, accordingly, net revenues from concerts generally affect contribution margins on a dollar-for-dollar basis.

ii) Convention Centre

As shown in the table bellow, on a contribution margin basis (i.e. revenues less direct costs), the Convention Centre has been unprofitable in all years except 2006. This trend is expected to continue in 2011.

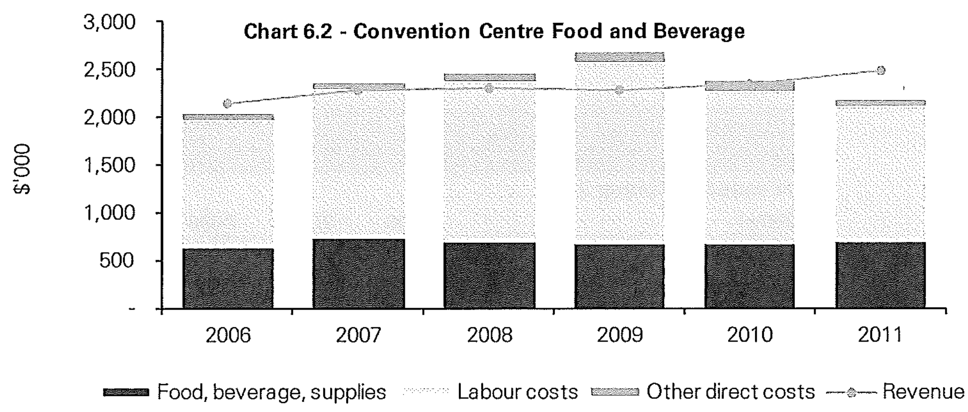
Table 6.13 Convention Centre Contribution Margin

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited	2011 budget
Revenue	$	3,310	3,715	3,839	3,767	3,511	3,668
Direct expenses		3,203	3,726	3,875	4,080	3,845	3,771
Contribution margin	**$**	**107**	**(11)**	**(36)**	**(313)**	**(334)**	**(103)**
Contribution margin %		*3.2%*	*-0.3%*	*-0.9%*	*-8.3%*	*-9.5%*	*-2.8%*

Since 2007, contribution margins for the Convention Centre have averaged -4.8% of revenues with a high of -0.3% in 2007 and a low of -9.5% in 2010. The contribution margin is expected to be -2.8% in 2011. A more detailed summary of the operating results of the Hamilton Convention Centre is presented in Appendix E-5.

The largest source of revenue and consequently the greatest expense comes from the Convention Centre's food and beverage operations. The food and beverage operation has been largely unprofitable over the preceding five years and is a significant source of the Convention Centre's inability to achieve profitability.

Shown in the chart below are the historical food and beverage revenues (excluding rental revenues) along with the components of the direct costs associated with food and beverage operations (i.e. food / beverage / supplies, labour and other costs):



As shown above, during the past five years, revenues associated with food and beverage operations have only exceeded related expenses in two years (2006 and 2010). Moreover, labour is by far the most significant direct cost; over the past five years, labour as a percentage of total direct costs has averaged 67% (compared to 29% for food / beverage / supplies and 4% for other costs). Over the same historical period, labour as a percentage of food and beverage revenues has averaged 71% (compared to 30% for food / beverage / supplies and 4% for other costs). Due to the wage scale and minimum work hour requirements mandated in the collective agreements with employee unions, the Convention Centre has significantly higher labour costs than any comparable private-sector facility. Accordingly, when attempting to compete on price, the Convention Centre has a significant cost disadvantage. The inability to pass along its higher operating costs to customers has resulted in unprofitable results. The ability of management to control labour costs on food and beverage operations in 2011 while growing the revenue base will largely determine whether or not the Convention Centre can return to profitability as is budgeted. We note that some personnel changes have been implemented in the Convention Centre's food and beverage operations with a mandate to improve economic results.

iii) Hamilton Place

As shown in the table below, on a contribution margin basis, Hamilton Place has been profitable over the past five years and is budgeted to continue to be profitable in 2011.

Table 6.14 Hamilton Place Contribution Margin

Year ended December 31, ($000's)		2006 audited	2007 audited	2008 audited	2009 audited	2010 audited	2011 budget
Revenue	$	2,007	2,396	3,234	2,969	2,620	2,367
Direct expenses		1,962	2,274	2,773	2,523	2,313	2,256
Contribution margin	**$**	**45**	**122**	**461**	**446**	**307**	**111**
Contribution margin %		*2.2%*	*5.1%*	*14.3%*	*15.0%*	*11.7%*	*4.7%*

Contribution margins have averaged 11.0% of revenues with a high of 17.7% in 2009 and a low of 2.3% in 2006. The contribution margin is budgeted to be 7.4% in 2011. A more detailed summary of the operating results of Hamilton Place is presented in Appendix E-6.

After adjusting for the impact of cost recoveries, it appears that the direct operating expenses of Hamilton Place are largely fixed in nature in a range between $800,000 and $900,000 per annum:

Table 6.15 Operating Expenses of Hamilton Place

Year ended December 31, ($000's)		2006	2007	2008	2009	2010	2011	Average
Operating								
Events delivery	$	1,007	1,132	1,383	1,328	1,404	1,376	**1,272**
Hospitality operations		124	141	196	200	6	-	**111**
Building operations		370	463	464	421	402	417	**423**
Sales and promotion		288	393	554	462	351	320	**395**
Administration		37	44	51	-	-	-	**22**
Box office		136	101	125	112	150	143	**128**
		1,962	2,274	2,773	2,523	2,313	2,256	**2,350**
Recoveries		(1,104)	(1,378)	(1,690)	(1,550)	(1,487)	(1,400)	**(1,435)**
Expenses net of recoveries	**$**	**858**	**896**	**1,083**	**973**	**826**	**856**	**915**

Accordingly, the variability in the contribution margin for Hamilton Place is driven by variations in the level of event activity, similar to the variability experienced in Copps Coliseum operating results. As discussed previously, entertainment events, whether promotions, co-promotions or rentals, have minimal non-recoverable variable costs associated with them and, accordingly, the net revenues from these events generally affect contribution margins on a dollar-for-dollar basis.

iv) Corporate Results

As shown in the table below, the combined contribution margin of HECFI's three venues has been positive (i.e. profitable) with the exception of 2010. Accordingly, the annual operating subsidy from the City has effectively been required to fund HECFI's unallocated corporate costs which approximate $4.0 million per annum, less the aggregate contribution margin generated by the three venues.

Table 6.16 Operating Expenses of HECFI

Year ended December 31, ($000's)		**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Average**
Contribution Margin								
Copps Coliseum	$	255	817	661	687	(895)	366	**315**
Convention Centre		107	(11)	(36)	(313)	(334)	(103)	**(115)**
Hamilton Place		45	122	461	446	307	111	**249**
		407	928	1,086	820	(922)	374	**449**
Corporate costs		3,153	3,731	3,983	3,903	3,876	3,987	**3,772**
Required operating subsidy	**$**	**2,746**	**2,803**	**2,897**	**3,083**	**4,798**	**3,613**	**3,323**

(*) Required operating subsidy equals the total shortfall (i.e. budget subsidy plus additional deficit / surplus).

Corporate costs relate to costs that are not directly allocable to specific facilities, such as administration, general operations and sales and promotion. For purposes of estimating income statements for each venue, these costs have been allocated evenly (i.e. one-third, one-third, one-third) by management for internal purposes. Readers of this report are cautioned that, although these corporate costs have been allocated evenly by management, should one or more buildings be privatized or sold, a proportionate amount of corporate costs will not necessarily be eliminated.

D. 2011 Budget

i) Operating Budget Analysis – 2011

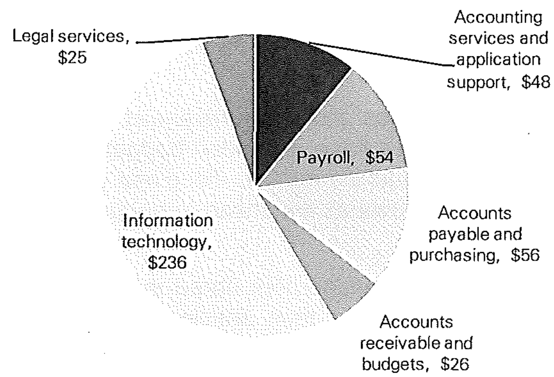
HECFI prepares its annual operating budgets on a department-by-department basis that begins in the summer of the preceding year. The 2011 budgeted results of HECFI are summarized in Appendix E-1. Due to the complexity of HECFI's business and the uncertainty associated with revenue generation, operating budgets are prepared for one year in advance and long-term operating budgets are typically not prepared.

In the table below, we have summarized the projected and actual results for the preceding two years along with the budgeted results for 2011:

Table 6.17 HECFI Projected Results				
Year ended December 31, ($000's)		**2009 audited**	**2010 audited**	**2011 budget**
Actual Revenue	$	12,335	10,091	n/a
Budgeted Revenue		11,234	11,145	10,955
Revenue Variance		1,101	(1,054)	n/a
Actual Operating expenses		15,418	14,889	n/a
Budgeted Operating expenses		14,024	13,935	14,568
Expense Variance		(1,394)	(954)	n/a
Municipal contribution		2,790	2,790	3,247
Total Budget Variance		293	2,008	366

- *Revenues:* Total revenues for 2011 are budgeted to be $10.96 million, an increase of over $860k (8.6%) from actual revenues in 2010. The projected increase in 2011 revenue is driven by increases in revenues associated with rental, license fees and show revenues and related concessions and box office revenues (primarily due to two Cirque du Soleil productions and the 2011 Canadian Country Music Awards rental) and also a significant budgeted increase in sports operations revenue. The increase in sports operations revenue is the result of anticipated increases in Bulldogs-related revenues, primarily corporate sponsorships and group packages and regular ticket sales. These increases are projected based on the anticipated impact of a new in-house sales department. It should be noted that actual to budget revenue variances for sports operations were 37.3% unfavourable and 39.6% unfavourable in 2009 and 2010, respectively. Not included in the fiscal 2011 budget are revenues and related expenses associated with the arrangement between HECFI and the newly-arrived Hamilton Nationals (the "Nationals") lacrosse franchise. Notwithstanding the impact on revenues associated with the Nationals agreement, the forecasted increase in 2011 sports operations revenues appears to be an aggressive target given past operating results and related budget variances.
- *Expenses:* Total expenses for 2011 are budgeted to be $14.57 million, a decrease of $320k (2.2%) from actual results in 2010. The projected decrease in 2011 expenses is driven by a reduction in employee costs as a result of pay-cuts, reduced working hours and layoffs / terminations. Also, recoverable costs are budgeted to decrease (with a corresponding decline in recoveries revenue). Offsetting these budgeted cost savings are a $445k increase in City cost charge-backs to HECFI. These charge-backs relate to City overhead cost allocations for finance, payroll, legal, and IT services and are summarized in the chart below.

Chart 6.3 - 2011 Chargebacks



The cost charge-backs were first mandated by City finance staff in 2011 and are based on various cost allocation drivers. It is understood that a corresponding budget base has been transferred from the City to HECFI to account for the increased charge-backs. It should also be noted that while an 8.6% increase in revenues has been budgeted for 2011, a 2.2% decline in expenses has been budgeted at the same time. This serves to underscore the previously noted observation that HECFI operates with a significant fixed cost base (approximately 90% of costs are fixed) and while revenues can fluctuate substantially from year to year.

- *Municipal contribution:* The budgeted municipal contribution has increased from $2.79 million in both 2009 and 2010 to $3.25 million in 2011. The projected $460,000 increase in the 2011 municipal contribution offsets the newly-implemented $445k charge-back of City overhead costs to HECFI.
- *Transfers from the City:* The budgeted transfer from the City has been anticipated to be $nil in 2011, compared to actual required transfers of $293k and $2.01 million in 2009 and 2010, respectively. For budgetary purposes, the annual transfer is always budgeted to be $nil. In 2011, HECFI has budgeted for no additional transfers to / from the City but instead has budgeted a loan requirement of $386k due to an anticipated operating shortfall. Management of HECFI has noted in the 2011 budget submission that the loan is proposed to be a municipal loan that will be paid back from operating surpluses on or before 2014. Based on a track record of limited operating surpluses in the past and the fact that no HECFI operating forecasts exist beyond 2011 to support the anticipated operating surpluses required to repay the loan, the ability of HECFI to repay such a loan by 2014 is doubtful. Management has supported HECFI's ability to repay the loan by the fact that, from a budgetary point of view, in 2011 HECFI has reduced the 2010 operating deficit by approximately $1.6 million (i.e. from $2.0 million to $386k) . As such, management is confident of their ability to repay the municipal loan in the future.

ii) Analysis of 2011 Year-to-Date Results vs. Budget

Summarized in Appendix E-7 are the 2011 year-to-date first quarter (January to March) budgeted and actual operating results of HECFI along with the actual results for the same period in 2010. In aggregate, HECFI is in line with budgeted revenues and is slightly above budget on expenses, resulting in a net expense prior to revenue from the City of $1.156 million as compared to a budgeted loss of $1.140 million. We note that, when compared to the first quarter of 2010, HECFI is $240k behind on revenues and $117k ahead on expenses, resulting in a net variance of $123k.

Summarized below are some items of significance in Q1 of 2011:

- *Rentals, license fees and show revenues and related items:* Rentals, license fees and show revenues have exceeded budget as a result of the profitability of events and increased casual ice rentals. Food and concession revenues were slightly ahead of budget and recoveries are ahead of budget due to the nature of the events held at HECFI's facilities.
- *Cost reductions:* Management noted that through reduced building operating costs (primarily due to lower than anticipated snow removal costs) and various other spending reductions (achieved largely through recoveries), cost savings of almost $100k below budget have materialized in the first quarter of 2011.
- *Sports operations:* On a net basis (revenues less direct expenses), sports operations are $213k behind budget. Below budget ticket sales, concession commissions and sponsorships combined with unfavourable event expense variances and the fixed costs associated with an increased headcount have largely contributed to this shortfall. With the Bulldog's regular season now over, the ability to reverse the budget shortfall will be difficult due to the reduced level of profitability, on HECFI's end, associated with playoff games. To the extent that the unbudgeted lacrosse revenues and associated profits come to fruition, the current shortfall from sports operations could be reduced.

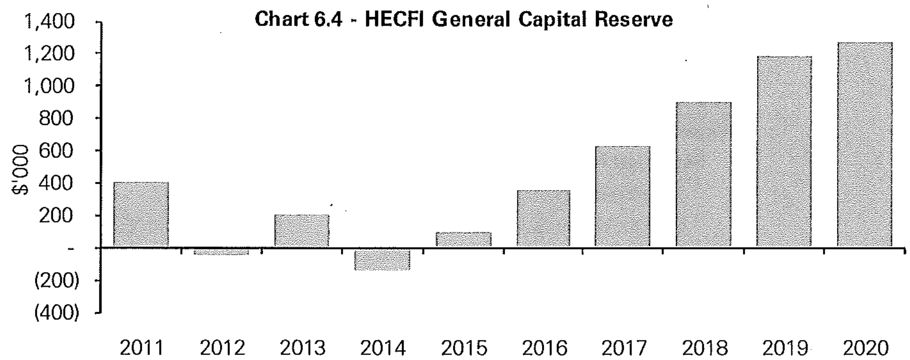
Of note is the fact that a significant softening of revenues occurred in Q3 and Q4 of 2010; accordingly, while HECFI is relatively on target with budget at the end of the first quarter of 2011, significant risk still remains that revenues could soften similarly as in 2010 and the lack of a current budget surplus would limit the ability of HECFI to absorb any further revenue shortfalls. The risk of a possible reduction in the number of future HECFI events and a related reduction in event attendance, combined with the transition out of the management agreement with the Hamilton Bulldogs and related corporate sponsorship commitments, may make the achievement of 2011 budget targets a challenging task.

iii) Capital Budget Analysis

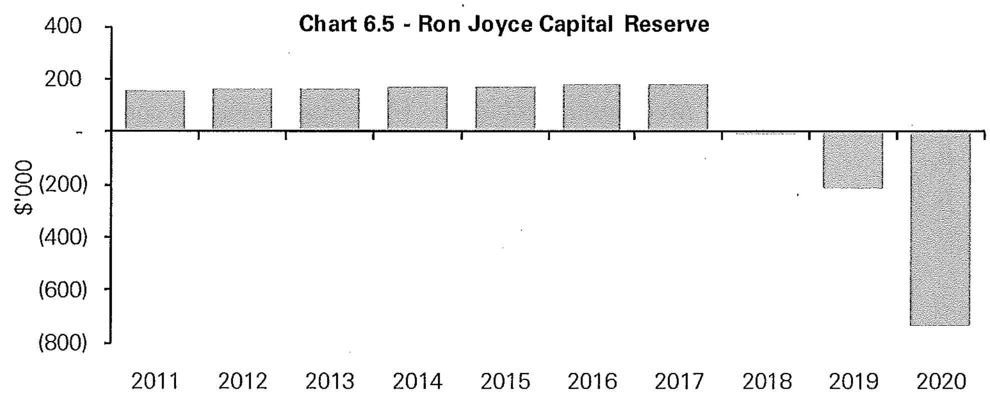
HECFI prepares long-range 10-year capital budgets for its three facilities. HECFI has two capital reserve funds, the General Fund and the Ron Joyce Foundation reserve fund. While the General Fund can be used for capital improvements at any one of the three HECFI facilities, the Ron Joyce fund is restricted to capital improvements at Hamilton Place.

At the end of 2010, the unallocated reserve fund balances of the General Fund and the Ron Joyce Fund were $438k and $217k, respectively.

- *General reserve fund:* As shown in the chart below, total capital reserve funding from the City ($8.0 million over ten years) and other sources such as ticket surcharges ($2.63 million over ten years) are forecast to exceed total budgeted capital expenditures over the next 10 years ($9.15 million). However, there are small projected capital reserve fund deficits in 2012 and 2014. As such, additional temporary City funding may be required should these deficits materialize.



- *Ronald V. Joyce Foundation reserve fund:* As shown in the chart below, with the Ron Joyce Foundation's committed capital funding agreement expiring at the end of 2017, there could be significant future capital shortfalls for Hamilton Place beginning in 2019 unless capital funding is renewed by the Ron Joyce Foundation or secured from other partners. Accordingly, additional City funding might be required should these deficits materialize.



E. City Subsidization of HECFI

The City of Hamilton provides HECFI with municipal subsidies towards both its annual operating shortfall and its capital expenditure programs.

Subsidies from the City include an annual budgeted municipal contribution to balance operations, transfers to cover any shortfalls or to recover any surpluses from actual HECFI operations, a specific subsidy towards the Bulldogs operations, the payment of certain utility and maintenance costs that are not charged back to HECFI and an annual capital contribution to HECFI's capital reserve accounts.

The historical subsidies for 2006 to 2010 and budgeted subsidies for 2011 totaled almost $46.7 million (an average of $7.78 million per annum) and are summarized as follows:

Table 6.18 City subsidies of HECFI								
Year ended December 31, ($000's)		2006	2007	2008	2009	2010	2011	Total
Operating								
Recorded in financial statements								
Municipal contribution	$	2,784	2,867	2,936	2,790	2,790	3,247	**17,414**
Budget deficit (surplus)		(38)	(64)	(34)	293	2,008	-	**2,165**
Bulldogs		214	214	220	220	220	220	**1,308**
Special events subsidy		100	165	100	100	100	100	**665**
		3,060	3,182	3,222	3,403	5,118	3,567	**21,552**
Not recorded in financial statements								
Utilities		2,470	2,430	2,240	2,260	2,311	2,623	**14,334**
Other City administrative costs		400	400	400	400	400	-	**2,000**
		2,870	2,830	2,640	2,660	2,711	2,623	**16,334**
Total Operating Subsidies		**5,930**	**6,012**	**5,862**	**6,063**	**7,829**	**6,190**	**37,886**
Capital								
Capital expenditures - building		800	800	800	800	800	800	**4,800**
Capital expenditures - mechanical		-	-	-	725	3,023	265	**4,013**
		800	800	800	1,525	3,823	1,065	**8,813**
Total	**$**	**6,730**	**6,812**	**6,662**	**7,588**	**11,652**	**7,255**	**46,699**

- *Municipal contribution:* The annual municipal contribution is the largest component of the City subsidy and represents the contribution budgeted by HECFI on an annual basis to offset its budgeted operating deficit. For HECFI purposes, the municipal contribution is treated as a source of revenue. The contribution has ranged from $2.78 million to $2.94 million during the past five years. The contribution has been budgeted to increase to $3.25 million in 2011 as a result of increased charge-back costs from the City pertaining to overheads incurred by the City on behalf of HECFI (payroll, finance, legal, and IT) and increased insurance premiums. Prior to 2011, the City did not charge back these overhead costs attributable to HECFI. An estimate of these city-provided costs has not been incorporated into the multi-year subsidy analysis presented above.

  Since 2006, the budgeted municipal contribution has remained relatively stable with minimal increases for inflation. This trend continues in 2011 after deducting the $445k increase in City charge-backs for administrative costs.

- *Transfers to (from) HECFI:* The annual transfer to / from HECFI represents an additional transfer from the City to cover the actual HECFI operating shortfall or to recover the operating surplus. Prior to 2010, transfers ranged from a recovery of $64k to a transfer of $293k. In 2010, a transfer of $2.01 million was required to cover the significant operating deficit that arose due to the reasons discussed in previous sections.

- *HECFI has budgeted for no transfer to / from the City in 2011;* however, it has budgeted a City loan requirement of $386k to offset an expected HECFI operating shortfall. Based on the lack of substantial historical operating surpluses and the fact that no HECFI operating forecasts exist beyond 2011 to support the surpluses required to repay the loan, the ability of HECFI to repay such a loan by 2014 is uncertain. Accordingly, it may be more prudent for municipal purposes to treat such loan amounts as transfers for budgeting purposes. As noted previously, management is confident of HECFI's ability to repay the loan balance in the future.

- *Bulldogs Transfer:* The Bulldogs transfer represents an annual subsidy from the City specifically designated for the Bulldogs operations. This transfer is over and above the annual municipal contribution and for financial reporting purposes is included in the "Sports Operations" revenues of HECFI's financial statements. This subsidy was negotiated between HECFI and the City and is meant to "make HECFI whole" as a result of the concessions made by HECFI and the City to the Bulldogs in order to secure their tenancy at Copps Coliseum. The annual subsidy has been $220k since 2008.

- *Special events subsidy reserve:* An annual transfer of $100k is made by the City to a special events subsidy reserve, primarily to attract special events to the facilities operated by HECFI. Management of HECFI has the responsibility for managing the reserve funds and for the allocation of reserve fund spending to various initiatives.

- *Utilities:* Utility costs represent annual utility and related facility overhead costs incurred by the City to operate the three HECFI buildings. After the municipal contribution, utility costs represent the second largest component of HECFI's annual subsidy from the City. These costs include the direct cost of heating and cooling, electricity, supplies and City employees assigned to HECFI facilities, and an allocation of the City's Central Utilities Plant (CUP) overhead costs based on a formula driven by estimated energy usage. These costs are not charged back to HECFI and are absorbed by the City. It is understood that CUP is in the process of installing / upgrading utility meters at all HECFI locations to ensure better monitoring of actual utility usage. Additional costs incurred by CUP that are charged back to HECFI are not included in utility costs. The annual subsidy averaged $2.34 million over the past five-year period and is budgeted by CUP to be $2.6 million in 2011.

- *Other City administrative costs:* Beginning in 2011, the City started to charge HECFI for administrative costs that it had incurred on HECFI's behalf (e.g. information technology, legal, finance, administration etc.). For 2011, the charge-back was $445k. Prior to 2011, these costs were not charged to HECFI. As such, a proxy of $400k has been used as an estimate of the historical amount of administrative costs incurred and absorbed by the City on HECFI's behalf. In discussions between HECFI and the City relating to the 2011 allocation, the City has conceded that such costs would in all likelihood have been incurred regardless of the existence of HECFI. HECFI management also contends that the cost allocations are overstated and are not representative of the "true" costs associated with operating HECFI. HECFI is also precluded from sourcing these City-provided administrative services from third party vendors even though it is claimed that these services could be secured at a lower cost.

  The City also pays certain other operating costs of HECFI including the cost of health, dental and life insurance benefits for retirees until they reach the age of 65, the cost of smaller risk management claims, and the cost of the City's self-insurance of HECFI employees for WSIB purposes. The cost of these additional services is not tracked separately by the City.

- *Capital expenditures - building:* An annual transfer of $800k is made by the City to the general HECFI capital projects reserve fund. This reserve is used to fund general capital improvements to HECFI facilities (excluding mechanical and electrical system components). Management of HECFI has the responsibility for managing reserve funds and for the allocation of reserve fund spending to various capital projects. For purposes of long-term capital planning, management has assumed a continued

$800k transfer from the City for capital projects for the duration of HECFI's 10-year capital plan.

- *Capital expenditures – mechanical and electrical:* Capital expenditures related to the mechanical and electrical components of HECFI's facilities are funded by the annual CUP capital budget. According to CUP, over the last five years, these capital expenditures have totaled $3.75 million with a further $265k planned for 2011. Mechanical and electrical component upgrade requirements are determined by CUP staff and are not made at the discretion of HECFI management.
- *Other considerations:* Excluded from the above analysis are parking revenues generated by HECFI events that are retained by the City's parking operations (by virtue of the City's ownership of certain downtown parking facilities). These parking revenues presumably could be used to offset a portion of the City's annual subsidy to HECFI. Management estimates that parking revenues generated by Hamilton Parking Authority lots through HECFI events approximate $1.0 million per year.

The annual operating and capital subsidies from the City to HECFI are substantial, averaging $6.31 million and $1.47 million, respectively, per annum. However, as discussed in Chapter 5 of this report, the subsidization of publicly-owned sports, entertainment and convention facilities is normal practice in Canada. Given the significant fixed costs associated with operating these sorts of facilities, economic subsidies are a reality that are not expected to disappear without fundamental changes to the underlying operations (e.g. NHL team, casino license) of these facilities or an outright sale / long-term lease of the venues.

F. Overall Observations

The following observations regarding the financial operations of HECFI were noted:

- *High fixed cost structure:* Approximately 80% to 90% of HECFI's annual operating expenses (excluding flow-through recoverable costs) are fixed in nature. Accordingly, the profitability of HECFI is contingent on the level of utilization of its facilities and the corresponding revenue generated from straight rentals and profits earned on promotions and co-promotions (and related ancillary revenue streams). The net profit earned on promotions and co-promotions in 2010 highlighted the risk/reward relationship inherent in these types of shows. The top-three shows in 2010 generated combined profits of almost $150k while the bottom three shows resulted in a combined loss of almost $400k. Management described this relationship as "winning small and losing big". Due to the high fixed cost structure of HECFI's operations, rental revenues and net profits/losses on promotions and co-promotions have an almost dollar-for-dollar impact on the bottom-line profitability of HECFI.
- *Entertainment industry trends:* Due to the consolidation of the entertainment promotion industry over the past number of years, concerts and entertainment events are generally dominated by two large industry players, particularly for the most popular artists. As a result of the effective duopoly in the marketplace and the availability of numerous competing entertainment facilities, promoters are able to exert greater control over the economic terms and conditions associated with various concert promotions, particularly the extent to which the host facility shares in the risks associated with show profitability. Promoters have the ability to effectively force municipalities to compete with other local municipalities, playing one off against the other, in order to achieve the best terms possible for the promoter. Accordingly, while the risk/reward proposition remains largely unchanged, facility operators such as HECFI are facing reduced show revenues / economic contributions.

- *Level of City subsidization:* As described previously, the City provides various operating and capital subsidies to HECFI on an annual basis. Of these, the only subsidy that has been largely variable is the annual unbudgeted surplus or deficit generated by HECFI. Accordingly, barring any significant changes to the operations of HECFI, total annual subsidies of between $6 million and $8 million (includes non-allocated utilities and capital costs paid by the City) will likely be required for the foreseeable future assuming no budgetary shortfalls. It is unlikely that any form of operational change, other than an outright sale of the HECFI facilities, would completely eliminate some level of City subsidization.
- *Competitive disadvantage of high labour costs:* As highlighted in the discussion of the Hamilton Convention Centre, HECFI is at a competitive disadvantage due to its high labour costs, a direct result of its association with the City of Hamilton and its unionized workforce. Accordingly, HECFI is not operating with the same cost structure as privately-owned convention and conference facilities. The Convention's Centre's food and beverage operations have only been marginally profitable in two of the past five years, and represent an opportunity for economic improvement through in-house restructuring or external contracting out.
- *Need for financial reporting improvements:* HECFI operates a complex multi-faceted business. The various lines of business and the manner in which HECFI is operated present unique difficulties from a financial reporting perspective. The internal financial statements and the annual audited statements, in general, are difficult to easily comprehend under the current manner of financial reporting. For example, from reading the internal statements, a user is unable to determine the extent to which HECFI has been profitable on promotions and co-promotions, an area that is prone to significant risk. Additionally, the netting of various revenues and expenses at different levels in the income statement makes it difficult for a user to clearly understand the operating results of specific HECFI operations. An example would be the netting of the license fees payable to the Bulldogs against Bulldog ticket sales and the annual subsidy from the City. Discussions with various HECFI Board members have shown that many members would like HECFI's financial reporting to be modified in a manner that would make the financial information easier to understand, more transparent and more user friendly.
- *Lack of long-term projections:* Until recently, management was not in the practice of preparing mid-year forecasts with any degree of rigor. Recently, management implemented a system of "dashboards" that enables more rigorous mid-year forecasts to be prepared to provide management with better "line-of-sight" for the balance of the year. These dashboards were not in place for the majority of 2010. With respect to long-term projections, the nature of the businesses in which HECFI operates makes it difficult to project future operations with any degree of accuracy. That said, long-term projections are useful for providing an organization with financial direction, particularly in the case of HECFI were it is has committed to repaying loan amounts to the City in the future. Accordingly, although difficult to prepare, it is suggested that a long-term (3 to 5 year) operational plan be developed once HECFI's mandate has been clarified in order to provide HECFI and its management with long-term financial targets.
- *Losses from sports operations:* HECFI's recently terminated business arrangement with the Hamilton Bulldogs was unique compared to other AHL teams (most arenas have rental arrangements with concession rights) and has not been profitable during the first four years of its existence, primarily due to the lack of sufficient attendance at Bulldogs games. The return to a lease agreement with the Hamilton Bulldogs will simplify HECFI's role and should result in a reduced level of risk of generating a

significant loss from Bulldogs / sports operations. The impact on future corporate sponsorship opportunities (e.g. sponsorship of Copps Coliseum itself) and related programs is difficult to assess. The Hamilton Nationals lacrosse arrangement might narrow the operating loss in 2011 if the new franchise remains viable and all bills are paid.

- *Information overload:* HECFI has considerable information and data in respect of its various operations and venues. This information, while useful, can be overwhelming and has resulted in a proliferation of hard copy and electronic reports. As with many organizations, a rationalization of what information needs to be gathered, analyzed and reported would assist in simplifying the operations of HECFI.

7 Other Corporate Operations

The following chapter describes various other aspects of HECFI's business operations and presents our comments thereon. The topics discussed in this chapter were specifically identified as areas for review in the overall scope of review as provided to KPMG by the City.

A. Marketing Plans

Overview

Over the course of the past year, HECFI has implemented a significant overhaul of its marketing department, including bringing some aspects of its marketing program in-house. Through the hiring of John Hertel as CAO in March 2010, HECFI gained an individual with extensive marketing and communications experience. In the past, HECFI's marketing plans were less focused and were often developed by external parties; and marketing spend was often allocated on the basis of media channel rather than by the target audience.

The marketing department is aligned by client groups, allowing respective teams to specialize and tailor their marketing efforts. Specifically, the following five marketing client groups exist: entertainment, hospitality / convention centre, Bulldogs, lacrosse and corporate. Separate tailored marketing plans have been prepared for each client group, with more robust and detailed plans developed for the Bulldogs and lacrosse client groups.

In addition to specific marketing plans for each of the five client groups, the marketing plan re-vitalization has included the following:

- *Refreshed website:* Customer feedback indicated that HECFI's website was cumbersome, tired and difficult to navigate. A new website was recently launched that is fresh and user friendly. HECFI staff are able to directly make the majority of content changes to the website, enabling quicker delivery and significant cost savings over the previous model that required a third party to make most changes. Management continues to track the effectiveness of its website and web presence through the use of Google Analytics tools. Management noted that the "feedback on the new web site has been overwhelmingly positive for its clarity, ease of navigation, and ease of buying tickets. Clients are [now] aware of the total HECFI offerings on a single home page and can branch out as they choose from there. Financially, [HECFI] will have a one year ROI on the new site based on monthly costs alone."
- *Increased web and social media presence:* HECFI has made a significant investment in growing its web presence through enhanced on-line advertising campaigns (thespec.com, banner ads on targeted sites), a presence on social media sites (Twitter and Facebook) and the use of emerging technologies (Microsoft Tags). This initiative will assist in attracting new customers for HECFI, particularly amongst younger audiences.
- HECFI has assembled a large listing of customer e-mail addresses that can be sorted and tailored for specific events and shows. E-blasts are regularly sent to customers to create awareness of upcoming events with the intent to increase ticket sales and

overall attendance. Management believes the E-blast capability is an extremely effective tool that generates the most direct sales impact. Management noted that every weekly blast generates a spike in sales on the day the email is sent. General blasts go to approximately 110K patrons and HECFI uses a variety of sub-lists to reach more targeted audiences (sports, youth, specific show genres, etc.)

- *Continued use of "traditional" methods:* Management has recognized that, although there is a growing trend of on-line advertising, there remains a significant portion of HECFI's target audience that is still best reached through traditional marketing channels such as radio, print and television. Accordingly, HECFI has not completely abandoned these conventional channels.
- *Participation in partnerships to market the City of Hamilton:* HECFI has partnered with Tourism Hamilton, Careport and various private operators of local hotels and banquet halls to market Hamilton as a destination of choice for trade shows, conferences, weddings, corporate meetings, entertainment events and similar activities. The expectation is that an increase in business for Hamilton will benefit all partners, including HECFI.
- *Seeking new customers for the Convention Centre:* HECFI is aggressively targeting corporations, associations and similar organizations as potential customers for conferences and conventions at the Convention Centre. Due to limitations on downtown hotel room levels and overall Convention Centre venue size, only conferences of a certain attendance level are being pursued. Verticals have also been created among HECFI marketing personnel so that they can better tailor their proposals to prospective customers.

Measuring Marketing and Advertising Effectiveness

Management noted that the primary indicator for determining the effectiveness of its advertising efforts is the level of ticket sales to HECFI events. On a daily basis, projected ticket sales reports are reviewed by each member of the respective marketing team for the applicable client group. The marketing team evaluates ticket sales compared to plan and determines to what extent media buys are effective.

With respect to its on-line advertising efforts, management is extremely pleased with the effectiveness of its campaign. Management is able to directly measure the effectiveness of its advertising by reviewing click-through rate statistics. Specifically, Wikipedia defines a click-through rate as "the rate that is obtained by dividing the number of users who clicked on an ad on a 'third party' web page by the number of times the ad was delivered (impressions) on that 'third party' web page". A 2010 U.S. study suggests that the average click-through rate ranges from 0.10% to 0.15%. Management noted that HECFI's click-through rates typically exceed industry averages. Below are examples are three recent on-line banner advertisements on third party web-sites that have yielded higher than average success for HECFI:

Table 7.1 Clickthrough Rates

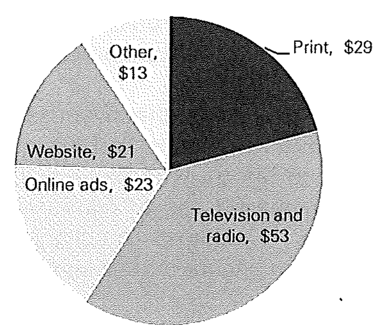
Show	Clickthrough Rate	Industry Average
New Kids on the Block / Back Street Boys	0.25%	0.10% - 0.15%
Tim McGraw	0.16%	0.10% - 0.15%
Janet Jackson	0.40%	0.10% - 0.15%

Although not a direct measurement of ticket sales, above average click-through rates suggest that HECFI has been effective in placing advertisements on relevant third party Internet sites such as the Hamilton Spectator and The Weather Network.

Advertising Budget

The 2011 HECFI advertising budget is $335k, which is the same level as in 2010. As of May 2011, $139k had been spent on various advertising efforts. The following is a summary of the various forms of advertising utilized to date and the corresponding costs:

Chart 7.1 - YTD Advertising Spend



Although the "cash" advertising budget has remained flat year-over-year, management has been able to increase the number of print and television advertisements substantially from prior years. Management attributes this primarily to better negotiations with various media partners and the increased use of contras (i.e. non-monetary transactions where HECFI provides event tickets in exchange for advertisements). Management points to a recent newspaper advertisement for an upcoming concert that was "no charge" because HECFI provided the media outlet with tickets to run their own promotions in exchange for advertisement space. While no cash outlays are required in contra exchanges, there may be an opportunity cost associated with these transactions. By not having the tickets available for sale, HECFI may lose the opportunity to sell the seat to a paying customer. Based on discussions with HECFI finance staff, contra arrangements are recorded in the financial statements "when [finance staff] is aware of such arrangements". It is understood that there are no formal procedures in place to ensure that all contra arrangements are accurately recorded in the financial statements. As such, both revenue (i.e. ticket sales) and expenses (i.e. advertising expenses) are understated to the extent contra transactions are not recorded. In order to quantify the extent to which there is an opportunity cost associated with contra transactions, a formal mechanism should be developed between marketing and finance staff to ensure that all contra transactions are accurately recorded in the financial statements. Moreover, management should determine the need to establish a budget for these contra arrangements to ensure that the opportunity cost is managed in some manner.

We note that contra ticket arrangements do increase event attendance and that HECFI benefits from increased ancillary revenue streams (e.g. increased concession sales etc.).

Overall Summary

HECFI's advertising and marketing activities consist of two types – a) those that are undertaken for specific HECFI events or customers which are fully recoverable as flow-through costs from third parties, and b) those which are undertaken for the benefit of HECFI itself without any direct third party cost recovery. The marketing programs described herein primarily relate to the second type of advertising and marketing activity.

The marketing plans developed by HECFI appear to be specific, rational and realistic. The primary objectives are to sell more tickets, increase the number event attendees and increase the utilization of all venues. All these outcomes will increase HECFI revenues. The alignment of staff by client group should enable staff to provide better service to customers as they now have direct ownership of a specific client. As with the majority of businesses, an increase in on-line and social media presence is required in order to remain top-of-mind with most consumers, particularly the younger demographic.

As with most marketing initiatives, effectiveness is difficult to measure (other than through an increase in HECFI revenues and attendance levels) due to the inability to directly link most marketing efforts with sales dollars. Over the past twelve months, management has made increased use of contra arrangements to increase print, radio and television advertising. A formal mechanism should be developed between marketing and finance staff to ensure that all contra transactions are accurately recorded in the financial statements.

B. Human Resource Matters

Prior to the termination of the Hamilton Bulldogs management agreement, HECFI had a staff complement of 64 full-time employees and 790 part-time employees. Full-time employees are housed within the three venues and operate in the areas of executive management, administration, event procurement and arrangement, sales and marketing, building operations, human resources, finance and accounting, box office, hospitality etc. With a few exceptions (e.g. three kitchen managers etc.), these employees are primarily focused on administrative matters and event procurement, promotion and liaison rather than event delivery.

Part-time employees are typically involved in event delivery and serve in roles such as food preparation and service, ushers, ticket takers, security, stage-hands, etc. Most part-time employees are unionized through collective agreements with four different labour unions, some of which are the same as those of the City. These unions are as follows:

- United Food and Commercial Workers – UFCW Local 102 (hospitality employees at the Convention Centre);
- International Union of Operating Engineers – IUOE Local 772 (operating engineers at Copps Coliseum);
- International Alliance of Theatrical Stage Employees and Moving Picture Technicians, Artists and Allied Crafts of the United States, its Territories and Canada – IATSE Local 129 (stage hands – all venues); and,
- International Alliance of Theatrical Stage Employees and Moving Picture Technicians, Artists and Allied Crafts of the United States, its Territories and Canada – IATSE Local B173 (ushers and ticket takers at Hamilton Place).

HECFI's relationships with its unions are generally cordial; however, the relationship with IATSE locals has been strained at times.

Since HECFI is a wholly-owned subsidiary of the City of Hamilton, it generally follows the City's Human Resource policies, procedures and benefit programs. HECFI has its own Human Resources department which consists of a Director of Human Resources plus one assistant. The City provides assistance with certain human resource functions such as employee interviews, hiring and payroll processing.

Most of HECFI's full-time employees are members of OMERS pension plan and share the same benefits as City employees. In fact, when HECFI began operations 25 years ago, many employees of the City were transferred to HECFI and continue to remain employees today.

Three members of HECFI's management team have formal management contracts – Duncan Gillespie, John Elder and one other individual. In addition, a few sales personnel are incentivized through a remuneration mix of salary and commission.

Performance reviews of HECFI's senior management team are conducted by Duncan Gillespie, the CEO. Performance appraisals of the CEO are performed by the full Board of HECFI. The CEO's performance was formally appraised by the Board in 2007 and 2009 (i.e. there was no performance appraisal in 2010). We note that a payment-for-performance (P4P) clause exists in the CEO's management contract and that no P4P payment was made in respect of the 2010 year. An ad-hoc committee of the Board of Directors of HECFI is currently reviewing the terms of the P4P clause.

Remuneration levels of senior management are determined by the CEO. The remuneration of the CEO is set by the Board of Directors and was last established in early 2009 when a new management contract was executed. An external compensation consultant was retained to assist in establishing the CEO's remuneration at that time.

One human resource matter that became a matter of public record was the payment, following the calendar 2008 year, of a sizeable bonus to John Elder, the Director of Entertainment, pursuant to the terms of his management contract. Based on our review of the Board's minutes and our discussions with several members of the Board, we concluded that there were no improprieties on this matter. We also understand that Mr. Elder's management contract was subsequently amended to increase his base salary and reduce the bonus component.

One observation of a human resources nature is the aging demographic of HECFI's full-time employees and the impending need to replace a number of experienced individuals when they decide to retire. HECFI has no formal succession plan in place other than to recruit appropriate replacement personnel when retirement vacancies arise. For several senior members of the management team, recruitment personnel will likely need to be sourced externally.

C. Corporate Sponsorship

HECFI is aggressively seeking to increase corporate sponsorship revenues at its three venues and has experienced some improvements in this objective in 2011. In general, corporate sponsorship is a discretionary spend for many organizations and ebbs and flows with the health of the general economy. The addition of Paul Weston to HECFI management in May 2010 has resulted in a new in-house approach to attracting corporate sponsorship, whereas much of this role was performed by external parties in the past. Revenue targets for sponsorship and corporate support have necessarily been increased to offset the increased personnel costs of this department.

Approximately 80% to 90% of current sponsorship revenues are derived from events held at Copps Coliseum, through association with the Hamilton Bulldogs in particular. Additional revenues could be sourced through increased Bulldogs game attendance and the licensing of external naming rights on the Copps Coliseum venue itself.

Management is also attempting to increase sponsorship for its other venues, and has had some success with customers such as First Ontario as a sponsor at Hamilton Place. HECFI has identified the sponsorship of arts and cultural events as an opportunity due to an aging demographic in Ontario. The Ronald V. Joyce Foundation is an existing sponsor towards capital improvements at Hamilton Place, and has naming rights to this facility.

We note that the termination of the Hamilton Bulldogs management agreement will result in the loss of a significant portion of HECFI's arena-based sponsorship revenues (as well as other sports operations revenues and expenses). While the final impact is not yet determinable, Management is optimistic that the net economic impact of these changes will be relatively neutral to HECFI.

D. Lacrosse Venture

HECFI recently entered into a management agreement to provide its expertise in sports-related activities such as ticket sales, marketing, advertising, sponsorship and game day operations to the Hamilton Nationals lacrosse team, a member of the Major League Lacrosse association. The Hamilton Nationals transferred to Hamilton from Toronto and will play its six 2011 season home games at McMaster University's Ron Joyce Stadium beginning in May 2011.

The Hamilton Nationals lacrosse venture is different than the Hamilton Bulldogs arrangement in that HECFI is contracted to be paid on a fee-for-service basis rather than through the direct control and ownership of gate receipts and related revenue streams and expenses. Another distinction is that the Hamilton Nationals play their home games at a venue that is not managed by HECFI, which may be outside its operating mandate.

It is premature to assess the long-term economic prospects of the Hamilton Nationals venture. Management expects that the arrangement will be profitable for HECFI assuming there is no credit risk (i.e. all bills are paid). If this venture proves to be profitable, HECFI management intends to seek out similar opportunities to generate revenues through the leveraging of its sports and entertainment marketing expertise (subject to the impact of the recent termination of the Bulldogs management agreement on HECFI's overall sports operations department).

E. Decision Making Authority at HECFI

As part of the terms of reference, we also reviewed the decision making authority at HECFI and related major Board decisions. Based on our review of documentation provided and our discussions with various individuals from HECFI Management and the Board, as well as representatives of the City, we have the following comments:

- Through the Shareholder Direction, the Board has been charged to perform a governance or supervisory role over the management and business affairs of HECFI, including the approval of annual and long-term budgets / business plans, the selection of bankers, the approval of annual financial statements, the establishment and maintenance of appropriate financial reserves and performance objectives, and the management of labour and employee relations matters including the recruitment and annual performance review of the CEO. In general, the Board has performed within these parameters although, as previously mentioned, certain activities (e.g. approval of HECFI's long-term strategic plan, 2010 CEO evaluation) have not been completed due to conflicting viewpoints as to the mandate of HECFI.

- In general, the Board has not involved itself in the day-to-day operations and general decision-making activities of HECFI.
- A review of the Board minutes over the past five years, combined with our interviews, leaves us to conclude that all major business decisions impacting on HECFI have been appropriately presented by Management to the Board for approval. Exceptions to this conclusion are the occasional unsolicited expressions of interest from third parties who wish to locate an NHL franchise in Hamilton. The discussions and negotiations surrounding these types of proposals are generally performed by the NHL Proposal Subcommittee of City Council with limited input from the HECFI Board. This has caused some frustration at the Board level, who view these types of proposals as part of their Board responsibilities rather than a shareholder responsibility.
- Management of HECFI are responsible for the day-to-day operations and decision-making activities of HECFI. We are not aware of any instances of Management overstepping these responsibilities or not seeking Board approval when required.
- In terms of risk management, a policy was established by the Board to limit the level of financial risk that Management can enter into on behalf of HECFI without seeking Board approval. Due to the high guarantee fees required to attract top entertainers / events, a financial policy was established whereby the aggregate exposure from guarantee fees and related commitments could not exceed 15% of the annual ticket sales from HECFI events during a year. This exposure limit approximates $3.0 to $3.5 million and is formally calculated from time to time by Management. We understand that Management has operated safely within this Board-imposed financial risk management limitation.

In conclusion, the delineation of decision-making authority and responsibilities between Management and the Board appears to be functioning adequately, notwithstanding the differing individual viewpoints as to the mandate of HECFI.

8 Alternate Operating Options

A. Clarifying the Mandate

Prior to contemplating any operational options for HECFI, including the status quo, the City of Hamilton must provide clarity with respect to the mandate of HECFI either as a whole or for the individual component parts (i.e., Hamilton Place, Hamilton Convention Centre and Copps Coliseum).

Broadly, the two overall mandates directions for HECFI have been identified as:

- An economic development creator and community service where the focus is not on HECFI's bottom line but the economic spin offs created in the downtown core (by attendees at HECFI events) as well as the community building aspects of sport, arts and cultural programming; or,
- A business designed to operate the three HECFI venues on a profit-making (or at least break-even) basis. This position recognizes the economic development potential from HECFI venues and programming but believes the current level of City subsidization outstrips current benefits.

The mandate(s) should also detail specific objectives as to the detailed expectations from these valuable City-owned assets. Only then can the performance of venue managers (whether HECFI or a third-party operator, either for all venues or a subset) be appropriately measured. Performance measures could be established by venue or for HECFI as a whole.

B. Broad Options to Deliver the Mandate

Once the mandate of HECFI has been clarified by the City, four broad options can be evaluated for the future operation of HECFI and/or individual facilities. These four options are as follows:

- *Existing Municipally-Controlled Operating Model* – Under this option, HECFI would continue to operate as a wholly-owned subsidiary of the City, with its own Board of Directors. The day-to-day management of the operations and facilities of HECFI also would continue to be performed by the management and employees of HECFI. However, as outlined in our report, a number of changes would need to be implemented in order to make the operations of HECFI more effective and efficient. Depending on the final mandate selected for HECFI, these changes could include some or all of the following areas (which have been outlined throughout this report):
    - Modifications to Board governance and policies
    - Determination of an acceptable level of City subsidization and, possibly, a plan for the gradual elimination of municipal subsidization
    - Preparation of a succession plan for HECFI management
    - Improvements in financial reporting and communication to the Board and City
    - Ongoing operational changes to improve HECFI's profitability (e.g. hospitality operations at the Convention Centre)

Several hybrids of the existing operating model could be possible if, for example, some but not all of HECFI's operations / venues could be privatized. For example, HECFI could continue to manage Hamilton Place and the Convention Centre, with the management and/or ownership of Copps Coliseum being privatized.

- *Third Party Management of HECFI Facilities* – Under this option, the City would continue to own HECFI and its three venues, but would enter into agreements with one or more third parties who would manage the operations of some or all of HECFI's facilities for a fixed period of time. This model of third party management of publicly-owned facilities has been, and continues to be, employed by the City of Hamilton and other municipalities/ governments throughout Canada for a variety of entertainment as well as product and public service needs. Although the City would lose day-to-day control over HECFI's operations, the intention is that the deeper financial and human resources and industry specialization of these third parties would result in enhanced utilization and economic efficiencies of HECFI's facilities. Performance measures could also be put in place to ensure the third-party manager is driving towards City mandate and objectives (the City could also curtail certain activities or place other restrictions on operating activities). Past examples of the City's use of this approach include the contracting out of the City's wastewater treatment operations and waste recycling operations.
- *Long-Term Lease of Facilities* – Under this option, the City would enter into agreements with one or more third parties that would lease HECFI's land and/or buildings pursuant to a long-term lease / partnership arrangement, thereby reducing the amount of ongoing operating or capital subsidization by the City. The City would have minimal ongoing involvement with the HECFI facilities, and would allow the private sector to operate the facilities in a manner as they see fit (beyond any restrictions or obligations determined necessary at the time of lease). Examples of this model might be the City's approach to the John C. Munro International Airport and the land under the Sheraton Hotel, both of which are City-owned assets that are leased to the private sector pursuant to long-term lease agreements. Philosophically the City still owns the underlying land and/or buildings, although physical possession would not be possible until some date in the distant future.
- *Divestiture of Facilities* – Under this option, the City would enter into agreements with one or more third parties that would purchase HECFI's facilities outright, thereby eliminating the need for any ongoing operating or capital subsidization by the City (beyond any restrictions or obligations determined necessary at the time of sale).

  The City would then have minimal ongoing involvement with the HECFI facilities, allowing the private sector to operate the facilities in a manner as they see fit. The City could prescribe maintenance of the facilities in a manner similar to current operations (e.g. mandating that the Hamilton Convention Centre must be used as a public-assembly venue, although this could greatly diminish the potential interest of purchasers). The other approach would be to consider a sale with no restrictions on use, suggesting the potential for transforming one or more venues (through modification or demolition) to a completely different purpose.

  Philosophically the City would no longer own or control a downtown asset, and would rely on the private sector owner to generate the economic benefits desired for Hamilton and the downtown core.

The following section presents an analysis of the four operating alternatives as described above, in the context of HECFI and its three separate venues.

C. Matrix of Public and Private Sector Options Showing Key Operational Characteristics

Status Quo – Existing Municipally-Controlled Operating Model			
	Hamilton Convention Centre	Hamilton Place	Copps Coliseum
Existing Realities:	Still requires considerable financial support (operating and capital) from City		
Desired Outcome:	Certainty around level of annual financial support. Clearly articulated mandate for HECFI (and specific sub elements for each component part) with associated performance metrics.		
How it would work:	• Mandate established by the City through revised Shareholder Direction for each venue and HECFI as a whole • Board and management to agree on a five-year strategic plan tied to Shareholder Direction • Clearer financial controls, budgeting processes and key performance indicators tied to Shareholder Direction		
Potentially Interested Parties:	• Not applicable	• Not applicable	• Not applicable
Benefits	• City maintains ownership of facilities • City mandates HECFI through Shareholder Direction to achieve specific objectives (e.g., downtown revitalization)		
	•	•	•
Constraints/Challenges	• Financial challenges remain on operating basis • Mid- to long-term capital costs (upkeep, rebuilding, refurbishment, renovation) remain • Market remains competitive and will continue to produce operational challenges (more competing venues, tighter margins) • Operations remain in public eye and under public scrutiny		
	•	•	•
Governance Considerations	• Governance options would include: o Department of City (wholly subsumed within the City) with management reporting through City administration to Council o Agency of City (similar to Tourism Hamilton) with advisory board o Corporation (most similar to current model) with board (composition to be determined by City but likely to include a combination of Councillors and private individuals) • Governance model selected will depend on mandate selected and should be set out in the revised Shareholder Direction		
Other:	If this option is selected, consideration should be given to: • Cleaner financial reporting with stand-alone financial statements for key operating elements such as individual		

	venues and business lines (e.g., Bulldogs). • More efficient budgeting and linkage to key performance indicators. • Reviewing the merits of sports operations/management agreements (e.g., Bulldogs and lacrosse). • Review food and beverage operations with view to reducing costs and/or using outsourced management. • Analysis of labour costs and identification of operational efficiencies (e.g., adjustments to labour contracts). • Formal succession plan to address pending retirement of senior management (evaluate existing skill sets and determine external needs to match specialized requirements such as entertainment programming). • Refinement of Board selection process (e.g., skill sets, Nominating Committee) and orientation process to ensure more effective governance.

The status quo options is, overall, the most typical model currently employed across Canada for governance and operation of these types of facilities. This model reflects, in large measure, the significant public sector investment made in facilities often as a direct investment by one or more levels of government.

Some variances occur at the venue level, specifically:

- All but one of the major convention centres in Canada is operated through provincial or municipal entities; most often a single-purpose corporation with a single shareholder. Some have elected to outsource key elements of operations (for example, food and beverage services are outsourced in Calgary, Vancouver and Montreal, among others) while most buildings outsource technical operating aspects such as audio/visual and telecom services.
- Performing arts venues, unless conceived, owned and operated by private sector entities, are most often owned and operated by municipal authorities, often as not-for-profit entities with an external board structure. As with convention centres, certain aspects of non-core operations can be contracted out (e.g., food and beverage operations) but core operations (e.g., talent booking) are most often managed internally.
- Each of the Canadian arenas hosting an NHL team (i.e., Vancouver, Calgary, Edmonton, Ottawa, Toronto and Montreal) are owned and operated by the same entity that controls the team (either an individual, group of individuals or corporation). OHL and AHL arenas (and similar venues) are typically municipally-owned although several have been developed as public-private partnerships (e.g., London's John Labatt Centre, Oshawa's General Motors Place) and several are operated by third parties. Arenas have the greatest proportion of third party management of the three venue types under consideration in this project.

Our experience with other municipally-managed venues suggests many of the same issues as those currently being experienced within HECFI, notably, higher than "market" wage rates, cost allocation issues and lack of clarity on mandate generating confusion ranging from mild to considerable.

Third-Party Management Option	Hamilton Convention Centre	Hamilton Place	Copps Coliseum
Existing Realities:	• Likely to still require considerable ongoing financial support (operating and capital) from the City.		
Desired Outcome:	• Operation of one or more of the three facilities would be contracted to one or more qualified third parties. • City has certainty over annual financial commitment		
How it would work:	• City would specify length of term, any constraints on building(s) usage, level of financial support, performance metrics and/or any other constraints • Potential contractual arrangements could include rental stream, percentage of revenue or a fee-for-service arrangement • City would manage a Request for Proposal process (or separate processes for each building) to seek interested parties, determine appropriate third party(ies) and enter contract		
Potentially Interested Parties:	• Facility management cos. (e.g., SMG, Global Spectrum) • Adjacent/local hotel operators • Local banquet/event centre operators	• Facility management cos. (e.g., SMG, Global Spectrum) • Not-for-profit theatre groups • Entertainment promoters • Toronto-based theatre operators	• Facility management cos. (e.g., SMG, Global Spectrum) • Hamilton Bulldogs • Entertainment promoters
Benefits	• Limits City financial risk to cap specified in RFP/contract • Allows City to place some performance constraints on third party operator (may be constrained) • Ownership of all three facilities still rests with City • Facility management companies (and selected other parties) will bring marketing, (e.g., sales and linkages to convention centre users), programming (e.g., ability to attract events) and operational skill sets.		
	• Maintains Convention Centre in downtown core	•	•
Constraints/Challenges	• Certain operating costs are systemic and may not be reduced through third party management • Rightsizing labour needs and addressing labour cost (union restrictions) will require severance payments and labour disruption may occur • third party managers will likely require capex commitments (from the City) at specified intervals • third party management fees will be generated from reduced		

	operational costs and/or price increases. • City will ultimately be the subject of negative fallout from operational issues (e.g., inappropriate acts in venues, cost cutting/labour reductions)
	• Unfamiliarity with Ontario marketplace (depends on party selected) • Constraints on spaces available for community use if revenue negative • Loss of control over Bulldogs
Governance Considerations	• May be one, two or three different operators (one for each building); some consistent performance metrics (e.g., revenue and expense) will exist as well as building specific (e.g. convention events versus community/cultural events) • Options include: o Direct report to City staff—third party operators to report to City staff (perhaps a single direct report) and a team on an annual basis. Will require adjustment depending on the number of third party operators selected. o Report to external board established to bring City as well as community input
Other:	• Still require definition of mandate and associated key performance indicators, as well as governance model, to ensure third party manager is achieving objectives. • Past experience with third party management of City of Hamilton assets exists (e.g. Hamilton Airport, Hamilton wastewater facilities) • Set up and management of RFP process(es) is complex (and costly) and will depend largely on the reasonableness of the City's expectations (e.g., rent/fees, constraints).

The third-party management model is increasingly, but by no means universally, being used as an alternative to a government operating entity. A key consideration with this option is that third party management **does not** eliminate the need for a clear mandate and objectives (arguably, third party management requires more rigor in setting out mandate to avoid confusion with a contracted party) but can provide certain advantages to municipal or provincial government entities. Third party managers can bring a broader experience base, sales and marketing skills, the ability (through connections) to attract entertainment acts as well as group buying power. However, to make a third party management agreement effective, the manager must generate incremental revenue and/or reduce operating expenses to an amount at least equal to the management fees. If the venue(s) under question has systemic operating and/or capital issues, then the ability of a third party manager to effect change may be partially curtailed.

Third party management companies most active in the Canadian marketplace are:

- Global Spectrum, the Philadelphia-based division of Comcast Spectacor, operates the John Labatt Centre (London), WFCU Centre (Windsor), and General Motors Centre (Oshawa) in Ontario as well as several arenas in British Columbia (e.g., Abbotsford, Dawson Creek, Penticton). Global Spectrum's only Canadian convention centre (and the only Canadian convention centre to employ third-party management) is the Penticton Convention Centre, in Penticton, B.C. (the complex also includes spectator arenas and recreation facilities).

- Global Spectrum also operates a range of arenas, convention centres, stadiums and several performing arts centres across the United States.
- SMG World (West Conshohocken, Pennsylvania) operates the K-Rock Centre (Kingston) and Hershey Centre (Mississauga). SMG World was also initially responsible for operating Toronto's Direct Energy Centre (at Exhibition Place) until a few years ago when management was internalized into Exhibition Place (a municipally-controlled entity).

While these third-party managers are not the only options, they are among the largest such operators in North America and would likely approach an opportunity to manage HECFI facilities with interest. Other parties interested in the facilities would include local hoteliers and banquet hall operators (for Hamilton Convention Centre), the Bulldogs and/or other professional sport team owners (for Copps Coliseum) and key tenants for Hamilton Place such as the Hamilton Philharmonic.

Third party management of performing arts centres is much less common, although SMG World has a considerable stable of U.S-based theatres. Centennial Hall in London is the only performing arts venue we discovered that uses third-party management and, in this case, all bookings are handled through a service provider.

Key considerations for any arm's length management arrangement would be the City's expectations for performance measurement, appetite for capital upgrades (it is likely that a degree of upgrading would be required at contract commencement) and the potential to earn management fees (which will be a function of revenue potential and the ability to control operating costs).

	Long-Term Lease Option		
	Hamilton Convention Centre	**Hamilton Place**	**Copps Coliseum**
Existing Realities:	• The venues were built for specific purposes and may not be broadly adaptable for envisioned uses • Venues are of older vintage		
Desired Outcome:	• Long-term lease (potentially with use restrictions) of one or more of HCC, HP or CC land and buildings with the intention to remove any operating and/or mid-term capital commitments from the City. • A land lease might permit complete re-purposing of the site.		
How it would work:	• City engages external advice on value / lease terms • City to determine any constraints • City would manage a Request for Proposal process (or separate processes for each building) to seek interested parties and enter into lease agreement(s)		
Potentially Interested Parties:	• Facility management cos. (e.g., SMG, Global Spectrum) • Hospitality operators	• Facility management cos. (e.g., SMG, Global Spectrum) • Not-for-profit theatre groups (public support) • Entertainment	• Facility management cos. (e.g., SMG, Global Spectrum) • Sports franchise owners

	(hotel) • Local banquet/event centre operators • Institutions (academic uses) • Developers (change use)	promoters • Toronto-based theatre operators • Developers (change use)	• Developers (change use)
Benefits	• Transitional reduction of financial support (capital and operating) and operating risk • Potential annual lease / participation income stream to the City • Under lease arrangement, the City would still retain ownership of land and/or building • Potential capital reinvestment to improve (or change) use…might include academic, institutional or other commercial purposes • Potential for ancillary development (e.g., hotel) in downtown		
	•	•	•
Constraints/Challenges	• Reduced control over use and timing of upgrades • Loss of civic pride • Unlikely to get significant rental / participation income during the initial years • Successor rights requiring significant one-time severance costs (potential ongoing labour restrictions) • Potential loss of parking revenue. • Potential demands for concessions and financial support (deferring property taxes)		
	•	•	•
Governance Considerations	• Report to City staff—third party tenants to report to City staff (perhaps a single direct report) and a team on an annual basis. May require adjustment, depending on the number of third party tenants		
Other	• Set up and management of RFP process(es) is complex (and costly) and will depend largely on the reasonableness of City's expectations (e.g., rent/fees, constraints). • City has entered into these arrangements in the past (e.g., Sheraton Hotel is situated on land leased by the City, the Hamilton Airport is leased to a private operator).		

Divestiture Option			
	Hamilton Convention Centre	**Hamilton Place**	**Copps Coliseum**
Existing Realities:	• The venues were built for specific purposes and may not be broadly adaptable • Venues are of older vintage		
Desired Outcome:	• Outright sale (potentially with use restrictions) of one or more of HCC, HP or CC with intention to remove any operating and/or capital commitment for the City.		
How it would work:	• City engages external advice on valuation (for sale purposes) • City to determine any constraints • City would manage a Request for Proposal process (or separate processes for each building) to seek interested parties and enter into sale agreement(s)		
Potentially Interested Parties:	• Facility management cos. (e.g., SMG, Global Spectrum) • Hospitality operators (hotel) • Local banquet/event centre operators • Institutions (academic uses) • Developers (change use)	• Facility management cos. (e.g., SMG, Global Spectrum) • Not-for-profit theatre groups (public support) • Entertainment promoters • Toronto-based theatre operators • Developers (change use)	• Facility management cos. (e.g., SMG, Global Spectrum) • Sports franchise owners • Developers (change use)
Benefits	• Elimination of financial support (capital and operating) and operating risk • One time (sale) proceeds to the City, in addition to potential future property taxes • Potential capital reinvestment to improve (or change) use…might include academic, institutional or some other commercial purpose • Potential for ancillary development (e.g., hotel) in downtown		
	•	•	•
Constraints/Challenges	• No control over use..and limited control over timing of use (redevelopment may not occur on the desired timetable) • Loss of civic pride? • Unlikely to get significant proceeds from sale relative to book value of assets • Successor rights requiring significant one-time severance costs (potential ongoing labour restrictions) • Environmental issues (costs to City on divestiture to transfer "clean" site) • Potential loss of parking revenue.		

	• Potential demands for concessions and financial support (deferring property taxes)
	• Hamilton no longer has a convention centre • Constraints on spaces available for community use if revenue negative • Loss of control over Bulldogs
Governance Considerations	• Not applicable following divestiture
Other	• Set up and management of RFP process(es) is complex (and costly) and will depend largely on the reasonableness of City's expectations (e.g., market value, fees, constraints). • Need to determine any land severance issues (e.g., parking lot) relating to divestiture.

Limited comparables exist for the divestiture option. No municipally/provincially-owned convention or trade show venues have been sold (or leased long term) in Canada. A similar situation exists with NHL-sized arenas (although several spectator and ice-pad only arenas have traded hands in recent years. The latter are not comparable to Copps Coliseum and therefore have not been explored further.

D. Conclusions

Once the mandate of HECFI has been clarified by the City, there are several different options that can be pursued by the City.

Under the existing City-controlled operating model, HECFI would continue to operate as a wholly-owned subsidiary of the City, with its own Board of Directors and management team. However, as outlined in our report, a number of changes would need to be implemented in order to make the operations of HECFI more effective and efficient. Under this option, it is expected that the City would need to continue to subsidize the annual operations of HECFI at some level (e.g. number of dollars per Hamilton resident per year), at least on a transitional basis. Capital funding of HECFI's venues would also need to be provided by the City.

Under the third party management option, the management of one or more venues would be contracted out to third parties, likely in the private sector, for fixed periods of time. Although the City would lose direct control over the management of HECFI's operations, the intention is that the deeper financial and human resources and industry specialization of these third parties would result in enhanced utilization and economic efficiencies of HECFI's facilities. A level of ongoing operating subsidization might be required for some venues, at least on a transitional basis.

Under the long-term lease option, the City would have minimal ongoing involvement with the HECFI facilities, and would allow the private sector to operate the facilities in a manner as they see fit, subject to certain City-imposed requirements. The City would also strive to reduce / eliminate its ongoing financial commitments to HECFI and receive a long-term lease / profit-sharing stream. The long-term lease option would allow the City to retain long-term ownership of the site, while providing a private sector operator with a sufficient period to time to invest the financial and management resources required to create a viable business enterprise.

Under the divestiture option, the City would have minimal ongoing involvement with the HECFI facilities, and would allow the private sector to operate the facilities in a manner as they see fit, subject to certain City-imposed requirements. The City would also eliminate its ongoing financial commitments to HECFI and receive one-time sale proceeds. The divestiture option would invoke the philosophical loss of ownership issue and expose the significant decrease in the "economic" value of HECFI's facilities; however, economic subsidization would be eliminated.

The three privatization options described above, if pursued by the City, would best be achieved through a formal Request for Expressions of Interest process that would solicit interest from private sector participants who operate both locally and globally. A professional and well-planned RFEI process would allow private sector operators to submit their proposals and visions for HECFI facilities. The partnering of public facilities and private sector initiative might result in some exciting opportunities.

There are many potential private sector parties who might be interested in HECFI's facilities. Attached as Appendix F is a sampling of some of the larger participants in the North American sports, entertainment and convention centre industries, both from an ownership and a facility management / long-term lease perspective. A number of local private sector participants also exist within the Ontario marketplace.

9 Overall Conclusions

HECFI has been in existence for slightly over 25 years and continues to operate three facilities that, although structurally sound, are starting to show their age and reduced functionality (e.g. sub-optimal size, limited amenities) when compared to similar competing venues throughout Ontario. At the same time, increased consolidation in the sports and entertainment promotion industry combined with the proliferation of competing venues in its marketplace is making the economics of operating HECFI more difficult each year. Also, HECFI continues to operate its venues in the "shadow" of Toronto.

The City of Hamilton finds itself at a crossroads with respect to HECFI and its facilities. While the City is seeking economic sustainability from its various operations to minimize the impact on the taxpayer, HECFI continues to operate with visible operating and capital subsidies from the City that approximate $4.0 million to $4.5 million per annum plus additional hidden subsidies of approximately $3.0 million per year. The subsidization of municipally-held sports, entertainment and convention centre venues is not unique to HECFI, but is a normal practice throughout North America.

At this time, the City, as the sole shareholder of HECFI, needs to clearly state what the mandate and priorities of HECFI are – a catalyst for providing economic development and revitalization in the downtown core through the hosting of cultural and entertainment events and conventions with associated City subsidization of operations, or a more business-oriented enterprise that is focused on making a profit and minimizing the level of financial subsidies from the City. Moreover, the City needs to clearly define its vision for HECFI and its facilities for the next 25 years.

First and foremost, the City must plainly articulate the role and mandate of HECFI. This remains a recommendation from KPMG's 2004 report that has not been fully implemented. The current lack of clarity and prioritization on mandate has resulted in general confusion and friction between and among the City, the HECFI Board, and HECFI management. A summit involving City Councillors and HECFI management and Board members, combined with the solicitation of citizen input, might be helpful in clarifying:

- What business operations should HECFI be engaged in
- The level, if any, of subsidization that HECFI should receive on an annual basis, along with guidance as to future increases or decreases in subsidization
- The key performance indicators that HECFI's performance should be measured against (e.g. the dollar value of economic subsidization, the number of attendees at HECFI events, the extent of economic spin-off revenues from conventions and other HECFI events etc.) The KPIs can be tailored to individual HECFI venues or to HECFI as a whole.

Once the mandate for HECFI and its facilities is clearly articulated, the rest of the steps should fall into place. If the new mandate states the continuation of HECFI within a fixed level of subsidization from the City (i.e. the status quo option), then management and the Board will need to create a strategic plan / business plan that addresses the mandate, the introduction of KPIs to measure success, and the implementation of steps that increase the efficiency and effectiveness of HECFI's operations and governance. This report contains a number of suggestions for improvement in these areas.

Conversely, if the new mandate states that the City should not be in some or all of HECFI's current lines of business, or that a bottom-line focus is the primary objective, then HECFI and the City will need to explore the three privatization options (i.e. management contracts, long-term leases, outright sale) outlined in Chapter 8 of this report. The exploration of privatization options will necessitate the canvassing of industry participants and the receipt and evaluation of their proposals.

APPENDICES

Appendix A
Documents Reviewed

A. Financial Information

1. Audited financial statements of HECFI for the five years ended December 31, 2006 to 2010
2. Detailed operating budget for calendar 2011
3. Ten-year capital budget – 2011 to 2020
4. Copy of the HECFI business plan for 2011 (including the submission to City Council)
5. Internal financial statements by facility / cost centre for the 2006 to 2010 years
6. Past operating budgets and actual financial performance against budget, with explanations of variances (2006 to 2010)
7. Details of the City's cost allocations to HECFI and its facilities
8. Unaudited financial statements of HECFI for the three months ended March 31, 2011
9. Dashboards of YTD actual and projected operating results for 2011, by HECFI department, dated April 26, 2011
10. HECFI's strategic plan for the period 2008 to 2010
11. Various other financial information with respect to HECFI and its venues

B. Operational Information

12. City of Hamilton Act (1985) and subsequent amendments to the City of Hamilton Act dated 1988 and 1991.
13. Copy of current Shareholder Direction dated January 28, 2010 (see Appendix C)
14. Minutes of Board of Directors meetings for the last three years (2008 to 2010), plus the meetings in January and February 2011.
15. Minutes of the Audit and Finance Committee and the Governance and Management Resources Committee for the three years 2008 to 2010.
16. Copy of the current marketing plan and department objectives.
17. Copy of HECFI's human resources policies.
18. Personnel organization chart.
19. List of employees, position, tenure and remuneration levels.
20. Details of employee management contracts.
21. Summary of promotion and co-promotion events for the five years 2006 to 2010, complete with estimated net profit / losses
22. Summary of event pipeline for the remainder of 2010.
23. Details of major contractual commitments / agreements with third party vendors
24. Copy of the management services and intellectual property license agreement with Hamilton Bulldogs Hockey Club, LP.

25. Copy of the management services and intellectual property license agreement with Hamilton National Lacrosse Team, LP.
26. Promotional brochures of the facilities.
27. Description of the three facilities – age , square footage, major renovations
28. Details of governance policies (Board member selection policies, terms etc.)
29. Various other operational information with respect to HECFI and its venues

C. Other Information

30. Operational and Governance Review of HECFI, prepared by KPMG LLP, dated March 25, 2004
31. Operational and Strategic Review of HECFI, prepared by Colliers International Realty Advisors Inc., dated March 2001
32. Information as contained on HECFI's website.

Appendix B
Individuals Interviewed

- **Board Members of HECFI** – Marcel Mongeon (Chair), Dave Sauve (Vice Chair), Gene Stodolak, Bob Bratina (Mayor), Terry Whitehead (City Councillor and Vice Chair), Lloyd Ferguson (City Councillor)

- **Members of HECFI's Management Team** – Duncan Gillespie (CEO), John Hertel (CAO), John Elder (Director of Entertainment), Brad Calder (Director of Operations), Rick DiFilippo (Corporate Controller), Paul Weston (Director of Corporate and Community Development), Joan Mills (Manager of Human Resources)

- **City of Hamilton Councillors** – Bob Bratina (Mayor), Terry Whitehead, Lloyd Ferguson, Brenda Johnson, Judy Partridge, Tom Jackson, Maria Pearson

- **City of Hamilton Staff** – Tony Tollis (City Treasurer), Peter Barkwell (City Solicitor), Art Zuidema (Director of Corporate Initiatives), Ann Pekaruk (Director of Audit Services), Neil Everson (Director of Economic Development), Tim McCabe (General Manager of Planning and Economic Development), Glen Norton * (Interim Director of Downtown & Community Renewal), Rom D'Angelo (Central Utilities Plant), Jeannine Guastadisegni (Central Utilities Plant)

- **External Parties** – David Adames (Executive Director of Tourism Hamilton), Glenn Stanford (President of Hamilton Bulldogs), Steve Howse (HECFI Strategic Planning Facilitator with Millington & Associates Inc.), Stephen Bye (CFO of Opera Hamilton), Annelisa Pedersen (CEO of Hamilton Philharmonic Orchestra), Carl Horton (Director of Geritol Follies)

- Various sports, entertainment and convention centre industry participants

* Glen Norton is a former HECFI Board member and a former acting CFO of HECFI.

APPENDIX C

Revised by HECFI Board of Directors January 28, 2010

SHAREHOLDER DIRECTION RELATING TO THE HAMILTON ENTERTAINMENT AND CONVENTION FACILITIES INC.

PREAMBLE

The Hamilton Entertainment and Convention Facilities Inc. (HECFI) is a corporation existing under the **City of Hamilton Act, 1985**, as amended. The City of Hamilton is the sole shareholder of HECFI and through this Direction establishes certain principles of governance relating to HECFI. The HECFI Board is accountable to the citizens of Hamilton through the Shareholder.

ARTICLE 1 – INTERPRETATION

1.1 Definitions

In this Direction, the following terms have the meanings set out below:

"Auditor" means the auditor of HECFI;

"Authorized Signatory" means those individuals who are authorized to sign a certified minute of Council, or who are otherwise authorized by Council to sign written shareholder approvals or decisions relating to HECFI;

"Board" means the Board of Directors of HECFI;

"Business Plan" means HECFI's five-year business plan and budget;

"Chair" means the Director of HECFI appointed as Chair of the Board by the Board;

"Citizen" means a Board member or a candidate for such membership who is not a member of Council;

"City" means City of Hamilton;

"Council" means the Council of the City;

"Directors" means members of the Board;

"Economic Development Strategy" means the strategy guiding the direction of economic development for the City, as approved by Council from time to time;

"Financial Statements" means, for any particular period, audited or unaudited comprehensive financial statements of HECFI consisting of not less than a balance sheet, a statement of income and retained earnings, a statement of changes in financial position, a report or opinion of the Auditor (in the case of audited Financial Statements) and such other statements, reports, notes and information prepared in accordance with generally accepted accounting principles (consistently applied) and as are required in accordance with any applicable laws;

"HECFI" means the Hamilton Entertainment and Convention Centre Facilities Inc., a corporation existing under the OBCA;

"Shareholder" means the City, as sole shareholder of HECFI;

"Tourism Strategy" means the strategy guiding the direction of tourism for the City, as approved by Council from time to time.

ARTICLE 2 – OBJECTIVES AND PRINCIPLES

2.1 Purpose of Direction

Subject to the Board's authority to manage, or supervise the management of, the business and affairs of HECFI, this Direction:

(a) Provides the Board with the Shareholder's fundamental principles regarding HECFI;
(b) Sets out the accountability, responsibility and relationship between the Board and the Shareholder;
(c) Informs the residents of the City of Hamilton of the Shareholder's fundamental principles regarding HECFI.

2.2 Shareholder Objectives

The Shareholder's objectives in holding its interest in HECFI are:

(a) HECFI shall assist the City in achieving the City's overall priorities in the spheres of Vision 2020, economic development, downtown revitalization, tourism and quality of community life;
(b) HECFI shall maintain, operate, manage and promote the City's assets as assigned by the City from time to time, including Hamilton Convention Centre, Hamilton Place Theatre and the Copps Coliseum;
(c) HECFI shall protect the City's assets for long-term sustainability;
(d) HECFI shall work with key stakeholders – departments, agencies and private partners – to maximize the economic development and community potential of the City facilities over which HECFI has been given management responsibility.

2.3 Principles

HECFI is integral to the quality of life and the economic development of the City. The City directs that, in the best interest of HECFI and the community of stakeholders whom HECFI affects, all members of the Board shall cause HECFI to conduct its affairs:

(a) On a commercially prudent basis;
(b) In a manner consistent with the City's public service mandate and its economic development and tourism strategies;
(c) In accordance with the financial performance and strategic objectives as set out in its business plan.

2.4 No Interference with Legal obligations

In issuing this Shareholder Direction, the Shareholder is in no way attempting to interfere with any Director's duty to act in the best interests of the Corporation.

ARTICLE 3 – BUSINESS OF HECFI

3.1 Mandate

The purpose of HECFI is to generate economic and tourism activity in the City while providing community benefits through the management of its facilities.

Subject to the ongoing ability of HECFI to meet the objectives of the Shareholder set out in this Direction, and the ability of the Board to demonstrate the same, HECFI may engage in any of the following business activities:

(a) Maintain, operate, manage and promote the City's assets within its mandate, including Hamilton Convention Centre, Hamilton Place Theatre and the Copps Coliseum;
(b) Engage in partnerships to leverage key market opportunities for the City; and,
(c) Seek to reach financial self-sustainability.

3.2 Operational Decisions

HECFI shall employ its own staff. However, HECFI may seek assistance from City staff resources (e.g., finance, legal, IT, HR) on an occasional basis. These service costs will be tracked under service agreements with the City, at no cost to HECFI.

Subject to the terms of this Direction, the board shall be responsible for the management of the assigned City assets, making all policy and operational decisions, save and except for divestment of the assets, and be held accountable for these decisions through submission to the City of its annual Business Plan and Annual Report.

The Board has no authority to bind the City, only to contract for services on behalf of HECFI.

ARTICLE 4 – OPERATION AND CONTROL

4.1 Board Responsibilities

Subject to any matters requiring approval of the Shareholder pursuant to this Direction, the Board shall manage or supervise the management of the business and affairs of HECFI, including:

(a) Establishing annual and long-range strategies and plans consistent with the Shareholder's Business Planning template and the provisions of this Direction;
(b) Establishing and maintaining appropriate reserves consistent with sound financial principles and the financial performance objectives;
(c) Adopt a budget annually;
(d) Selecting bankers and other financial institutions and establishing all banking authorities; and,
(e) Managing and directing all labour and employee relations matters, including recruiting the CEO and conducting annual performance reviews.

ARTICLE 5 – BOARD OF DIRECTORS

5.1 Criteria for Board Membership

The composition of the Board will be maintained in a manner that provides the best mix of skills, experience and personal attributes to guide the long-term strategy and on-going business operations of HECFI.

In naming Directors to the Board, due consideration must be given to the qualifications of candidates, including:

(a) Experience or knowledge with respect to:
  - (i) The general business of HECFI
  - (ii) Strategic planning, risk management and board governance
  - (iii) Public relations, marketing and communications
  - (iv) Economic Development
  - (v) Accounting and financial management;
  - (vi) Business and legal background;
  - (vii) Property management

(b) Independence of judgement; and,

(c) Personal integrity.

5.2 Composition of the Board

The Board shall be composed of nine (9) voting members, including:

- 3 members of Council, being the Mayor, a member of the Planning and Economic Development Committee, and a member of the Audit and Administration Committee;
- 6 citizens;
- Chairperson of Tourism Hamilton, non-voting ex-officio.

Staff attending shall include the CEO of HECFI, Director of Tourism Hamilton, and any others deemed appropriate by the HECFI Board.

The Directors will annually elect the following officers of the Board: a Chair, Vice-Chair, Treasurer and Secretary.

5.3 Nominating Process

The HECFI Board will appoint its citizen Directors through a Nominating Committee that will be struck annually to:

(a) Review the availability and interest of current Directors;
(b) Identify changes in the marketplace and undertake a needs assessment in light of available expertise among current Directors; and,
(c) Advertise new members based on specified qualifications, established guidelines and succession plans.

The Nominating Committee for the citizens will be composed of one of the Council representatives on the HECFI Board and two HECFI Board members to be selected by the Board.

The Board will consider the recommendation/s of the Nominating Committee and then pass their recommendation to the Shareholder for final ratification.

City Council will appoint the members of the Planning and Economic Development and Audit and Administration Committees.

5.4 Vacancies

If a member of the Board ceases to be a Director for any reason, the vacancy will be filled as soon as reasonably possible.

5.5 Terms of Appointment

Council members shall be on the HECFI Board for the term of Council.

Citizen members shall be appointed for a 3-year term with a maximum of two consecutive terms.

The Chair of the Tourism Board of Directors shall be on the HECFI Board for his/her term as Chair.

5.6 Board Performance

The Board will develop and adopt a performance management system.

5.7 Remuneration

HECFI will reimburse Directors for all reasonable expenses incurred during the conduct of HECFI's business. Members of Council and City employees will receive no additional remuneration as Directors.

5.8 Standing Down the Board

Council may stand down the Board, should it be found to be in breach of the Direction.

5.9 Officers

Annually the Board shall elect its officers.

ARTICLE 6 – CONFLICT OF INTEREST AND CONFIDENTIALITY

6.1 Code of Conduct

The Board shall adopt a Code of Conduct in respect of Directors and employees consistent with the City of Hamilton's Code of Conduct as it exists from time to time.

6.2 Conflict of Interest

The Board shall adopt a Conflict of Interest Policy and Procedure in respect of Directors consistent with the terms and procedures found in the **Municipal Conflict of Interest Act, R.S.O. 1990,** CHAPTER M.50, as amended.

6.3 Confidentially

The Board shall adopt a confidentially policy whereby Directors who are in receipt of confidential information including commercial matters, contractual matters, labour relations matters, personnel matters, legal advice, or any other matter confidential to the operations of HECFI shall not disclose any such information, or any document or electronic communication containing such information to anyone not authorized by the Board to receive it.

ARTICLE 7 – SHAREHOLDER MATTERS

7.1 Approvals and Decisions of the Shareholder

The Board must approve a motion requesting Shareholder approvals or decisions through the Chair to the Chair of the relevant Standing Committee of Council. Such requests must be accompanied by all relevant information and within a reasonable timeframe.

7.2 Matters Requiring Shareholder Approval

The Shareholder must approve any changes by by-laws. HECFI shall not:

(a) Take any action, make any change or enter into any transaction that requires Shareholder approval pursuant to the **City of Hamilton Act, 1985**, as amended;
(b) Take any action, make any change or enter into any transaction with respect to divestment of the assets;
(c) Alter the corporate structure of HECFI in any way, including establishing subsidiaries;
(d) Take any action regarding a long-term capital plan for HECFI facilities without Shareholder approval; and,
(e) Create any deficits or variances from the approved budget and operating subsidy without reporting to the Shareholder.

ARTICLE 8 – REPORTING

8.1 Business Plan

Not later than 30 days prior to the end of each fiscal year of HECFI, the Board shall approve and submit to the Chair of the relevant Standing Committee of Council, a Business Plan for the next three fiscal years, and the Ten Year Capital Budget Programme is included with the Business plan. HECFI shall carry on its business and operations in accordance with the Business Plan that shall include:

(a) The strategic direction and any new business initiatives which HECFI will undertake;
(b) An operating and capital expenditure budget for the next fiscal year and an operating and capital expenditure projection for each fiscal year thereafter, including the resources necessary to implement the Business Plan;
(c) Recommendations to Council that a long-term capital plan is required for HECFI facilities;
(d) Submission of a facilities rehabilitation plan with costs in order to determine funding source (i.e., establishment of a reserve contribution);
(e) The projected annual revenues and profits for each fiscal year during the term of the Business Plan;
(f) Pro forma consolidated and unconsolidated Financial Statements;
(g) Any material variances in the projected ability to meet or continue to meet the financial or economic development objectives of the Shareholder; and,
(h) Any material variances from the Business Plan then in effect.

8.2 Annual Report and Financial Statements

Within 120 days after the end of each fiscal year of HECFI, the Board shall prepare an annual report and submit this report to Council through the Chair of the relevant Standing Committee of Council. This report shall include:

(a) Audited consolidated and unconsolidated Financial Statements;
(b) Such explanations, notes and information as are required to explain and account for any variances between the actual results from operations and the budgeted amounts set forth in the then current Business plan, and any material variances in the projected ability of any business activity to meet or continue to meet the financial and economic development objectives of the Shareholder;
(c) Information that is likely to materially affect the Shareholder's financial or economic development objectives;
(d) Information regarding any matter, occurrence or other event which is a material breach of the requirements of this Direction, or a material breach or violation of any law, including major findings of internal and other audits;
(e) Information regarding the performance of HECFI such that the Shareholder can determine that this Shareholder Direction has been respected; and
(f) Any such additional information as the Shareholder may specify from time to time.

Following submission of each report, the Directors shall make themselves available, if requested, to meet with the Shareholder or the appropriate Standing Committee of Council, or both, to discuss the report.

8.3 Annual Operating Subsidy

HECFI may continue to receive financial support from the City as an investment in the community's quality of life, if necessary and reasonable.

Annually, HECFI must request Council approval for any operating subsidy it requires.

Operating Budget variance reports shall be submitted in accordance with the City's existing reporting structure.

8.4 Access to Records and Information

The City Auditor (or designate) and any other duly appointed representatives of the Shareholder (as approved by Council from time to time) shall have unrestricted access to the books and records of HECFI during normal business hours. Such representatives shall treat all confidential information of HECFI with the same level of care and confidentiality as any confidential information of the Shareholder.

8.5 Audit

The Auditor will be appointed by the Shareholder. HECFI shall determine the remuneration for the Auditor. The annual consolidated and unconsolidated Financial Statements will be audited by the Auditor. All other audit and review requirements, including internal audits, will be the sole responsibility of the Board.

The City Auditor may audit all or any portion of HECFI records at any time.

8.6 Accounting

HECFI shall use the accounting and purchasing policies and procedures approved by and in accordance with the City of Hamilton. HECFI can make amendments to purchasing and personnel policies and procedures for business reasons specified by management.

ARTICLE 9 – FINANCIAL PERFORMANCE

9.1 Financial Performance Targets

The Board shall use its best efforts to ensure that HECFI meets the financial performance targets set out in each year's Business Plan.

ARTICLE 10 – AMENDMENTS

10.1 Amendments to Direction

The Shareholder, in its sole discretion, may amend this Direction on written notice to the Board. The amendments shall come into effect six weeks after the Shareholder gives the Board written notice of the amendments, or on such other date as the Shareholder, in its sole discretion, may specify.

Appendix D
Mandates of Comparable Facilities - Arenas

Sample Mandate and Governance Characteristics: Arenas

	General Motors Centre- Oshawa	John Labatt Centre- London	Hershey Centre- Mississauga	Ricoh Coliseum- Toronto
Mandate	n/a	The John Labatt Centre is a multi-purpose entertainment and sports facility. The facility strives to perform a significant role in meeting the needs of the community in its overall programming. The John Labatt Centre shall also be a landmark of city civic pride and community accessibility, promoting a sense of vibrancy and culture while also providing a wide range of public sports and entertainment.	n/a	To Foster Exhibition Place as an inclusive and accessible parkland and business destination for entertainment, recreation, sporting events and public celebrations and, in doing this, operate as a self-sustaining and environmentally responsible entity. Business Development Goal: Integrate each of the business enterprises across Exhibition Place to stimulate local and regional economic growth and promote Exhibition Place as an international centre of business excellence.
Land and buildings owned by:	City of Oshawa	Public-Private Partnership between The City of London, EllisDon, and Global Spectrum.	City of Mississauga	City of Toronto
Responsibility for operating control:	Global Spectrum	Global Spectrum	SMG	Maple Leaf Sports and Entertainment reporting to the Board of Governors of Exhibition Place
Structure of Operating Control Entity		Public-Private Partnership		
Board	No	No	No	Yes
Board Structure				
Number	N/a	N/a	N/a	11
Composition	N/a	N/a	N/a	3 City Councillors 5 persons who may but are not required to be council members 3 persons nominated by the Canadian National Exhibition Association and the Mayor of Toronto.

Source: HLT Advisory based on venue websites and interviews
N/a- Not applicable
n/a- Not available

Appendix D
Mandates of Comparable Facilities – Convention Centres

Sample Mandate and Governance Characteristics: Convention Centres	Ottawa Convention Centre	Vancouver Convention Centre	Scotiabank Convention Centre- Niagara	London Convention Centre
Mandate	Guided by our core values, we generate economic impact for the National Capital Region, the Province of Ontario and our partners, by operating a world class convention and events venue.	Position the Vancouver Convention Centre as a world-class convention centre, provide an event experience that exceeds the expectations of our clients and guests, and attract incremental visitors to Vancouver, the Province of British Columbia, and Canada.	The Scotiabank Convention Centre delivers UnConventional Experiences in a globally iconic destination through an inspired team of professionals. Vision: To be a self sustaining economic catalyst for the Niagara Region, renowned for its exceptional services, creativity and experiences.	The LCC will generate economic benefit for the City of London.
Land and buildings owned by:	Province of Ontario	Canada Place Corporation	City of Niagara Falls	City of London
Responsibility for operating control:	OCC (governed by Ottawa Congress Centre Act)	British Columbia Pavillion Corporation	Naigara Convention and Civic Centre Inc.	London Convention Centre Corporation
Structure of Operating Control Entity	Single-purpose corporation	Provincially owned Crown Corporation	Public-Private Partnership	Single-purpose corporation
Person Responsible Reports to:	Board of Directors	PavCo Board of Directors	Board of Directors	Board of Directors
Other Reporting Relationships:	Board to Minister of Tourism	PavCo Board reports to the Provincial Minister of Tourism, Sport and the Arts	n/s	Board reports to City
Board	Yes	Yes	Yes	Yes
Board Structure Number	>7 and <12	11	13	11
Composition	Up to 9 appointed by the Province of Ontario and 3 appointed by the City of Ottawa	Appointed by the province	Private Stakeholders	3- elected, 8 - private sector
Term	3 yrs	No fixed term	3-yr terms unless an officer who moves up in succession	4 years for elected officials, 3 yrs for private sector with option for a second term
Max. no. of consecutive terms	None	n/a	Two	Two

Source: HLT Advisory based on venue websites and interviews

n/s: not supplied
n/a: not applicable

Appendix D
Mandates of Comparable Facilities – Performing Arts Centres

Sample Mandate and Governance Characteristics: Performing Arts Venues				
	Centre In The Square- Kitchener	Living Arts Centre- Mississauga	Centennial Hall - London	Sony Centre
Mandate	Creating Memorable Experiences	To nurture, foster, encourage, promote and support the presence and development of the performing and visual arts in Mississauga and the neighbouring communities.	n/a	The mandate of the Board of Directors is to operate, manage and maintain the Centre as a theatre and auditorium and as a centre for meetings, receptions and displays, including the promotion, production or presentation of the performing arts, including theatrical, dramatic, musical and artistic works.
Land and buildings owned by:	City of Kitchener	City of Mississauga	City of London	City of Toronto
Responsibility for operating control:	The General Manager reports directly to the board.	CEO reports directly to the Independent Board of Directors	Outsourced to: Jones Entertainment Group	General Manager
Person Responsible Reports to:	Directly to the board	Directly to the board	City of Kitchener	Directly to the board
Board	Yes	Yes	No	Yes
Board Structure				
Number	14	17	N/a	12
Composition	Includes the mayor, three City of Kitchener councillors, and eight citizens appointed by Kitchener City Council	3 members of council 14 citizen members	N/a	3 members of council 9 citizen members (invitation)
Term	3 year terms	n/a	N/a	4 years
Max. no. of consecutive terms	Two	n/a	N/a	n/a

Source: HLT Advisory based on venue websites and interviews
N/a- Not applicable
n/a- Not available

Appendix E-1
Summary of Audited Income Statements
2006 to 2010 Plus 2011 Budget

Summary income statement - HECFI						
Year ended December 31,	2006	2007	2008	2009	2010	2011
$'000	audited	audited	audited	audited	audited	budget
Revenue						
Rentals, license fees and shows	2,027	2,501	2,862	2,722	2,065	2,399
Food, beverage and concessions	2,750	3,212	3,057	3,136	2,754	2,940
Recoveries	2,582	3,372	3,629	4,096	3,692	3,389
Box office	478	695	1,122	1,125	808	835
Sports operations	-	379	636	548	252	1,046
Other	492	624	774	708	520	346
Revenue	**8,329**	**10,783**	**12,080**	**12,335**	**10,091**	**10,955**
Expenses						
Events delivery	2,231	2,733	3,090	3,472	2,951	2,831
Hospitality operations	2,452	2,816	2,889	3,178	3,068	2,935
Building operations	2,588	2,994	3,118	3,261	3,181	3,119
Sales and promotion	1,860	2,405	2,750	2,715	2,589	2,059
Administration	1,604	1,793	1,907	1,626	1,702	2,181
Sports operations	-	490	881	801	1,035	1,075
Box office	340	355	342	365	363	368
Total operating expenses	**11,075**	**13,586**	**14,977**	**15,418**	**14,889**	**14,568**
Net expense before revenue from the City	2,746	2,803	2,897	3,083	4,798	3,613
Revenue from the City	2,784	2,867	2,936	2,790	2,790	3,247
Net (expenses) revenues	**38**	**64**	**39**	**(293)**	**(2,008)**	**(366)**
Budget deficit (surplus) transfered from (to) the City	(38)	(64)	(34)	293	2,008	-
Municipal loan request	-	-	-	-	-	366
Annual (deficit) surplus	**-**	**-**	**5**	**-**	**-**	**-**

Appendix E-2
Summary of Audited Balance Sheets
2006 to 2010 Plus 2011 Budget

Summary balance sheets - HECFI						
As at December 31,	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
$'000	**audited**	**audited**	**audited**	**audited**	**audited**	**budget**
Financial assets						
Cash	-	171	-	72	43	70
Accounts receivable	1,660	1,768	2,447	2,081	1,667	2,000
Inventories	63	81	68	62	54	40
Due from City of Hamilton	1,737	5,184	4,146	2,748	3,344	2,580
Total financial assets	**3,460**	**7,204**	**6,661**	**4,963**	**5,108**	**4,690**
Liabilities						
Bank indebtedness	109	-	45	-	-	-
Accounts payable and accrued liabilities	848	1,448	2,146	1,419	1,001	1,400
Advance ticket sales	2,415	5,627	4,064	3,493	3,915	3,000
Deposits on future rentals	158	238	401	236	339	250
Deferred revenue	31	74	636	634	487	500
Unredeemed gift certificates	50	38	35	29	31	25
Advance from a related corporation	13	13	14	13	15	15
Accrued sick benefits	3	3	3	3	3	-
Total liabilities	3,627	7,441	7,344	5,827	5,791	5,190
Net debt	167	237	683	864	683	500
Non-Financial assets						
Tangible capital assets	-	-	21	21	27	27
Prepaid expenses	21	42	146	209	150	100
Deferred charges on future shows	146	195	537	655	527	400
Accumulated surplus	**-**	**-**	**21**	**21**	**21**	**27**

Source: Audited annual financial statements, 2011 Operating budget

Appendix E-3
Summary of Promotion and Co-Promotion Revenues
2006 to 2010

HECFI Promotions and Co-Promotions - 2006					
Fiscal 2006	**Total Attendance**	**Paid Attendance**	**Show Revenue**	**Ancillary Revenue**	**Total Revenue**
Top Three Shows					
Event 1	16,194	15,912	$ 66,652	$ 40,120	$ 106,772
Event 2	12,748	12,485	58,274	48,103	106,377
Event 3	9,769	9,529	42,935	52,256	95,191
Bottom Three Shows					
Event 1	1,499	1,360	$ (39,299)	$ 3,338	$ (35,961)
Event 2	3,166	2,800	(39,139)	15,125	(24,014)
Event 3	661	329	(24,840)	1,741	(23,099)
Total 2006	**117,845**	**101,142**	**$ 157,958**	**$385,879**	**$ 543,837**

HECFI Promotions and Co-Promotions - 2007					
Fiscal 2007	**Total Attendance**	**Paid Attendance**	**Show Revenue**	**Ancillary Revenue**	**Total Revenue**
Top Three Shows					
Event 1	12,820	12,444	$ 63,162	$ 53,949	$ 117,111
Event 2	10,382	10,061	51,524	37,021	88,545
Event 3	4,894	4,660	42,708	21,155	63,863
Bottom Three Shows					
Event 1	1,731	936	$ (22,442)	$ 3,355	$ (19,087)
Event 2	1,905	550	(20,336)	2,476	(17,860)
Event 3	201	100	(9,400)	801	(8,599)
Total 2007	**121,367**	**110,060**	**$ 277,193**	**$ 374,043**	**$ 651,236**

HECFI Promotions and Co-Promotions - 2008

Fiscal 2008	Total Attendance	Paid Attendance	Show Revenue	Ancillary Revenue	Total Revenue
Top Three Shows					
Event 1	15,951	15,054	$ 206,910	$ 55,917	$ 262,827
Event 2	18,254	18,071	56,759	95,906	152,665
Event 3	13,303	12,809	96,309	41,645	137,954
Bottom Three Shows					
Event 1	-	-	$ (27,192)	$ -	$ (27,192)
Event 2	1,337	1,159	(19,468)	1,579	(17,889)
Event 3	602	402	(12,165)	2,299	(9,866)
Total 2008	**236,811**	**217,958**	**$ 899,123**	**$ 908,262**	**$1,807,385**

HECFI Promotions and Co-Promotions - 2009

Fiscal 2009	Total Attendance	Paid Attendance	Show Revenue	Ancillary Revenue	Total Revenue
Top Three Shows					
Event 1	20,049	19,671	$ 51,590	$ 68,040	$ 119,630
Event 2	13,346	13,005	38,748	84,541	123,289
Event 3	14,501	14,224	41,285	81,880	123,165
Bottom Three Shows					
Event 1	3,085	2,431	$ (40,508)	$ 11,895	$ (28,613)
Event 2	2,826	2,584	(36,628)	13,065	(23,563)
Event 3	915	749	(22,708)	3,440	(19,268)
Total 2009	**204,788**	**192,213**	**$ 483,864**	**$ 920,024**	**$1,403,888**

HECFI Promotions and Co-Promotions - 2010

Fiscal 2010	Total Attendance	Paid Attendance	Show Revenue	Ancillary Revenue	Total Revenue
Top Three Shows					
Event 1	28,243	25,772	$ 60,558	$ 69,601	$ 130,159
Event 2	15,712	14,816	57,929	53,088	111,017
Event 3	9,331	9,092	30,389	51,178	81,567
Bottom Three Shows					
Event 1	4,062	3,415	$(168,091)	$ 16,420	$ (151,671)
Event 2	4,082	1,638	(120,816)	4,194	(116,622)
Event 3	2,593	1,020	(105,833)	4,474	(101,359)
Total 2010	**161,319**	**143,765**	**$ 33,050**	**$ 516,341**	**$ 549,391**

Appendix E-4
Unaudited Income Statements of Copps Coliseum
2006 to 2010 Plus 2011 Budget

Summary income statement - Copps Coliseum						
Year ended December 31,	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
$'000	**actual**	**actual**	**actual**	**actual**	**actual**	**budget**
Revenue						
Rentals, license fees and shows	1,032	1,286	1,512	1,248	816	1,217
Food, beverage and concessions	348	640	414	512	315	377
Recoveries	1,127	1,603	1,491	2,224	1,914	1,655
Box office	280	490	676	767	470	500
Sports operations	-	379	636	548	252	1,046
Other	225	274	278	300	193	125
Revenue	**3,012**	**4,672**	**5,007**	**5,599**	**3,960**	**4,920**
Expenses						
Total direct expenses	2,757	3,855	4,346	4,912	4,855	4,554
Contribution margin	255	817	661	687	(895)	366
Contribution margin %	*8.5%*	*17.5%*	*13.2%*	*12.3%*	*-22.6%*	*7.4%*
Indirect expenses						
Building operations	79	99	90	155	143	145
Sales and promotion	462	577	636	604	582	457
Administration	510	567	601	542	567	727
Total indirect expenses	1,051	1,243	1,327	1,301	1,292	1,329
Total operating expenses	**3,808**	**5,098**	**5,673**	**6,213**	**6,147**	**5,883**
Net municipal contribution	**796**	**426**	**666**	**614**	**2,187**	**962**

Appendix E-5
Unaudited Income Statements of Hamilton Convention Centre 2006 to 2010 Plus 2011 Budget

Summary income statement - Convention Centre

Year ended December 31, $'000	2006 actual	2007 actual	2008 actual	2009 actual	2010 actual	2011 budget
Revenue						
Rentals, license fees and shows	620	811	759	886	669	679
Food, beverage and concessions	2,145	2,287	2,305	2,279	2,348	2,484
Recoveries	351	391	448	322	291	334
Box office	8	8	36	14	6	5
Other	186	218	291	266	197	166
Revenue	**3,310**	**3,715**	**3,839**	**3,767**	**3,511**	**3,668**
Expenses						
Total direct expenses	3,203	3,726	3,875	4,080	3,845	3,771
Contribution margin	107	(11)	(36)	(313)	(334)	(103)
Contribution margin %	3.2%	-0.3%	-0.9%	-8.3%	-9.5%	-2.8%
Indirect expenses						
Building operations	79	99	90	155	143	145
Sales and promotion	462	577	636	604	582	457
Administration	510	567	601	542	567	727
Total indirect expenses	1,051	1,243	1,327	1,301	1,292	1,329
Total operating expenses	**4,254**	**4,969**	**5,202**	**5,381**	**5,137**	**5,100**
Net municipal contribution	**944**	**1,254**	**1,363**	**1,614**	**1,626**	**1,431**

Appendix E-6
Unaudited Income Statements of Hamilton Place
2006 to 2010 Plus 2011 Budget

Summary income statement - Hamilton Place						
Year ended December 31,	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
$'000	**actual**	**actual**	**actual**	**actual**	**actual**	**budget**
Revenue						
Rentals, license fees and shows	375	404	591	588	580	503
Food, beverage and concessions	257	285	338	345	91	79
Recoveries	1,104	1,378	1,690	1,550	1,487	1,400
Box office	190	197	410	344	332	330
Other	81	132	205	142	130	55
Revenue	**2,007**	**2,396**	**3,234**	**2,969**	**2,620**	**2,367**
Expenses						
Total direct expenses	1,962	2,274	2,773	2,523	2,313	2,256
Contribution margin	45	122	461	446	307	111
Contribution margin %	2.3%	5.4%	16.6%	17.7%	13.3%	4.9%
Indirect expenses						
Building operations	79	100	91	155	143	145
Sales and promotion	462	577	636	604	582	457
Administration	510	568	602	542	567	727
Total indirect expenses	1,051	1,245	1,329	1,301	1,292	1,329
Total operating expenses	**3,013**	**3,519**	**4,102**	**3,824**	**3,605**	**3,585**
Net municipal contribution	**1,006**	**1,123**	**868**	**855**	**985**	**1,217**

Appendix E-7
Actual vs. Budget Operating Performance of HECFI
Q1 of 2011

Summary income statement - HECFI			
For the Quarter ended March 31,	**2011**	**2011**	**2010**
$'000	**budget**	**actual**	**actual**
Revenue			
Rentals, license fees and shows	570	631	650
Food, beverage and concessions	758	769	886
Recoveries	767	850	948
Box office	229	228	301
Sports operations	180	11	(96)
Other	58	72	112
Revenue	**2,562**	**2,561**	**2,801**
Expenses			
Events delivery	605	702	801
Hospitality operations	783	783	851
Building operations	823	776	824
Sales and promotion	382	321	446
Administration	718	710	507
Sports operations	293	337	302
Box office	101	88	103
Total operating expenses	**3,705**	**3,717**	**3,834**
Net expense before revenue from the City	**(1,143)**	**(1,156)**	**(1,033)**

Appendix F
Summary of Larger North American Sports, Entertainment and Convention Industry Participants

Summary of Potential Purchasers

Name	Description
Live Nation	Live Nation owns, operates, has booking rights for and/or has an equity interest in 128 venues, including the House of Blues music venues and prestigious locations such as The Fillmore in San Francisco, the Hollywood Palladium, the Heineken Music Hall in Amsterdam and the O2 Dublin.
Anschutz Entertainment Group (AEG)	AEG owns or controls a collection of facilities such as STAPLES Center (Los Angeles, CA), Prudential Center (Newark, NJ), Sprint Center (Kansas City, MO), The Rose Garden (Portland, OR), WaMu Theatre (Seattle, WA), American Airlines Arena (Miami, FL), Verizon Theatre (Grand Prairie, TX), The Colosseum at Caesars Palace (Las Vegas, NV), Target Center (Minneapolis, MN), NOKIA Theatre Times Square.
Global Spectrum	An entertainment and sports firm, Comcast-Spectacor, parent of Global Spectrum, is an owner of both venues and teams, and its parent company, the Comcast Corporation, is the US' primary provider of cable, entertainment, and communications products and services.
Katz Entertainment Holdings Corporation	Katz Group owns the Edmonton Oilers (NHL), Edmonton Oil Kings (WHL), Oklahoma City Barons (AHL) and the Edmonton Capitals of the Golden Baseball League, as well as Aquila Productions, one of Canada's leading entertainment and event companies. Through its wholly-owned C&H group of companies, the Katz Group is involved in land assembly, site and building development, and the operation of multiple development projects in Canada and the US.
SMG	SMG, a world leader in venue management, marketing and development, was founded in 1977 with the management of the Louisiana Superdome. It grew to manage convention centers, exhibition halls and trade centers, arenas, stadiums, performing arts centers, theaters, and specific-use venues such as equestrian centers.
Stratus Media Group	Stratus Media Group, Inc. is an owner, producer, promoter and operator of live entertainment events that generate revenue through corporate sponsorships, ticket sales, corporate hospitality, event merchandise and concessions