

Strategic Plan Summary with Clarifications & Observations

Hamilton Entertainment and Convention Facilities Inc.



Strategic Plan Highlights

“The Next Chapter”

1. Uplifting the organization to the new levels:

- Organization structure & partnerships
- Higher level goals
- Expanding our market reach as the hub for Central Ont.



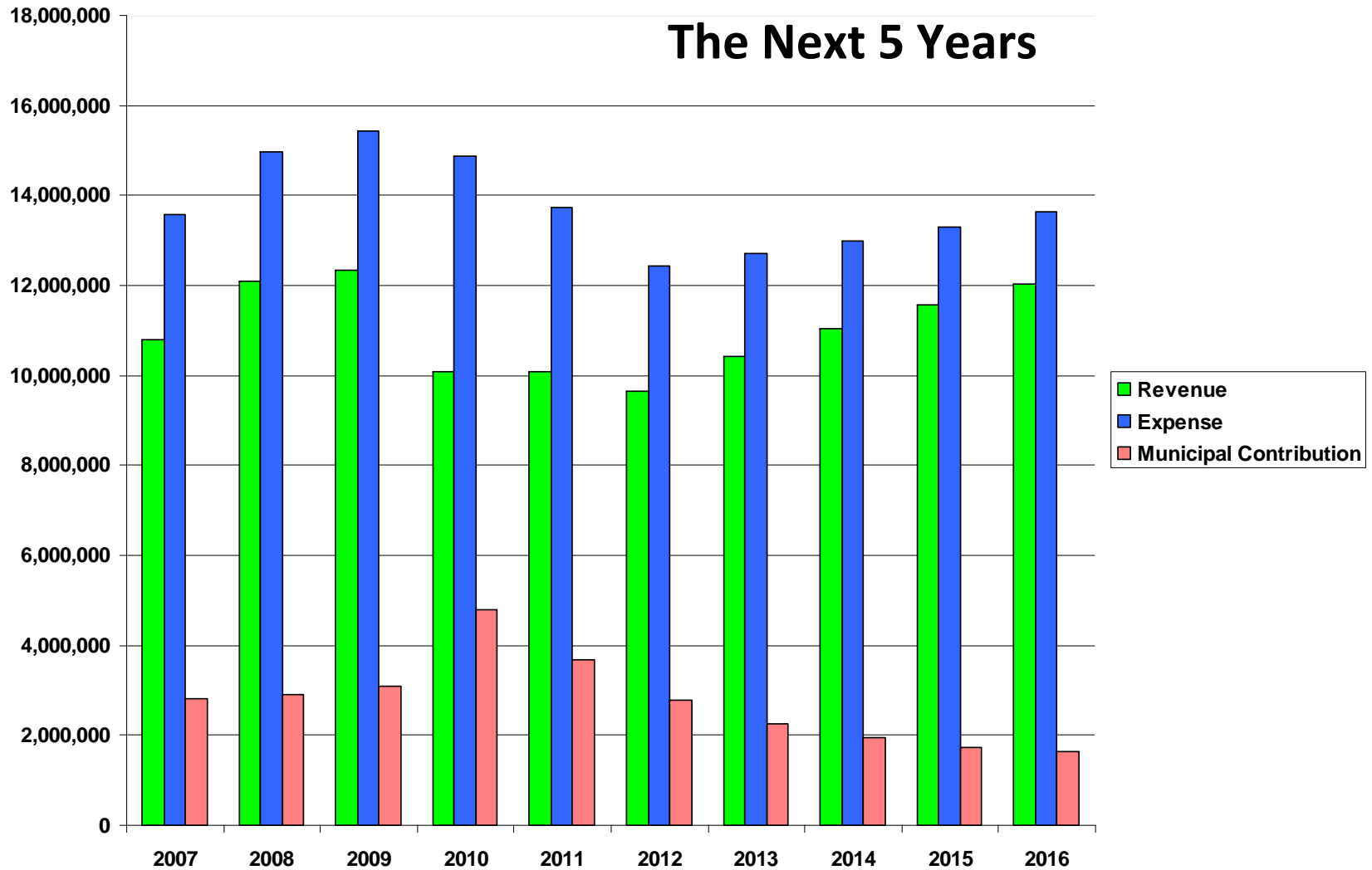
2. Delivering our mandate AND reducing the cost to taxpayers:

- Creative Revenue and productivity improvements
- Cost containment

Resulting in the Municipal Contribution requirement being reduced each year by \$250-350K from 2013-2016

Revenue, Expense, Municipal Contribution Comparison 2007-2016

The Next 5 Years



How We Will Deliver

Above the line plans = Strategic Imperatives i.e. what **MUST** we do to go to the next level

1. Embedded Community Engagement
2. Revenue and Productivity Capacity Building
3. Enhancing the Customer Experience

Below the line actions = Business/Operating Plans

1. Client Satisfaction
2. Team Motivation
3. Hitting Revenue and Expense Budgets

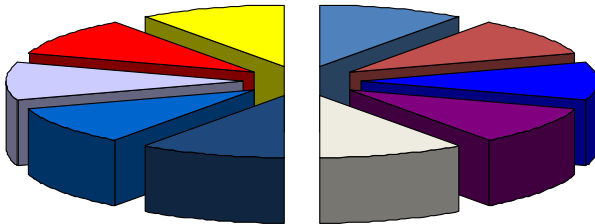
Strategic Imperative #1

Embedded Community Engagement

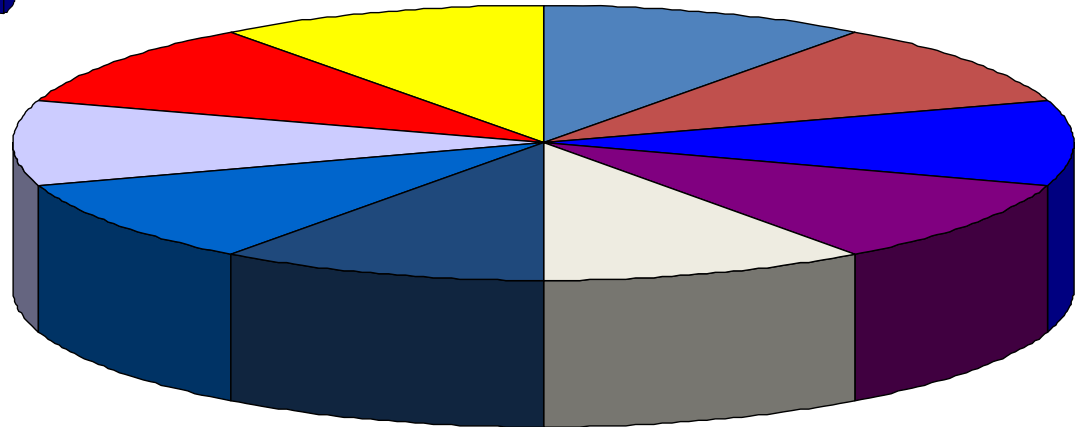
Expanding the Size of the Pie

We can play an important role, as part of the City, in bringing businesses and community groups together to create a larger market opportunity for Hamilton as a destination.

Working Independently



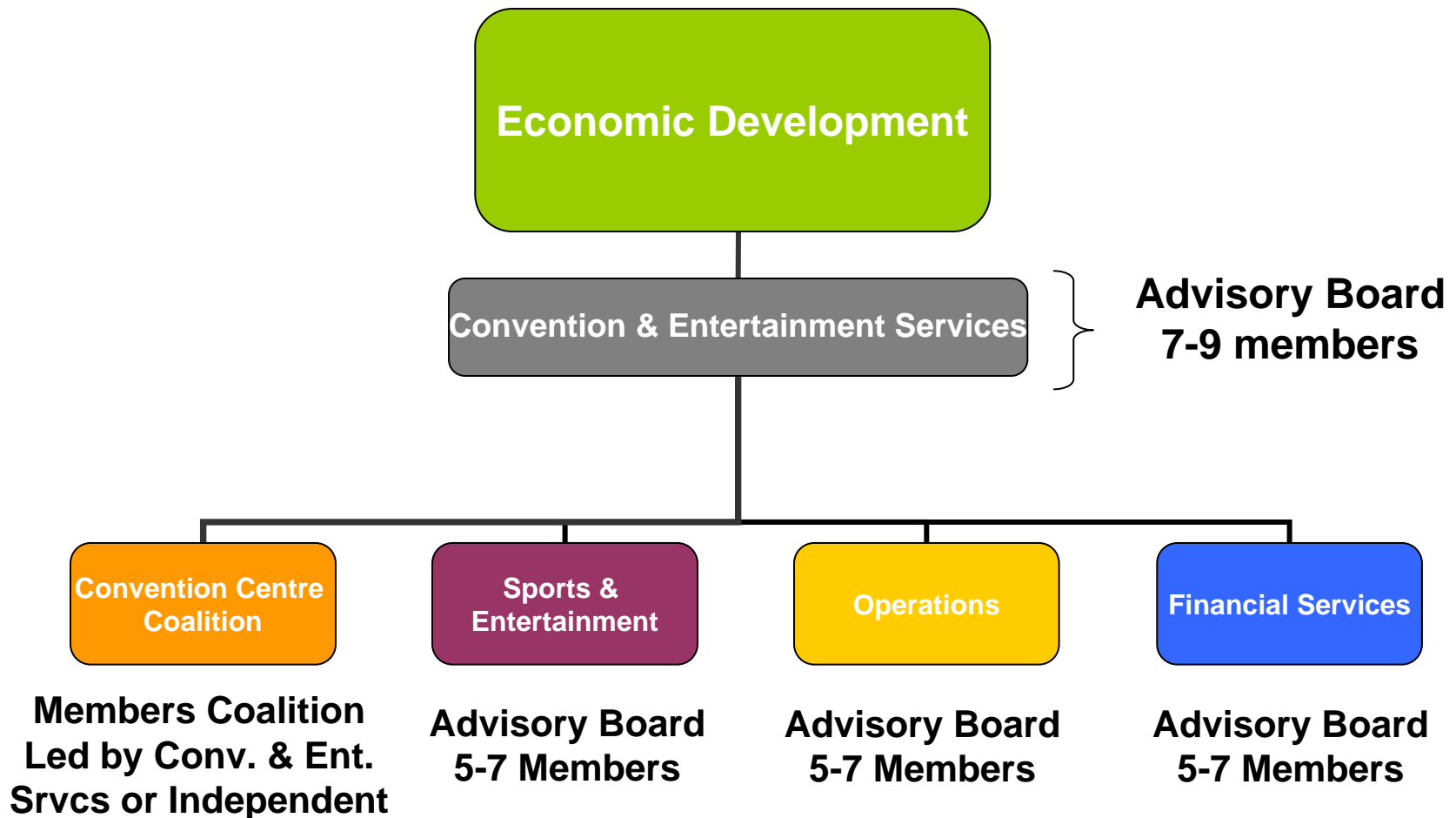
Working Collaboratively



Strategic Imperative #1

Embedded Community Engagement

Optimizing the “Single Operator” Model

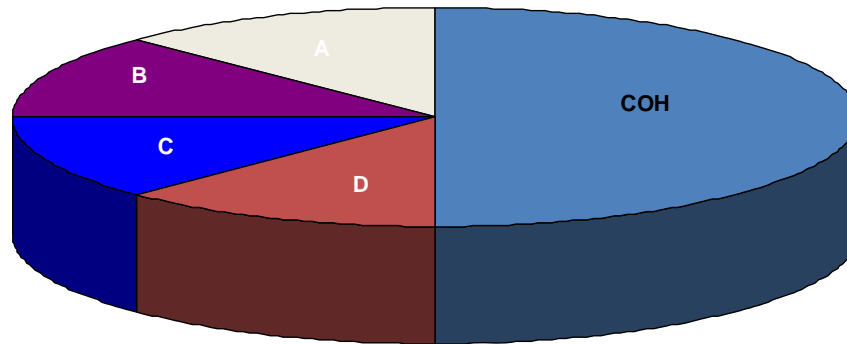


Strategic Imperative #1

Embedded Community Engagement

Make the Convention Centre a true City of Hamilton asset:

- an extension of each members' assets, inventory, and value proposition i.e. promoting their Hotel with Convention Centre facilities
- centralized booking and reservation process (EBMS in place)
- revenue /expense model = partners not competitors
- it's equivalent to multiplying our Sales team
- great new ideas and broader commitment to making HCC succeed



**"P3" Models
can work with
transparency
and
accountability**

Strategic Imperative #2

Revenue & Productivity Capacity Building

To grow our capacity AND keep costs contained, we need to better leverage available resources and identify new opportunities:

1. The P3 model for the Convention Centre
2. Naming Rights can generate an estimated \$400-600K annually
3. Potential JV with the City and Ticats leveraging the new stadium and our promoters as another sports & entertainment venue
4. New 'packaged' entertainment sponsorships (like Broadway series)
5. Fewer 'dark nights' / plus summer programs - community & private
6. JV with the Municipal Parking System to generate incremental revs.
7. Create a 'scope of work' and basic service level agreements with all relevant City depts. to create efficiencies and productivity gains
8. Internal process improvement – all facets of all departments

Strategic Imperative #3

Enhancing the Customer Experience

1. Leverage our strengths

- Uplifting our customer service program – higher standard, consistently
- Committing to training and developing our part time employees
- Stepping back to look at long standing processes – what’s the new customer impacting “best practice” for us to establish

2. Revitalizing the Venues

- Short and near term – complete the visual experience upgrades and key maintenance items
- Longer term – need a new architectural vision

3. Re-launch and re-brand

- Let the RFP process be a positive
- Great opportunity to re-introduce the venues and new organization
- Create a new brand package: logo, colours, value proposition, brand promise

A Few Examples of a Visual Refresh

Video walls, exterior and interior sound systems



Interactive video booth with outside screen showing a recording in progress or sponsored content



Digital signage facing out towards main lobby

Leverage existing telephony system and enhance with interactive software



Clarifications & Observations

Items to consider in the analysis of
HECFI and Proponent proposals

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City Administrative Charges to HECFI's Operating Budget

- The amount of \$449K charged to the operating budget of HECFI was introduced in 2010.
- It is the City's estimate of the value of services provided based on proportions e.g. IT services charges are based on the % of our connections as a % of the City's total.
- It is acknowledged by the City that there would not be a savings of this amount if a 3rd party operated HECFI, as these charges represent a fraction of individuals time therefore there would be no staff reductions.
- Therefore the amount of \$449K should be deducted from HECFI's operating subsidy for comparison purposes:

2012 Municipal Contribution = \$3,247,140

Less the City Administration Allocation = (449,190)

Adjusted 2012 Municipal Contribution = \$2,797,950

HECFI Municipal Contribution Recovery and 5 Year Plan (less City Admin Allocation)

Year	Budget(000's)	(Surplus) Deficit	Comments
2006	2,784	(38)	
2007	2,867	(64)	
2008	2,936	(34)	
2009	2,790	293	Loss covered by Capital reserves
2010	2,790	2,008	Loss covered by City
2011	2,802	*465 + **460	\$1,543 operating improvement yr/yr * Includes \$307K loss re hockey ops ** Unbudgeted severance Loss covered by Capital reserves
2012	2,798	0	\$470K operating improvement Costs contained, Rev. oversight in place, processes improved, no hockey
2013	2,262	0	\$536K improvement yr/yr
2014	1,946	0	\$316K improvement yr/yr \$852K cum.
2015	1,738	0	\$208K improvement yr/yr \$1,060 cum.
2016	1,624	0	\$114K improvement yr/yr \$1,174 cum or 42%

Adjusted Comparison of 1986 vs. 2012 Municipal Contribution

- Adjustments include: the cost of inflation, pay equity, transfer of CUP electricians to HECFI, and City Admin overhead transfer....

The adjusted 1986 budget = \$5,917,925

2012 budget = \$3,247,140

Decrease = \$2,670,140 or 45%

Capital Contributions to the City

- The City annually provides HECFI with \$800K in capital for the general upkeep of the facilities.
- Through Capital Improvement surcharges, HECFI provides an average of \$308K to the City of Hamilton; if a 3rd party operator was installed, these monies would have to be replaced.
- Hamilton Place receives a further capital grant of \$200K from the Ron Joyce foundation: if a 3rd party operator was installed, that money may not be available.

Potential Costs of Severances for Full Time Employees

- HECFI currently employees 39 full time non-union employees.
- If a 3rd party operator were to replace any or all positions, the City would be required to find positions within other City departments or pay severances.

The Approximate Allocation of the Municipal Contribution by Building

- As a single operator of all 3 buildings, HECFI has realized significant efficiencies.
- Full time headcount for example has been reduced from 87 in 1990 to 53 today (including 14 union and 3 contract positions).
- A number of revenue and expense items can be assigned to specific venues and those that cannot e.g. Corporate salaries and overheads, have been calculated as close as possible in the 2012 budget:

Hamilton Convention Centre \$1,195,000

Hamilton Place 818,000

Copps Coliseum 785,000

2012 Municipal Contribution = \$2,798,000

Labour Cost Misconception

- A common misconception exists regarding HECFI labour costs.
- Our 53 permanent full-time staff = 17% of operating and ticket revenues.
- Our 39 non-union full-time staff = 12.6% of operating and ticket revenues.
- The 39 non-union full-time staff also oversee approx. 800 part-time event driven staff.
- The 39 Full time non-union staff use a similar salary and wage grid as the City but have not received COLA increases since January 2008, took reductions of 5% for much of 2011, and have not seen merit increases for 2 years.
- IATSE 129 theatrical employees recently ratified a 4 year contract at 0,0,1.9, and 1.9% plus other efficiencies that will reduce costs to promoters.
- IATSE 129 costs are part of the cost of production and are fully recovered from the promoter.
- Other union members that include wait staff, porters, ushers, ticket takers etc. generally do earn above minimum wage and are generally very experienced employees, well trained, with little turnover. Portions of these costs are also recovered.

Single vs. Multiple Operators

- A single operator:
 - Can promote all 3 venues, physically co-located as a one-of-a-kind value proposition in Canada, easy access for major highways, adjoining and nearby hotels (increasing in room numbers and quality) e.g. CCMA, Sports Distributors, and many more.
 - Has maximum flexibility to book Entertainment, Banquets, Receptions, Conferences and Trade Shows, Graduations, Recitals, and competitions in any of the venues depending on requirements, thereby maximizing opportunities
 - Can operate with maximum efficiencies for cross venue functions e.g. Marketing, Sales, Finance, HR, Building Operations etc.
 - Has the same access to promoters, suppliers, and market opportunities as an operator of an individual venue
 - Can maximize marketing and media buying opportunities

City Run vs. 3rd Party Operators

- Entertainment
 - As a City operator we have no financial bias to one promoter but have access to all promoters, therefore increasing the potential to bring in the best possible talent (we currently deal with approximately 30 promoters)
 - A 3rd party operator with a contractual relationship to one promoter has a bias towards promoting their own acts, potentially limiting the entertainment variety that comes to the City, and choosing other cities where profits may be higher.
 - A City operator can serve the broader interests of the community as a key decision making factor i.e. to support our diverse culture, local businesses, and 'city building' components such as sports teams where it may not maximize profit margins required by a 3rd party.
 - As a City operator we work very closely with community performing arts organizations, schools, and cultural events, to assist them in marketing, ticket sales, and various cost reductions to help them be successful
 - Our entertainment brand can reflect the City's vision in terms of the types of entertainment we secure and promote.

City Run vs. 3rd Party Operators

- Convention Business
 - As a City facility we are positioned to work together with the private sector to partner for the promotion of Hamilton at large e.g. hotels, banquet halls, and event promoters like Continuum.
 - A 3rd party operator would realistically be promoting their business interests, potentially at the expense of their local competitors and the Convention Centre itself e.g. using HCC as overflow vs. a core product
 - A City operator reporting to Economic Development can leverage all City resources to maximize new business for the City and community businesses e.g. Tourism, Culture, City staff associations etc.
 - There are a significant number of community organizations that we work with to assist in minimizing their event costs; a third party may not be in a position to do the same

Operating Charges Allocated to HECFI (some are not recorded on HECFI financials)

- The KPMG Phase 1 report bundled into a summary page the total operating and capital costs believed to be associated with HECFI
- The Municipal Contribution is a clear budgeted subsidy of approx. \$2.8M
 - The Special Event subsidy of \$100K annually was discontinued
 - The Bulldogs subsidy of \$220K was initiated by the City to help HECFI operate at a break even for hockey operations based on the lease deal.
- CUP provides Heating, Ventilation, and Cooling to a # of buildings in the core e.g. City Hall, Art Gallery, Library/Market, Parking Garage & the Ontario Government Building
 - The CUP operating charges to HECFI of approx. \$2.5M annually includes several estimates vs. metered costs and are not solely for HECFI venues:
 - About \$500K in estimated overhead charges:
 - The remaining \$2M includes both hydro, and heat:
 - Hydro is metered at Copps however, chilled water for air conditioning produced onsite also serves the downtown network of buildings
 - Hydro is estimated based on a formula, for HCC and Hamilton Place
 - Hamilton Community Energy produces hot water to heat the facilities and the cost for same is calculated based on an agreement between HCE and the COH

Capital Charges Allocated to HECFI (some are not recorded on HECFI financials)

- The City has historically approved an annual capital budget of \$800K:
 - Over the period 2009 to 2011 approximately \$1.6M has been repurposed to cover a portion of the costs of under achieving budgeted revenues & expenses, 2011 unbudgeted severance payments, and the KPMG contract
- The Phase 1 KPMG report also presented CUP capital costs associated with HECFI, which together with the CUP operating allocations created a perception that HECFI “lost” \$11.277 M, versus the actual \$2M relative to the Municipal Contribution operating budget.
 - HECFI has not in the past been involved in building the CUP projects or budgets
 - Much of the capital investment serves the entire downtown network of buildings not just the HECFI venues e.g. \$3.5M chiller replacement
 - Significant amounts of money have been budgeted but not spent e.g. ice plant \$2.1M
- Proponents have indicated that they expect the City to continue to pay for capital improvements and utilities.
- The Municipal Contribution of \$2.8M is the real comparator

The Interests of Our Tenants

- HECFI currently has tenants renting space from us: The Hamilton Bulldogs, the Hamilton Philharmonic Orchestra, IATSE 129, The Military Tattoo
- We balance the needs of these tenants, with the broader view of the community, and our revenue requirements
- A 3rd party operator would not have the same motivation which potentially could impact these groups negatively if rents were increased or facilities repurposed.
- This could translate into higher levels of requests for grants from the City in some cases.

Timing

- Hamilton is now realizing growth and revitalization.
- Many recent announcements will fuel continued expansion and the availability of discretionary monies.
- Our new stadium, all day GO service, new employers, new hotels, and the Pan Am games paint an optimistic picture of the future.
- Prices, and congestion in the GTA finally makes living in the shadow of Toronto a very positive position.
- Pre mid-year 2009 HECFI managed within the allotted Municipal Contribution.
- As a new chapter unfolds, transitioning HECFI to a City department with greater cost containment, improved processes, more focused revenue generation, and community engagement, the timing is opportunistic to retain control of these iconic venues AND deliver an improved bottom line.