Deloitte.

Development of the New World Trade and Convention Center

Business Case

July 14, 2009

Important notice

This report is for internal use only by the Nova Scotia Department of Transportation and Infrastructure Renewal and Halifax Regional Municipality. It is not intended to be used nor relied upon for external purposes by third parties. The results of this report are intended to assist the Nova Scotia Department of Transportation and Infrastructure Renewal and Halifax Regional Municipality in making decisions with respect to the new World Trade and Convention Center development.

The estimated capital and operating budgets are based on assumptions made which are effective as of the date of this report (July 14, 2009). Considerable time, investigation, and local knowledge on pricing, conditions and other considerations are usually expended in arriving at such estimates. However, due to the compressed timeline and scope, this business case does not include an extended cost investigation. The estimates provided are compiled from information from a variety of sources which is referred to in the body of the document. We have not evaluated the support for the assumptions or other information underlying the assumptions. Other information used in this business case has been provided by the Nova Scotia Department of Transportation and Infrastructure Renewal and other advisors.

The underlying assumptions may change subsequent to this report date and changes will have an impact on our analysis and results. We take no responsibility for updating our analysis in this business case after the date of this report. Additionally, since these assumptions reflect anticipated future events, actual results may vary from the information presented and these variations may be material. As such, we do not provide any opinions or any other form of assurance on the financial estimates.

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Glossary and Acronyms

Competitive Neutrality: An adjustment made to remove certain perceived additional costs of delivering a project using SIP. In certain instances, the base costs under SIP delivery will include a provision for certain taxes and insurance premiums. The equivalent costs will not appear under the PSC as the public sector may be exempt from paying certain taxes and may "self insure". The adjustment consists of adding such costs to the PSC.

Debt-Service Coverage Ratio ("DSCR"): Refers to the amount of cash flow available to meet annual interest and principal payments on debt.

Department of Transportation and Infrastructure Renewal ("TIR")

Economics and Statistics Division ("ESD")

Expression of Interest ("EOI"): A pre-screening tool released in advance of a formal request for proposal. Proponents can submit intent to bid on a project, and the public sector can use it to short-list respondents for the request for proposal process. The EOI in this business case refers to the EOI for the New World Trade and Convention Center No. 08-055 issued by Halifax Regional Municipality.

Furniture, Fixings, and Equipment ("FF&E"): Movable furniture, fixtures or other equipment that have no permanent connection to the structure of a building or utilities. These items depreciate substantially but are important costs to consider in the construction or valuation of a project. Examples of FF&E include desks, chairs, computers, electronic equipment, tables, bookcases and partitions.

Halifax Regional Municipality ("HRM")

Internal Rate of Return ("IRR"): Equity IRR refers to the yield of the project for the shareholders.

Leadership in Energy and Environmental Design ("LEED"): An ecology-oriented building certification program that concentrates its efforts on improving performance across five key areas of environmental and human health: energy efficiency, indoor environmental quality, materials selection, sustainable site development, and water savings.

Memorandum of Understanding ("MOU"): The agreement between the Province of Nova Scotia as represented by the Department of Transportation and Infrastructure Renewal and Halifax Regional Municipality to work together in the evaluation and feasibility of the possible procurement of the New World Trade and Convention Center.

Net Present Value ("NPV"): NPV compares the value of a dollar today to the value of that same dollar in the future, taking inflation and returns into account.

New World Trade and Convention Center ("WTCC II"): Refers to the New World Trade and Convention Center as proposed in this business case, and as referred to in the Expression of Interest No. 08-055.

Nova Scotia Input/Output Model ("NSIO"): A model that uses constant returns to scale methodology to measure economic impacts for the Province of Nova Scotia.

Phase I Report: Report by Criterion Communications titled "Redevelopment of the World Trade and Convention Center Halifax – A Review of Business Prospects and implications, 2009".

Project Agreement ("PA"): A document that specifies terms of the contractual form for the Strategic Infrastructure Partnership model.

Project Risks: Risks are events that can lead to serious cost increases, construction delays, or both should they occur. Risks can be quantifiable (e.g. construction cost overruns) or qualitative (e.g. social, political or economic risks associated with the delayed delivery of a project).

Project Sponsors: Refers to the Federal Government, Province of Nova Scotia and Halifax Regional Municipality.

Project: Refers to procurement and development of the New World Trade and Convention Center.

Proponent: Refers to Rank Incorporated, the successful respondent to the EOI.

Public Sector Comparator ("PSC"): Total estimated costs to the public sector of delivering an infrastructure project using traditional procurement processes.

Rank Incorporated ("Rank"): The proponent identified through the EOI process and whose project schematics are used in this business case.

Request for Proposal ("RFP"): A process where the public sector issues a formal opportunity for proponents to respond to the work proposed, with the purpose of selecting a suitable vendor for the project.

Strategic Infrastructure Partnership ("SIP"): A procurement method that leverages a public-private partnership. This can take many different forms, however, the consistent objective is to transfer the risk from the public to private sector for a given project to make the project more attractive and feasible for the public sector.

The Province: Refers to the Province of Nova Scotia.

Trade Center Limited ("TCL"): A provincial crown corporation that reports to its Board of Directors and to the Minister of Economic and Rural Development.

Traditional Delivery Model: A procurement method where the individual components of an infrastructure asset are delivered separately, thus no partnership structure exists within the delivery model. The design, construction, operating and maintenance elements of a project are undertaken and procured separately for each discrete work package. The public sector pays the private sector on a 'pay-as-you-go' basis. Capital costs incurred by the private sector construction company will be reimbursed by milestone or interim payments on an ongoing basis until the end of construction.

Value for Money ("VFM"): The degree to which the delivery option can deliver positive cost savings through the transfer of Project Risk. The initial VFM is referred to as the preliminary value for money ("PVFM"). This is updated with the final project costs to provide a detailed value for money ("DVMF").

World Trade and Convention Center ("WTCC"): Refers to the current World Trade and Convention Center

WTCC Expansion and Metro Center II Feasibility Study: Refers to the WTCC Expansion and Metro Center II Feasibility Study carried out in 2006 by WHW Architects in conjunction with Economics in Research Associates, PCL, and Sink Combs Dethlefs for the Province of Nova Scotia and Halifax Regional Municipality.

Executive summary

The current convention facility in Halifax has contributed to the success of the greater Halifax region, provided significant benefits to the Province of Nova Scotia, and has contributed to the growth of many surrounding communities which benefit from a strong critical mass of business and transportation services. However, the current facility is outdated and unable to compete with contemporary convention facilities in other Canadian cities.

The need for a larger convention center is demonstrated by: the physical constraints of the current facility, lack of significant developments / enhancements at the current facility for the past 25 years, documentation of lost business due to physical constraints, and the expected economic impact that a larger facility would bring to the Province and to the greater Halifax region.

A request for Expression of Interest was issued in March 2008 by the Province and Halifax Regional Municipality as a means to gauge market interest in constructing a new World Trade and Convention Center in Halifax. The Expression of Interest led to the identification of one viable proponent, Rank Incorporated, out of the six who responded.

The purpose of this business case is to investigate the feasibility of building a new trade and convention center in Halifax. This business case will:

- examine the financial feasibility of the Project;
- consider the estimated economic impact of the Project;
- identify and quantify risks associated with the Project;
- assess delivery model options; and
- recommend a structure that is anticipated to provide the greatest potential value to the taxpayers of Nova Scotia while meeting the Project objectives.

The methodologies employed in the qualitative and quantitative analysis in this business case, are supportive of the case for proceeding to a procurement process and negotiations with Rank Incorporated, the single viable proponent of the respondents. The proposed development appears to meet the overall project goals and objectives while also providing an estimated positive value for money outcome, as compared to a traditional delivery method.

The ownership and delivery model assessment indicates that private ownership with a DBFM delivery model is the preferred ownership and delivery model. This structure will permit the allocation of some operational aspects seen as central to achieving the project goals to the public sector.

The following business case recommends that a SIP approach be used to procure the new World Trade and Convention Center. The outcome of the value for money analysis developed for this business case indicates an anticipated positive percentage estimated at approximately 10% for the SIP delivery method in comparison to using the traditional delivery approach.

1 Introduction

1.1 Introduction

The purpose of this business case is to investigate the feasibility of building a new trade and convention center in Halifax. This business case will:

- examine the financial feasibility of the Project;
- consider the estimated economic impact of the Project;
- identify and quantify risks associated with the Project;
- assess delivery model options; and
- recommend a structure that is anticipated to provide the greatest potential value to the taxpayers of Nova Scotia while meeting the Project objectives.

Halifax Regional Municipality ("HRM") is the economic hub of Atlantic Canada. HRM accounts for 40% of provincial GDP, and about 20% of Atlantic Canada's GDP.[1] Halifax has a strong reputation as a successful events destination as demonstrated by the hosting of world class events such as:

- The G-7 Summit;
- IIHF Men's World Hockey;
- Global Microcredit Summit;
- Council for Engineering and Scientific Society Executives;
- International Foundation of Employee Benefit Programs;
- Air Transportation Association of Canada;
- Assembly of First Nations; and
- World Breast Cancer Organization.

The current convention facility in Halifax has contributed to the success of the greater Halifax region, provided significant benefits to the Province of Nova Scotia, and has contributed to the growth of many surrounding communities which benefit from a strong critical mass of business and transportation services. However, the current facility is outdated and unable to compete with contemporary convention facilities in other Canadian cities.

With the region's picturesque location and strong economic foundation (human resources, research and development, business climate, and quality of life), Halifax is well positioned to compete with other national and international locations for investment, if it expands its business and tourism amenities. The new World Trade and Convention Center ("WTCC II") is envisaged to be a state-of-the art, energy efficient, and cost effective structure that will serve as an economic catalyst for the Province of Nova Scotia (the "Province") and promote Halifax as an event destination.

This business case was developed in conjunction with provincial staff from the Department of Transportation and Infrastructure Renewal ("TIR"), Trade Center Limited ("TCL"), and HRM. TIR is leading the procurement process for the WTCC II development. TCL is the operator of the current World

[1] http://www.halifax.ca/economicstrategy/ConsultationOverview.html

Trade and Convention Center ("WTCC") and is interested in ensuring the success of the Project so as to increase Halifax's capacity to provide quality convention services and maximize the benefits to all stakeholders. HRM and the Province have signed a Memorandum of Understanding ("MOU") to work together in the evaluation and feasibility of the possible procurement of the WTCC II project.

1.2 Limitations of the business case

As part of this business case, Deloitte has been asked to compile a high level financial analysis which will summarize the expected development, construction and operating costs of delivering the WTCC II under a Traditional Delivery model and under a Strategic Infrastructure Partnership ("SIP") model.

Please refer to the important notice at the beginning of this report for limitations of this business case.

1.3 Our understanding of the current facility

1.3.1 Description

The WTCC is located in the heart of downtown Halifax adjacent to the historic Citadel Fortress. The WTCC is connected to the Halifax Metro Center and to four hotels via a pedway system; namely Marriott Harbourfront Hotel, Delta Halifax, Barrington and the Prince George Hotel. Also accessible via the pedway system is the shopping complex of Scotia Square and several downtown office towers. Figure 1 is an aerial view of downtown Halifax. The outlined area shows the location of the WTCC and the Halifax Metro Center.

Figure 1: WTCC and Halifax Metro Center site

Source: WTCC Expansion and Metro Center II Feasibility Study

The WTCC was completed and became operational in 1984 and currently houses the convention facilities, TCL administrative offices, an office tower and "Windows" Restaurant. The WTCC has direct vertical access to Halifax Metro Center whose arena is often used as overflow for tradeshows and exhibits. The Halifax Metro Center is a 10,000 seat, 30 year old arena that has functioned as the site for general assemblies for large convention groups when necessary.

The existing WTCC is approximately 227,000 gross sq. ft. excluding the tenant office. Of this approximately 50,000 sq. ft. serves as rentable convention space spread over three levels. The largest ballroom consists of 20,000 sq. ft. with pillars at both the south and north walls. The maximum capacity is: 1,000 seats banquet style, 700 seats classroom style, and 1,500 seats for theatre style arrangement.

This does not take into account any staging or audiovisual requirements. These numbers do not reflect useable space for events given that most meetings and events have a presentation and staging component.

1.3.2 Governance structure

The WTCC is a wholly owned business unit of TCL, a provincial crown corporation that reports to its Board of Directors and to the Minister of Economic and Rural Development. TCL works closely with Destination Halifax, Province of Nova Scotia Tourism and Culture, and HRM to create economic, cultural, recreational, and other benefits for the city by bringing people together, and by bringing people to Halifax and Nova Scotia. TCL operates six business units:

- WTCC;
- Exhibition Park;
- Ticket Atlantic;
- Halifax Metro Center;
- Events Halifax; and
- World Trade Center Atlantic Canada.

1.3.3 Physical and operational constraints

Although the events at the WTCC have been a main visitor attraction to Halifax, the attractiveness of the WTCC to convention planners is diminished due to several physical constraints that make it uncompetitive compared to other Canadian convention centers. The WTCC generally benchmarks itself against three Canadian convention destinations with whom it typically competes for business, and who represent a reasonable comparison with respect to business capabilities. The three centers are the Ottawa Congress Center, the Victoria Conference Center, and the Centre des Congres de Quebec. Table 1 is a summary of what the WTCC offers in comparison to its three main competitors. These comparisons provide a clear indication that improvements to the WTCC are required to increase its competitiveness.

Table 1: Benchmark convention center specification comparison

Specifications	Victoria Congress Center	Ottawa Congress Center	Centre des Congres de Québec	World Trade and Convention Center
Function space	73,000 sq. ft.	85,000 sq. ft.	228,000 sq. ft.	55,000 sq. ft.
Largest non-exhibit space	25,000 sq. ft.	43,000 sq. ft. (becoming 56,000 sq. ft.)	34,500 sq. ft.	20,000 sq. ft.
Breakout rooms	16	17 (becoming 30)	36	23
Theatre	400 seats	N/A	N/A	N/A
Adjacent hotel rooms	3,000	6,000	2,000	2,570
Recent / planned enhancements	Recent / planned enhancements: the center recently added 33,000 sq. ft. of function space in an expansion that incorporated a restored heritage building.	Recent / planned enhancements: the new redevelopment will increase space to 192,000 sq. ft. with a 56,000 sq. ft. multi-purpose space, a 14,500 sq. ft. ballroom, and 30 breakout rooms.	Recent / planned enhancements: the center is exploring the incorporation of a new level of space formally occupied by a retail area below existing facilities.	No significant expansion since 1984.

Source: Phase I Report: Redevelopment of the World Trade and Convention Center, Criterion Communications, 2009

The key issues with the WTCC are:

- The configuration of many areas creates major sales challenges when compared with alternative products offered by competitors; for example, the location of pillars disrupts sight lines and low ceilings limit audio visual potential. In particular, the entire lower level has limited capabilities due to configuration, which significantly reduce the market potential of what the total facility size would otherwise suggest by effectively removing 13,000 sq. ft. of function space from use in a typical convention program.
- There is no dedicated exhibition space which is a major limitation in a market where the exhibition component is a key financial and program component of a convention. The choices available at the WTCC are to either use finished spaces (i.e. ballroom) as exhibit space or utilize the adjacent arena (Halifax Metro Center) when it is available, neither of which present attractive options for either TCL or the convention client.
- Breakout rooms which are an increasingly critical component of today's convention programs are:
  - limited in functional numbers compared with what is typically required to meet the needs of most national and international events;
  - almost entirely configured with air walls which makes them less attractive and prone to sound "leakage";
  - not accessible by the corridors and are therefore unavailable for use when the adjacent room is in use;
  - arranged in a "linear" configuration around the ballroom area which limits the ways they can be assembled for larger groups; and
  - have low ceiling heights (7.5 feet), which impact both their attractiveness and utility (low ceilings impact sight lines for presentations).
- Along with the shortcomings of individual spaces, the allocation of space and their relationship to each other create an additional set of problems:
  - The only space with adequate ceiling heights and a potential for creating proportionally attractive spaces is the ballroom. However, multiple uses can only be accommodated by subdividing this space (which creates sound issues and reduces overall event capacity) and/or "flipping" spaces for different uses, adding to the cost and complexity of events;
  - Exhibition space is typically located as close as possible to other program functions in order to maximize exposure and thus value. When the Halifax Metro Center is required to serve this function, access is removed from all but one block of meeting space, requiring most delegates to move up to a different level, travel through crash doors and down a corridor and across bleachers; and
  - The size and configuration of space presents another issue in the fact that once a relatively small proportion of the total space is occupied, the balance of the space is unusable for any other purpose. The effect of this is that the facility cannot handle multiple, simultaneous events of any real size, meaning that the WTCC is underutilized relative to what might be accomplished with better configured space.

The cumulative effect of these issues effectively reduces the overall functional capacity of the center to one convention of 200-400 delegates at a time, which is far below the requirements of many conventions currently on rotation (National Conferences often rotate from location to location each year) and much less than would be expected from a center of similar size but with a more practical and flexible configuration.

1.3.4 Impact of WTCC

The WTCC has maintained a significant event load within the limitations of the existing facility as well as saleable weeks in the international, national and regional markets. Occupancy has varied over the last several years within the range of 42-49%[2]. The convention market is seasonal in nature with conventions

[2] TCL Management

generally being held during 30 weeks of the year as opposed to 52 weeks of the year. This is due to the following reasons:

- Statutory and religious holidays are avoided by groups e.g.: Easter, Labor Day, Christmas, and Yom Kippur etc; and
- Winter conferences are generally avoided due to possible challenges with weather and travel.

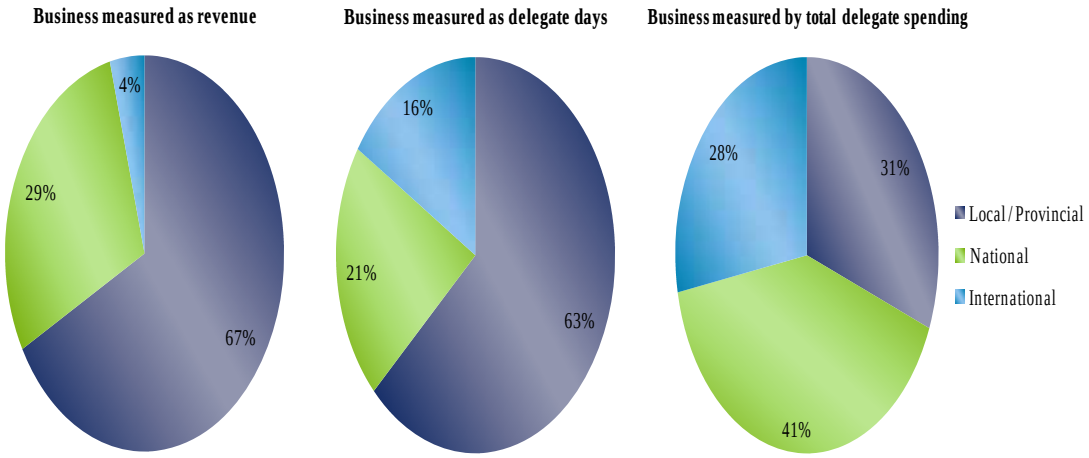
It is important to note that convention centers do not generally operate as profit centers. Convention centers provide a broader benefit to the community by attracting delegate, exhibitor, and organizer spending, which in turn generates economic benefits within the community

The WTCC has generated important benefits, that may not be directly measured, but which nonetheless are of major significance to the community. These benefits include:

- contributing to the destination and tourism profile of Halifax and the Province;
- enhancing professional development and knowledge transfer;
- supporting business and academic institutions;
- providing a showcase for local business and investment opportunities; and
- accommodating events which respond to the broader economic interests of the Province and HRM.

An assessment of economic impacts versus financial viability requires an approach to balancing business objectives, whereby operating losses are kept within an acceptable range, while strategies aimed at optimizing overall economic impacts are implemented. The need to maintain this balance is well illustrated in Figure 2 representing the WTCC market categories (local/regional, national, and international) as measured by revenue, delegate days, and total delegate spending.

Figure 2: Business measured as revenue, delegate days, and delegate spending



Source: Phase I Report: Redevelopment of the World Trade and Convention Center, Criterion Communications, 2009

The pie charts in Figure 2 all refer to revenues for the 2007/08 WTCC fiscal year. The first chart shows business measured as total revenue – the national and international market segments constitute 33% of total revenues. The second chart shows business measured as delegate days – the national and international market segments constitute 37% of total revenue, which is significantly below the local / provincial segment at 63%. The third chart shows business measured as total delegate spending – the national and international market segments constitute almost 70% of total revenue.

The contributions of the various market segments to total revenue differ with the method of measuring business. If the objective is bottom line revenue for the WTCC, then the most appropriate way to measure business is as direct revenue. However if the objective is delegate spending, leading to increased economic activity, then the most appropriate way to measure business is as delegate

spending. This has different impacts on the convention center and the community. The figure above demonstrates that a convention center has a larger public purpose as opposed to a private business that prioritizes revenue over other benefits.

1.3.5 Lost revenue

An important measure for potential convention and trade show business is the inventory of turnaways or lost revenue. This refers to groups that have attempted to book the WTCC and have been unable to due to physical constraints and expansion accounts i.e. large groups that may have considered the WTCC for their events were space available. Since 2007, TCL has kept track of turnaways and lost expansion accounts information, including the reason for lost business. A previous study carried out by WHW Architects for the Province and HRM, the WTCC Expansion and Metro Center II Feasibility Study, has also carried out a lost business analyses.

The HLT Advisory Report estimates that from 1998 – 2009 the WTCC lost approximately 75 events as a result of insufficient dates or availability (not enough capacity in peak periods), the two factors most directly related to the current facility shortcomings. These events represented a loss of approximately 76,000 delegates, 128,000 room nights, as well as an estimated $6.5 million in potential direct revenue to the WTCC.[3] The statistics on lost revenue were verified by the HLT Study "Assessing the Potential for Expanded Convention / Trade Show Facilities in Halifax" carried out in May 2009. It can be assumed that these numbers underestimate total business potential as WTCC capacities are already well known in much of the market, which means potential event coordinators would not have initiated contact in the first place. A listing of turnaway account information is contained in Appendix A.

1.3.6 Summary

Our understanding of the WTCC indicates the need for a new facility that will increase the competitiveness of Halifax as an event destination and enable Nova Scotia to continue to maximize the benefits from international, national, and regional visitors. This is demonstrated by:

- the physical constraints of the WTCC;
- lack of significant developments / enhancements of the WTCC;
- documentation of lost business; and
- the expected economic impact that a larger facility would bring to the Province and HRM.

The Phase I Report by Criterion Communications conducted in 2009 similarly identified the need for a new convention facility. The objective of the Phase I Report was to provide a preliminary assessment of the current need and future potential for redevelopment of the WTCC. The report also provided an overview of the convention industry, industry trends, potential new business opportunities for Halifax, current limitations of the WTCC, outline of the type of facility required for Halifax, and an overview of the range of funding, ownership, management, and supplier models in national and international use today in order to provide a framework for future decision making.

1.4 Project history

In 2006 HRM and the Province contracted with WHW Architects to carry out a feasibility study on the construction of a new World Trade and Convention Center for Halifax. The feasibility study looked at the construction of a 150,000 (net) sq. ft. facility as well as replacing the Metro Center.

The report compared the feasibility of a facility of that size in Halifax to other convention centers in Quebec City, Victoria and Ottawa. The report also contained a high level economic impact assessment of the facility. The report was a comprehensive discussion of the benefit of a new facility and the type of facility that would be appropriate for a location like Halifax.

[3] Assessing the Potential for Expanded Convention / Trade Show Facilities in Halifax, HLT Advisory, 2009

In March 2008 HRM and the Province issued an Expression of Interest ("EOI") as a means to gauge market interest in constructing the WTCC II in Halifax. The requirements of the EOI were to identify a location within the downtown core, located close to hotels and pedways, with a minimum program size of 150,000 sq. ft. of usable space. The EOI led to one viable respondent out of the six who responded, Rank Incorporated ("Rank"). In February 2009, HRM and the Province announced that they were moving forward with evaluating the feasibility of constructing WTCC II.

A project team consisting of representatives from TCL and the Province contracted Criterion Communications Ltd to prepare a high level report, "Phase I Report". In April 2009, Deloitte was retained to complete this business case, which builds on the Phase I Report to investigate the feasibility of building a new convention center, including providing recommendations on the most appropriate delivery models. This business case is not Rank specific and is transferable to another proponent or procurement process should Rank fail to proceed with the Project or fail to qualify to proceed with the Project.

2 Project goals and objectives

2.1 Introduction

This section details the specific Project goals and objectives for the development of the WTCC II. It is important that goals of the Project are established in order to provide a basis for evaluating deal structures and delivery options.

2.2 Goals and objectives

Although the various marketing initiatives and attractions in Halifax continue to draw visitors, it is the large convention delegate that generates the most economic impact for the HRM and the Province. It has been estimated that the average convention delegate spends approximately $251.80 per day in Nova Scotia or $526.27 per stay.[4] This is 7 times the estimate of what the average visitor spends.

The vision of the WTCC II in downtown Halifax is for a state-of-the art, energy efficient, cost-effective structure, that embodies and demonstrates the Province's and HRM's commitment to providing quality facilities and spaces for conventions. The WTCC II will serve as an economic catalyst for the growth of Nova Scotia. The objectives in the procurement of the WTCC II are detailed below.

- **Value for Money**: The facility and operations will be cost-effective in terms of both initial capital cost and ongoing operations and will provide additional benefits in the form of risk transfer to the private sector.
- **Sustainable and Flexible**: The facility will strengthen and contribute to the sustainable future of the Province through new investment in Halifax and by promoting the Province as a tourist and event destination. The development will also provide sufficient flexibility to the Province in addressing future needs with respect to convention center space.
- **Quality and Experience**: The building will be a contemporary and distinctive "signature" design that celebrates the importance of the WTCC II to the Province and HRM, and which enhances the overall image of the downtown area.
- **Environmental**: The building will attain a high standard of Leadership in Energy and Environmental Design ("LEED") accreditation and will exemplify the Province's and HRM's commitment to the Government of Nova Scotia's Environmental Goals and Sustainable Prosperity Act and Climate Change Action Plan, and HRM's Community Energy Plan and Regional Center Urban Design Study ("HRM by DESIGN").
- **Implementation**: The procurement process, and ultimately the ownership and delivery model selected, should be one that provides minimal challenges to the Province and HRM in terms of meeting the mutual goals of the partners and ensuring overall accountability and transparency. This process should also ensure that the delivery of the asset meets the expectations and needs of the public sector.

2.3 Project goals and objectives

As a facility that has remained essentially unchanged in the 25 years since it was built, the WTCC has now fallen below the standard that is required to meet current convention market expectations. The

[4] Expression of Interest New World Trade and Convention Center Number 08-055, 2008

WTCC II will address deficiencies in the current facility which have made it less marketable and which could not be addressed in the existing building due to structural constraints.

The Project is being developed through a collaborative process that involves the development community and the general public. The Proponent must recognize that the significant impact of the proposed development and the public accountability of the partners will require substantial public consultation and feedback regarding suitability and appearance and enhanced value-added opportunities during the design development phase of the Project.

A convention center is a primary driver for a destination to implement key aspects of its economic development strategy role. The roles serviced by the WTCC II in support of economic development may be divided into three areas: economic benefits, business development, and community impact.

2.3.1 Economic benefits[5]

The WTCC II would play an economic role which relates to the generation of revenues and consequent positive economic impacts for the Province and HRM by way of event organizer and delegate spending. This is addressed by:

- Attracting incremental spending by delegates and exhibitors who participate in these events;
- Supporting local jobs both in the WTCC II and amongst the many different suppliers who provide a wide variety of services and supplies to both delegates and event organizers;
- Enhancing local tourism overall by attracting attendees: who would be unlikely to visit Nova Scotia at all for other purposes; who may engage in pre and post conference activities; who may bring accompanying persons; and who may return for other visits based on the experience they have as delegates;
- Attracting new infrastructure investment, such as hotels ,that require a well rounded visitor season to justify their investment in new facilities and products; and
- Serving as a catalyst to spur growth of the municipal tax base.

2.3.2 Business development

The WTCC II would play an important role in business development by way of:

- Attracting business audiences that are typically incremental to other forms of visitations and more likely to be decision-makers with potential for future business and investment;
- Exposing delegates to the destination, lifestyle, and investment opportunities in Halifax and the rest of the Province;
- Encouraging related private investment in both products (i.e. accommodation) and services (i.e. event related services, restaurants, entertainment, off-site venues) stimulated by business growth at the WTCC II; and
- Building the profile of the community through promotions associated with events as well as through on-site exposure.

2.3.3 Community impact

The WTCC II would have an important community enhancement function where specific community benefits arise from its existence and the activities it attracts to the community. This includes:

- Creating facilities that support the activities of local business, professional institutions, and academic communities by enabling them to host national and international events related to their areas of activity and attract attention to their own accomplishments;

[5] Phase I Report: Redevelopment of the World Trade and Convention Center, Criterion Communications, 2009

- Providing access for local professionals to the global knowledge and expertise that accompanies events (for example, in the health and medical areas) which can contribute to the well being of the overall community;
- Providing a high quality venue, whose operations are funded largely by revenues from national and international events but which is also available for community events and celebrations, and for the growth of local trade and consumer shows; and
- Creating a source of nonresident based tax revenues, through delegate spending, which can be used to enhance local and community services over what would otherwise be possible.

2.4 Constraints

In considering the need for an expanded convention center, we must also consider the constraints within which this project is being assessed.

2.4.1 Expansion capacity of the WTCC

The WTCC Expansion and Metro Center II Feasibility Study carried out in 2006 explored expansion options available to the WTCC II both at the current site and off-site. The WTCC is surrounded by a mature commercial and business neighborhood with few opportunities for growth of the scale required for conference facilities. The 2006 study found that expansion at the WTCC site would be a difficult proposition to undertake given the space requirements for conventions, and the capacity of the allowable building envelope. The 2006 study also found that extensive on-site expansion of the WTCC can only happen at the expense of the Metro Center.

2.4.2 Halifax constraints

The public sector has faced various constraints in the identification of a suitable location for the WTCCII in the downtown Halifax area. The primary challenges are attributed to

- physical constraints imposed by a historical street grid that yields small, narrow blocks combined with a clear public land use policy (reinstated by HRM by Design) that discourages street closures and blocks consolidation along the lines of Scotia Square, and the Halifax Metro Center, and the WTCC; and
- ownership, particularly in the area most desired within reach of pedway system and hotels, is predominately privately-held.

2.4.3 Convention accommodation constraints

Halifax has one of the highest hotel occupancy rates in Canada at 75%, which tends to peak between the months of June and October.[6] The past few years have seen the development of several boutique hotels which are not suitable for convention delegates due to their limited room numbers. Consequently, for larger conventions held at the WTCC, delegates often have to be split between various hotels, which is not “best practice”. Any new convention center development will require the support of new convention accommodation.

2.4.4 Fiscal constraints

As the Project progresses, the Project Sponsors will be required to assess the fiscal constraints in the delivery of this Project and the funding share that they can commit. Both the Province and Municipality are faced with challenges related to fiscal capacity and competing priorities that require optimal approaches to evaluating value for money options in support of this Project. Given the wider economic benefit of this Project, these constraints should be clearly identified upfront with appropriate consideration to governance and funding.

[6] TCL Management

3 Proposed development summary

3.1 Introduction

The physical limitations of the WTCC have restricted the potential economic benefits associated with a facility of its capacity. This has led the Province and HRM to examine alternatives for an expanded facility, including putting forward an EOI request for qualified entities to identify a suitable location and gauge interest from the development community. The Project would require a new convention center to be a core component of the design.

The EOI resulted in one viable proponent from a total of six respondents, Rank. Rank is a property owner and developer owned by the Ramia family in Halifax. Rank has been operating in Halifax since 1966 in a variety of ventures and currently owns and operates property in the commercial, residential, and industrial sectors in downtown Halifax and throughout HRM. This business case will assess the potential value and preferred delivery model for the WTCC II project.

This business case is not specific to the Rank proposal and is transferable to an alternate proponent should Rank not proceed with the development of the WTCC II. The VFM analysis and risk transfer may differ, however, the underlying analysis would still be valid.

This section describes the project schematics as per the EOI requirements and Rank's submission in response to the EOI.

3.2 WTCC II development

3.2.1 Project description

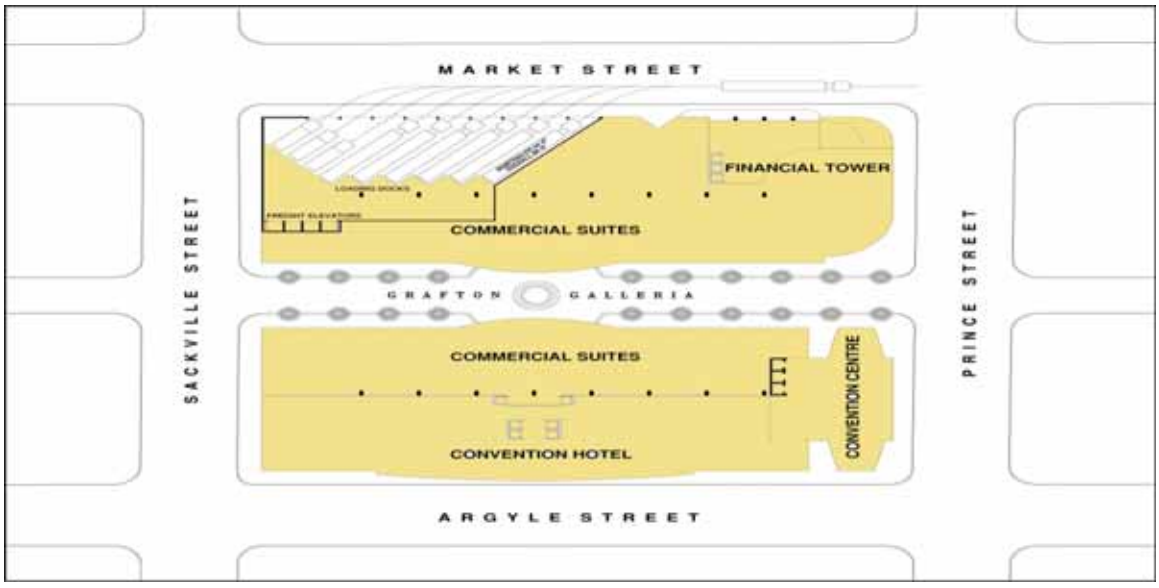
As envisaged by Rank, the WTCC II will be integrated into a mixed use facility, which would include the convention center, class A financial center, hotel, food and entertainment outlets, parking garage, cultural elements, and public spaces, all encompassing an area of over 1 million sq. ft. of prime real estate near the heart of the central business district. The proposed site is at the former premises of the Chronicle Herald building on Argyle Street, extended to include the adjacent parking lot to the west of Grafton Street. The Herald Site and parking lot are the property of Argyle Developments Ltd., a wholly owned subsidiary of Rank. Figure 3 is a map of the proposed location for the WTCC II.

Figure 3: Map of proposed WTCC II location

Source: Rank Incorporated response to EOI 08-055, 2008

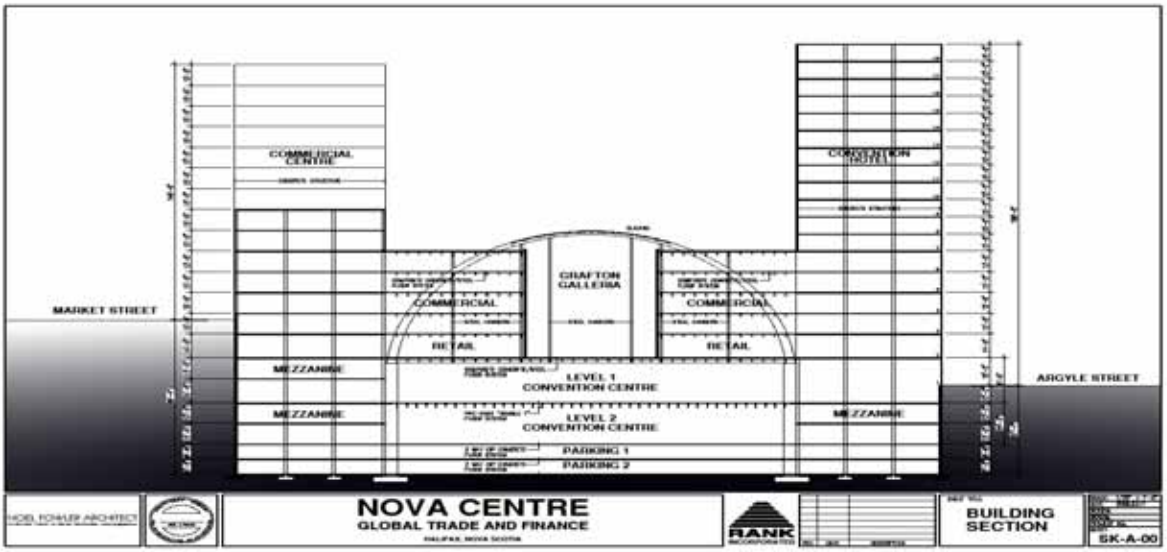
The convention center would be built below ground adjoining the proposed financial tower and hotel tower. The area above the convention center would consist of the 'Grafton' Galleria and commercial and retail enterprises. The parking facility would consist of two levels and be situated directly below the convention center. The parking facility would be shared between all the components of the integrated facility. Figure 4 shows the street boundaries and proposed Grafton Galleria while Figure 5 is a depiction of the proposed WTCC II building section.

Figure 4: WTCC II site



Source: Rank Incorporated response to EOI 08-055, 2008 and TIR

Figure 5: WTCC II building section



Source: Rank Incorporated response to EOI 08-055, 2008 and TIR

It is proposed that the larger facility housing the WTCC II would connect to the existing pedway system and be within walking distance to the entertainment district, the waterfront, art galleries, Citadel Hill, and various other retail and cultural attractions. The architectural drawing of the proposed facility housing the WTCC II is shown in Figure 6.

Figure 6: WTCC II architectural drawings

Source: Rank Incorporated response to EOI 08-055, 2008 and TIR

Rank's response to EOI 08-055 envisages the following design principles:

- Creation of a mixed use development that extends the supporting hospitality infrastructure into new hotels, restaurants, entertainment and retail opportunities, and integration of this development into the urban fabric of the city avoiding the "big box" syndrome and activating the streetscape surrounding the facilities;

- Optimization of the assembly spaces in the convention center to handle multiple groups either concurrently or sequentially, providing flexibility of sizing to accommodate the needs of a variety of event types;
- Provide an efficient back-of-house configuration to allow for seamless food/beverage, service and support activities without disrupting ongoing events; and
- Deliver a high-performance, energy-efficient building design and functional layout to meet or exceed current sustainability criteria for both new construction and ongoing operations.

3.2.2 Estimated spatial use summary

It is envisaged that the WTCC II will be a world class facility that contributes to the sustainable future of downtown Halifax and creates a contemporary public space unique to the region. As per the EOI requirements, the building shell would be approximately 200,000-250,000 sq. ft. located on 2-3 floors, with a 2 floor layout being preferred. Both floors would be open plan column free spaces able to accommodate multiple groups either concurrently or sequentially, providing flexibility of sizing to accommodate the needs of a variety of event types. The net usable space would be about 150,000 sq. ft. consisting of one large exhibit room with 30 ft. ceilings, one column less boardroom and one column less ballroom with 25 ft. ceilings, and 25-30 breakout rooms with 15-20 ft. ceilings. The lower level of the WTCC II would consist of the exhibition concourse, large exhibition hall, several breakout rooms, and storage facilities while the upper level would consist of the boardroom, ball room, and additional breakout rooms.

In order to support the vision of the WTCC II, TCL sales and marketing department have advised that certain design criteria would enhance the ability of TCL to market the convention space. Key features include:

- Ability for future expansion 15-20 years from now;
- Green facilities i.e. facilities that will minimize the lifecycle and operational environmental impacts;
- Ease of access with load in/out;
- Rigging points and high ceiling in order to accommodate rapid mechanical offloading of equipment, large visual displays, etc;
- Compliance with the American with Disability Act;
- State of the art emergency systems e.g. systems accommodating hearing impairment etc;
- Open meeting and reception spaces;
- Dedicated trade show space; and
- A suitably sized kitchen accommodating a "chef's table".

It is anticipated that the development of the WTCC II will incorporate the key design features noted above where possible, so as to support ongoing sales and marketing initiatives.

3.2.3 Operational services

The physical integration between the WTCC II, the larger proposed hotel, office space, and other facilities, creates natural mutual reliance and puts more emphasis on the delivery of services between the public and private sectors and their respective responsibilities during the operating period. The full scope of services required is listed in Table 2. This list was derived through discussions involving the Project team (i.e. the Province, HRM, and TCL), Deloitte's experience in analogous recent projects and an understanding of TCL's current operations of the WTCC.

Table 2: Operations (scope of services)

Plant Services (building services)	Maintenance of core building systems and the physical plant to include: • Major lifecycle repairs to building; • General plant and adhoc maintenance; • Maintenance and replacement of specific identified furniture, fixings, and equipment ("FF&E"); and • Maintenance of audiovisual, continual upgrades of systems.
Environmental and Utilities Management	Management of utilities systems and monitoring of energy consumption. Ongoing analysis of consumption for future assessment/considerations.
Waste Management	Provision and disposing of recycling and waste management.
Pest control	Ensuring building remains free from pests.
Housekeeping	Cleaning services to include regular and ongoing maintenance as well as deep cleaning of kitchen.
Grounds Maintenance	Ensuring surrounding grounds are landscaped and accessible. This would include the provision of: • Horticultural services; • Snow and ice removal; and • Distribution of sand/salt in the winter.
AV/Technology	Provision of audio visual and other technology equipment including: • Providing the physical infrastructure to support and use the technology; and • Maintenance and replacement of infrastructure.
Building Security	Provision of building security including administration and management of all building security services.
Event Support and Entertainment	Ensure the appropriate number of event managers and technicians are employed to provide the level of service required for volume of events. Develop and tender list of preferred suppliers to address drayage, audiovisual, décor services
Support Desk	Provision of support desk services to deal with: • Enquiries; • Service requests; • Complaints and compliments; and • Any other notifications.

3.2.4 Summary

The proposed development and scope of services for operations as described above will meet the requirements of the EOI and wider objectives of the Province and HRM as described throughout this business case.

4 Economic impact

4.1 Introduction

It is important to understand the economic impact of a new convention center as this supports the underlying objective of value for money to the taxpayers of Nova Scotia. The potential for economic impact is a key driver in the determination of which events to attract for convention center use and the associated fee to bid for events.

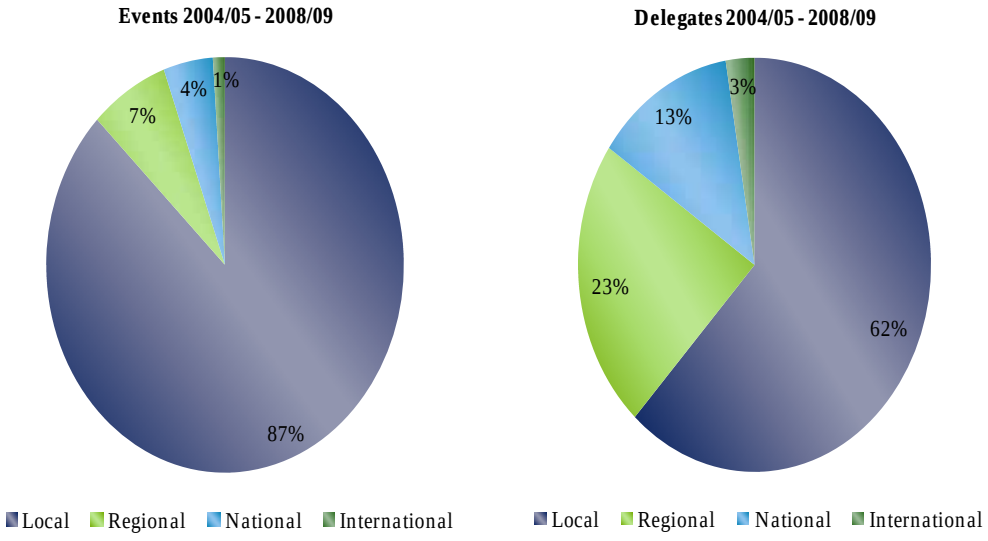
This section presents an overview of historical expenditures as per data from TCL and projected economic impact as per the economic analysis carried out by the Economic and Statistics Division ("ESD") of the Nova Scotia Department of Finance. This section draws attention to the differences between financial and economic impact with regard to convention centers.

Note that this is a high level economic impact analysis. If the decision of the Project partners is to proceed with the procurement of the WTCC II, a more thorough economic impact study will have to be performed. The detailed economic impact study should include the projected economic impact for the duration of the Project term for both the Province and HRM.

4.2 Historical

The market share of events and delegates by category for the past 5 years is shown in Figure 7. Local events have consistently had the largest market share over the past 5 years at 87% for events and 62% for delegates. Regional events have made up 7% of the market share and 23% of delegates. National and international events have had the least market share at 4% and 1% respectively and similarly had the lowest number of delegates at 13% and 3% respectively.

Figure 7: WTCC historical events and delegates



Source: TCL Attendance and Economic History - 1997-2009 - 11 Year Highlights

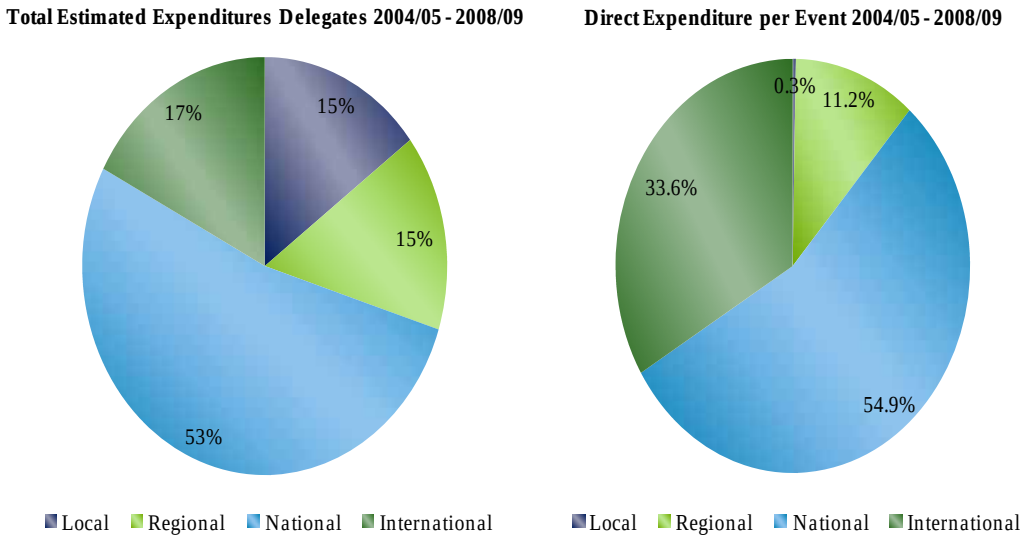
Direct expenditures consist of revenue to TCL from delegates, exhibitors, planners, or promoters.[7] Data on personal direct expenditures is collected by TCL through random personal intercept interviews for a targeted sample of events and mail / fax return surveys.

Incremental expenditures consist of expenditures that otherwise would not have taken place without the activities of the WTCC. Delegate, exhibitor, planner, and promoter expenditures are considered incremental because they come from outside the province and it is assumed that the event would not be staged elsewhere in the province.

Other events, e.g. local trade shows, sporting and cultural events are classified as consumer recreational/social activities. The money spent on these events is part of the consumer's recreational/social budget. Consequently, expenditures from this group are considered to be partly incremental and partly redistributive in nature. It is assumed that the money spent on these activities would be at least partially spent in other provinces or other locations within Nova Scotia if these facilities did not exist. Incremental expenditures provide a measure of the distributed income across HRM and the Province from WTCC and WTCC II.

Figure 8 shows the total estimated expenditures for delegates as well as the expenditure per event by event type. Although local events and delegates had the largest market share as shown in Figure 7, they contributed the least expenditure over the past 5 years at 15% of total estimated expenditures and less than 1% of direct expenditure per event. The group with the largest expenditure was the national delegates at 53% of total estimated expenditure and 55 % of direct expenditure. The group with the least number of events and delegates, the internationals, contributed the second largest share of total expenditure 17% and direct expenditure per event 34%.

Figure 8: Total estimated expenditures and expenditures per event



Source: TCL Attendance and Economic History - 1997-2009 - 11 Year Highlights

4.2.1 Local and regional market

Although local and regional events have contributed the least revenue over the past 5 years, they are an important source of ongoing revenue. Local and regional events represent a "captive" market in that most of these events are not easily relocated and are mostly "repeat" events such as training, professional

[7] Revenue streams include: room rental revenue, equipment and services revenue, food revenue, advertising revenue, and commission revenue.

development, product launches and local private engagements. Historically the number of events that could be hosted by the WTCC has been restricted by a number of reasons:

- They have not been a high priority due to their lower economic impact and often lost out as a result of scheduling conflicts to other events of greater economic impact;
- The current building configuration limits the ability of the WTCC to host multiple, simultaneous events;
- There is no "hard" exhibit space with good access and "limited" finish required to accommodate events such as stand-alone trade and consumer shows which would be a good source of business; and
- Some local events suffered the same space functionality problems faced by their national and international counterparts.

A strong local market share acts as a buffer for overall convention center business in two ways: i) it provides a good source of operating revenue in the face of a non resident market that is increasingly looking for rent concessions on the basis of increased economic benefits; and ii) it is more flexible in terms of seasonality and can be shifted to accommodate business with higher priority.

It can be expected that the local market would be able to experience growth with a new convention center due to space availability, improved access, and the ability to stabilize and grow events that are now subject to a large number of restrictions.

4.2.2 National market

The Canadian market consists primarily of Canadian corporate and association events on rotation and has long been a part of the WTCC business mix. Over the past 5 years the national market has contributed the largest share of total estimated expenditures at 53% and direct expenditure per event at 55%. It is estimated that there are currently 1,100 Canadian associations with a national rotation. TCL has indicated that between 75 and 100 of these per should be potentially available to Halifax at the opening of the WTCC II.[8] However, access to this market is restricted due to a number of reasons:

- Many national events are of a larger size than can currently be accommodated at the WTCC or have a significant trade show component or special event requirement that cannot be met by the current facility;
- Some events have outgrown WTCC facilities over time as their member base and exhibit component has grown;
- Some cannot manage their full conference program at the WTCC given the spatial limitations and lack of flexibility in the current facility; and
- The limited "convention season" means that although the WTCC cannot accommodate the full demand due to the aforementioned reasons, some events cannot be relocated to another time of the year even though they may only be using a small portion of the facility area.

4.2.3 International market

The international market consists largely of conventions and related activities by international associations. The international market has had the lowest number of events and delegates over the past 5 years at the WTCC. However, the international market has contributed the second largest share of total estimated expenditures at 17% and direct expenditure per event at 34%.

This segment typically rotates through at least three countries, attracts delegates from multiple countries, and attracts international exhibitors. It is estimated that there are approximately 6,680 international meetings that take place each year of which 48% rotate globally meaning that they are potentially

[8] Phase I Report: Redevelopment of the World Trade and Convention Center, Criterion Communications, 2009

available to Canada. About 15% of these events have more than 1,000 delegates while the majority have between 250 and 500 delegates.[9]

Historically Halifax has not had a large share of the international market in spite of all the positive aspects associated with the city largely due to the limitations associated with the current facility. International events often have very high expectations and need to satisfy a variety of program requirements in an efficient manner, both of which have important implications for existing facilities in Halifax. There is potential for Halifax to increase its international events market share with a more competitive facility.

Halifax is well served in terms of air access, which is a critical factor for both the national and international markets. Halifax Stanfield International Airport has direct flights to major cities worldwide (London Heathrow, Frankfurt, Chicago, and Atlanta, to mention a few). It has been estimated that Halifax Stanfield International Airport can handle approximately 5 million passengers annually against the 3.5 million currently using these facilities.[10]

4.3 Projected economic impact to the Province

The ESD of the Nova Scotia Department of Finance has performed an economic analysis on projected impact of visitor expenditures of the expanded WTCC on the Nova Scotia economy. Data used in the analysis is from two main sources: the WTCC Expansion & Metro Center II Feasibility Study carried out in 2006 and TCL.[11] The data provided by TCL was fed into the Nova Scotia Input/Output ("NSIO") model which produces incremental values for categories such as additions to household income, employment created, and tax revenue generated.

The data used by the ESD, was based on total events and attendance from the 2006 study reallocated into categories on the basis of the 2002/03 to 2006/07 WTCC actual historical figures for events and for delegates. This is the data that underlies the economic impact analysis. The projections are provided for year 4 and year 10 of the proposed expanded convention center. Year 4 of the operating period represents a "stabilizing" year. This is due to the fact that other Canadian convention centers have experienced a "honeymoon" period after opening as pent up demand and anticipation of a new facility combine to create greater than normal expectations. It is expected that years 1, 2, and 3 would generate approximately 85%, 115%, and 110% of year 4 event activities respectively.[12] Year 10 was the last year of the pro forma by the ESD.

The events and delegate projections for year 4 and year 10 of the WTCC II operating period are shown in Figure 9, as well as the average event and delegate numbers for the past 5 years. Though the total number of events over the past 5 years and year 4 of the WTCC II operating period are similar, the market share of events is expected to change marginally. Local events make up approximately 87% of total events over the past 5 years, this stays the same at year 4 of operations but decreases marginally to 86% in year 10 of operations while international events increase from an average of 1% over the past 5 years to 5% in year 10 of operations. The number of delegates grows across all the sectors with the largest percentage growth being projected for local and international delegates.

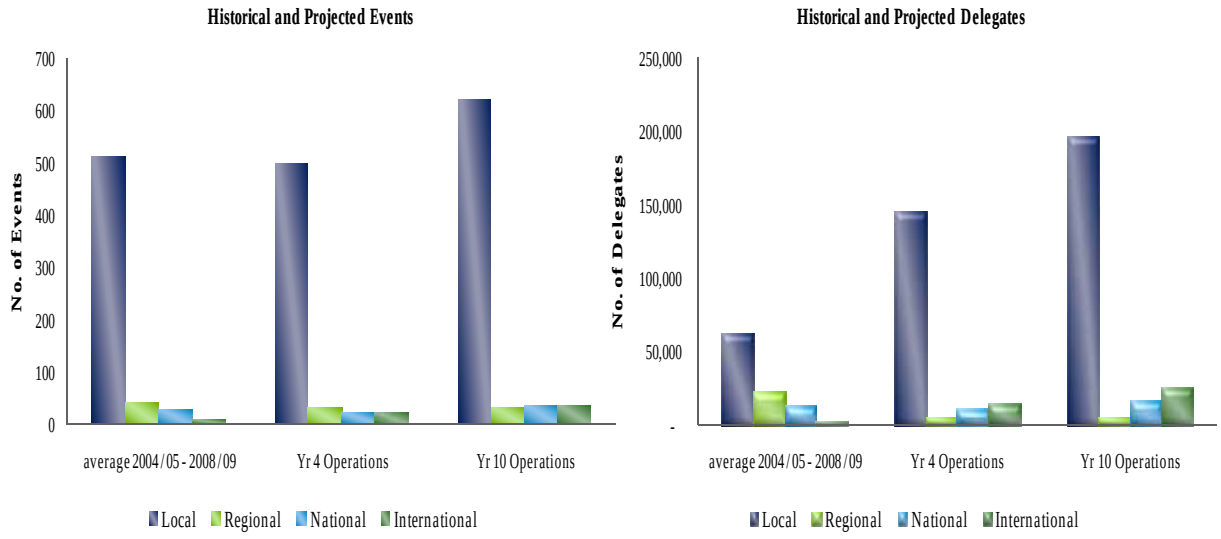
[9] Ibid

[10] Ibid

[11] The report by HLT advisory completed in 2009 has confirmed the event and delegate numbers from the 2006 study and has vetted the statistics from TCL, thus validating the ESD analysis.

[12] Assessing the Potential for Expanded Convention / Trade Show Facilities in Halifax, HLT Advisory, 2009

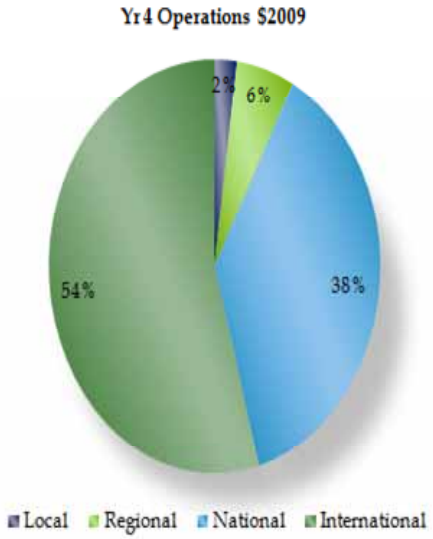
Figure 9: Projected events and delegates



Source: TCL Attendance and Economic History - 1997-2009 - 11 Year Highlights and ESD Economic Impact Report 2008

Figure 10 shows the projected average expenditure by category for year 4 of WTCC II operations. International delegates are projected to have the greatest expenditures followed by national delegates.

Figure 10: Projected average expenditure by category



Source: ESD Economic Impact Report 2008

Economic impacts from the NSIO are reported as direct, spinoff, and total. Direct impacts result directly from expenditures on, or purchases of, goods and services in Nova Scotia. Spinoff impacts are the sum of indirect impacts (due to inter-industry transactions) and induced impacts (from the repercussive effects of household spending and re-spending). Total impacts are the sum of direct and spinoff impacts.

The NSIO provides estimates of spinoff household income which are used to derive estimates of spinoff employment in conjunction with data from Statistics Canada and tax revenue estimates. As the data used consists of expenditure data and no employment data, direct employment is generated by the model. Provincial government revenue estimates comprised of personal income and sales taxes, are

derived from model generated household income using a personal income and consumption pro forma tax template development by the Nova Scotia Department of Finance. To the extent that individuals are reimbursed by a company, government, hospital or charity that claims the HST rebate, this amount will be overstated.

The Nova Scotia tax system is progressive and based on a calendar year's earnings. Tax revenues as calculated by the pro forma, in this study, are based on the assumption of an individual having a wage associated with a full person-year of employment. However, some of the WTCC II events are sporadic and employment associated with industries impacted by these expenditures maybe part time. This leads to an overstatement of tax revenues.

Table 3 shows the economic impact of delegates for year 4 and year 10 WTCC II operating period. The table shows the economic impact of international, national, and regional delegates as one component and local delegates as another component.

Table 3: Projected economic impacts of delegate expenditures $2007

Economic Impacts of Delegate Expenditures						
	Year 4 (2007$)			Year 10 (2007$)		
	Direct	Spinoff	Total	Direct	Spinoff	Total
International, National, and Regional Delegates						
Employment (person-years)	708	220	928	987	307	1,294
Household Income ($'000)	12,777	8,618	21,395	17,813	12,015	29,828
Provincial Government Revenue ($'000)	917	986	1,903	1,279	1,374	2,653
Local Delegates						
Employment (person-years)	41	13	54	57	18	75
Household Income ($'000)	769	507	1,276	1,072	708	1,780
Provincial Government Revenue ($'000)	55	58	113	77	81	158
Total Delegates						
Employment (person-years)	749	233	982	1,044	325	1,369
Household Income ($'000)	13,546	9,125	22,671	18,885	12,723	31,608
Provincial Government Revenue ($'000)	972	1,044	2,016	1,356	1,455	2,811

Source: Economic Impacts of Delegates and Attendees Expenditures and Planners Promoters Expenditures associated with WTCC II and MC II, Economics and Statistics Division, 2008

Although local delegates represent 83% of all the delegates, they only generate 6% of total provincial government revenue. The large economic impact of few international delegates is explained by the fact that they spend more time in an event location to visit other tourist or cultural attractions in the area. In the process, they have a relatively greater impact on the local and regional businesses and cottage industries thereby providing a positive economic impact for the Province.

4.4 Projected economic impact to HRM

The quantitative benefits for HRM are largely dependent on how the Project is structured between the public and private sector partners. It is estimated that 40-45% of visitor benefits will be attributed to HRM.[13] The incremental benefits of the WTCC II project to HRM are unquantifiable at this stage of the project but could include:

- an increase in the hotel levy or a change in the distribution of the current hotel levy that would capture the incremental increase from a new convention size hotel;
- property taxes from the vacant WTCC if it converts to private ownership;
- positive impact on cottage industries from increased visitor numbers; and
- increased employment during and after construction, which would increase the property tax base for HRM.

[13] HRM (discussion)

The qualitative benefits to HRM are just as important as the quantitative benefits and should be recognized. Qualitative benefits are difficult to capture as they tend to be abstract in nature and ameliorate the quality of life of the residents of a city in a more indirect way, however, these would include cultural, recreational, and aesthetic benefits that add to the vibrancy, excitement, and sense of community of a city and play an important role in people's decision on where to live.

4.5 Summary

The expenditure numbers and the economic impact analysis performed by ESD demonstrate that a larger convention center will be able to draw a larger economic benefit to the Province and HRM through the ability to capitalize on higher numbers of events – particularly in the national and international markets, and therefore attract more delegates who will spend more time in Nova Scotia.

5 The convention center landscape

5.1 Introduction

Rank's submission, which included a proposed site and preliminary design for the WTCC II, was identified as the best submission of the six respondents to the EOI. Subject to approval from the Project partners, the intention is to move into the procurement process for the new facility proposed by Rank. The key decisions in the procurement of this new convention center will be:

- the delivery/operating model (i.e. which party is best positioned to deliver which services during the operational period of the facility); and
- the deal structure (i.e. what is the appropriate legal and financial partnership that derives best value for money for the Project partners).

The use of SIPs as an alternative to a traditional procurement method has been gaining prominence across the country and in Nova Scotia. This project falls well within the purview of such a structure since it is anticipated that Rank, as the private partner, will optimize the delivery of certain aspects of the WTCC II by leveraging their management focus and core competency in the design, construction, and management of facilities of similar size and complexity.

The remainder of this section will review the WTCC operating model and analyze the wider convention center market, which will then direct our analysis of viable operating models and the most appropriate deal structure.

5.2 The WTCC operating model

The WTCC is central to TCL operations. TCL is a provincial crown corporation of the province of Nova Scotia, reporting to the Department of Economic and Rural Development. The performance of the WTCC is measured from two perspectives: i) on activity levels and the ability to minimize annual operating losses by maximizing sales and efficient management practices; and ii) with a provincial mandate to maximize the return or economic impact to the Province.

The wider economic impact is of particular importance as this benefit stream flows to HRM and the Province at large. The greatest economic impact is achieved by attracting national and international events, which bring delegates and accompanying visitors who travel within the Province. In order to attract national and international events, trade-offs are often made with respect to immediate revenue to WTCC in favor of the greater economic impact brought about by these groups. TCL controls all aspects of its operations especially as it relates to revenue generation so as to provide a balance between financial and economic impacts.

To support the WTCC and to maximize performance around major events, TCL has developed a vertically integrated approach to achieve its overall corporate goals by both supporting and leveraging the WTCC operation. TCL operates five additional business units as well as a full range of operating departments to support its ability to attract business to the market and to optimize the return to the entire Province. By focusing on event activity, the WTCC achieves its goals of bottom line and economic impact. Through the creation of ancillary activities and related ancillary revenue, TCL supports the WTCC and further reduces the overall financial loss of the organization while maximizing the return to the Province and HRM.

5.3 Comparable convention centers

Relative to the major (and some second tier) conference destinations in Canada, the WTCC is the smallest. Table 4 shows the WTCC exhibit, ballroom, and meeting space in relation to the major convention centers in Canada. The WTCC has no dedicated exhibit space and falls on the lower end of the spectrum in terms of ballroom and meeting space.

Table 4: Canadian convention facilities

Canadian Convention Centre Supply (sq ft)					
	Exhibit Space	Ballroom	Meeting Space	Total	Meeting/Ballroom: Exhibit
Metro Toronto Convention Centre	403,648	78,000	94,227	575,875	0.43
Vancouver Convention Centre	316,205	72,404	85,390	473,999	0.50
Palais des Congres de Montréal	199,052	65,046	66,684	330,782	0.66
Centre des Congres de Québec	75,000	34,500	60,000	169,500	1.26
Shaw Conference Centre - Edmonton	80,000	25,000	37,700	142,700	0.78
Winnipeg Convention Centre	78,000	42,200	17,018	137,218	0.76
Ottawa Convention Centre	56,342	14,500	43,617	114,459	1.03
Calgary Telus Convention Centre	47,047	28,220	19,234	94,501	1.01
World Trade & Convention Centre	-	20,000	35,128	55,128	n/a
Hamilton Convention Centre	19,662	19,662	14,490	53,814	1.74
Victoria Convention Centre	14,689	25,000	9,210	48,899	2.33
St. John Convention Centre	-	17,826	3,068	20,894	n/a

Source: Assessing the Potential for Expanded Convention/Trade Show Facilities in Halifax, HLT Advisory, 2009

Although all convention centers are competitive in some respects to the WTCC, several have been identified as those with whom it is typically competing for business and who represent a reasonable comparison with respect to business capabilities. These are the Ottawa Convention Center, the Victoria Convention Center, and the Centre des Congres de Québec. All the benchmarked convention destinations have or are in the process of carrying out major facility enhancements which will increase their competitiveness. The benchmarked destinations are all larger in size than the WTCC, particularly in terms of space that is fully functional, and will end up significantly larger once expansions are complete:

- the Victoria Congress Center recently added 33,000 sq. ft. of function space in an expansion that incorporated a restored heritage building.
- the Ottawa Congress Center's new redevelopment will increase space to 192,000 sq. ft. with a 56,000 sq. ft. multi-purpose space, a 14,500 sq. ft. ballroom, and 30 breakout rooms.
- the des Congres de Québec is exploring the incorporation of a new level of space formally occupied by a retail area below existing facilities.

5.4 Convention center ownership models

Convention centers are typically owned by some level of government. In Canada, all major convention centers are owned by various levels of government or crown corporations with the exception of two facilities in Toronto where market conditions and the specific use of the facilities make private ownership feasible. Of government owners, approximately 60% are owned by cities but the balance is split between regional / provincial governments (23%) and national governments (17%), the latter generally being the case where there is only one major center in the country.[14] Internationally, over 65% of convention centers are wholly government owned with a further 10% at least partly government owned via a public private partnership or similar arrangement.[15] There are a number of reasons why government is typically the owner of convention centers:

[14] Phase I Report: Redevelopment of the World Trade and Convention Center, Criterion Communications, 2009

[15] Ibid

- **Convention centers are typically not commercially profitable**: Event organizers expect major concessions in recognition of the significant economic benefits they generate. As a result, the rate structure in the convention industry is based on the assumption that convention centers operate essentially as "loss leaders" for the broader economic benefits they generate in the host community. As governments are in the best position to capture a portion of these via incremental tax revenues, they are typically the investors who build and operate convention centers;
- **Centers support many government policy objectives**: These include economic development, education, resource and technology development – through the types of events they host. This provides government with an additional incentive and rationale to support the development and operation of convention centers;
- **Government can play the role of "patient investor"**: Convention business development is a long term undertaking, with many events making booking decisions up to five or more years in advance of their actual dates. This type of time frame is incompatible with that of many private investors who increasingly need to see a more immediate financial return; and
- **Benefits are dispersed**: The nature of the economic benefits generated by events taking place in convention centers is that they are diverse and widespread, making it difficult to capture any significant portion for investment in the facilities that make this possible. However, through taxation, governments are uniquely positioned to accomplish this and to affect the kind of financial "feedback" loop that can complete the investment cycle.

While the typical ownership model is mostly government, few centers are actually operated directly by government. Administration of convention centers is usually assigned to a third party that is most often a special purpose crown corporation or authority that creates an "arms length" relationship. Of the 16 major publicly owned centers in Canada, only three are actually administered directly by a government department, while 13 are administered by a separate corporation or authority, usually established under Provincial legislation.[16] Internationally, 61% of centers are operated by a special purpose corporation acting on behalf of government.[17]

5.5 Convention center management models

Convention center management models are similar to convention center ownership models. In Canada, all but one of the publicly owned convention centers are managed by the administrative entity itself, with only one center managed by a private management company. Internationally, 78% of convention centers are government managed (generally via a government owned corporation or authority) and 22% privately managed. The one exception is in the US, where 37% of centers are managed by the private sector and the balance by government owners, either directly or via a special purpose entity. However, there are specific reasons why this is the case in the US. Many of these reasons do not relate to the convention centers in Canada.

The provision of event services such as food and beverage, setup, audio visual services, customs clearance, technology / connectivity support and similar resources is an important part of the financial equation for convention centers. There are essentially four alternatives in terms of how centers can supply these services, with varying degrees of profitability and efficiency:

- **In-house staff**: Services are delivered by staff who are permanently employed by the convention center;
- **Outsourced resources**: Services are provided by contract private companies who act as staff and report to center managers;
- **Exclusive suppliers**: The center identifies private suppliers who are given the exclusive right to deliver services to clients of the center in return for a commission to the center; and
- **Preferred suppliers**: A list of suppliers who meet center standards is developed and clients are able to decide which of these they will use for their event.

[16] Ibid

[17] Ibid

Few centers exclusively use one type of supplier. Most convention centers operate with a mix of in house and outsourced resources, depending on what is the most logical and cost-effective model. Factors taken into account in assessing the most appropriate model for each area include the following:

- **Availability**: A center must be able to deliver a range of event services, and if these do not exist in the local community, it may be necessary to perform these using in-house staff simply to ensure they are available to clients;
- **Managing overhead**: Outsourced services can often be arranged on a demand basis such that they are provided only when required. This can relieve the need for centers to have to maintain full time staff for functions that are only required periodically;
- **Flexibility**: Convention business is inherently seasonal and "lumpy" Outsourcing can assist in increasing the flexibility of a center's service offering, as a broader range of service can be available than if these were all reliant on in-house staff;
- **Profitability**: Depending on circumstances, it may be more economically advantageous to outsource. Some services lend themselves to "order of magnitude" benefits as with those that are equipment or labor intensive, where the requirements associated with the convention center represent only a part of the overall demand in the area and the centers can share these;
- **Competition with local business**: As centers are generally focused on generating economic impact, they may not wish to create additional competition for existing local businesses and may therefore choose to hire locally through outsourced contracts or exclusive suppliers;
- **Quality control**: The quality of service offered by a center is a critical element for its image and market reputation. A center may have to base the sourcing decision on where it feels it can best manage quality control. If a service is outsourced, special measures may have to be taken to ensure that results meet the standards set for the center's own services; and
- **Addressing the "Tied Supplier" issue**: Many clients are increasingly demanding greater flexibility in choosing which suppliers provide services for their events. Under these conditions, any services that are "tied' to a center (either as in-house staff or exclusive suppliers) may present a source of concern in this regard, and often needs to be addressed in a center's supplier policy.

5.6 Summary

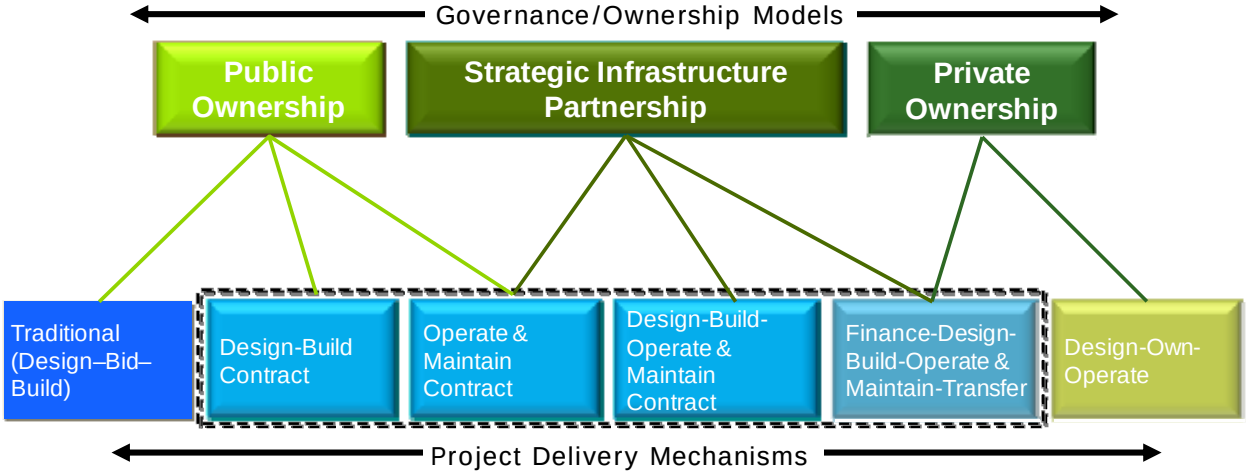
Although the proposed site for the WTCC II is owned by Rank, the current operators of the WTCC have clear goals and objectives that align with those of the Province and HRM. This would support a governance model where the WTCC II ownership remains in the private sector, with the public sector accepting some of the risks and benefits of ownership, and operations are managed by the public sector through a crown owned agency, as is typical of most convention centers nationally and internationally. However, as with many aspects of convention center management and operation, the best course must be determined on the basis of rigorous assessment of both local conditions and owner expectations in their particular set of circumstances.

6 Ownership and delivery model assessment

6.1 Introduction

There is a spectrum of infrastructure delivery models ranging from traditional delivery (i.e. full public ownership and control) to full privatization. Most infrastructure delivery models in Canada fall in the middle of the spectrum and stop short of full privatization. Moving left to right on the spectrum illustrated in Figure 11 below, the role of the private sector increases as risk is transferred from the public sector sponsor of an infrastructure project.

Figure 11: Canadian infrastructure delivery spectrum



In assessing the most appropriate ownership and project delivery model, we will review the concept of risk transfer in the context of the current proposal submitted by Rank in response to the EOI and the Project goals, objectives, and constraints.

6.2 Risk transfer

The WTCC II like all infrastructure investments inherently carries risk, i.e. from project design through to construction and operations, which the public sector may or may not wish to manage on its own, if at all. Risks that the public sector does not wish to manage may be transferred to a private sector partner through a SIP arrangement. SIPs are one tool in the public sector's toolbox for delivering and managing major infrastructure projects. Table 5 presents some of the key characteristics of the Traditional and SIP delivery models.

Table 5: Key characteristics of the traditional and SIP delivery models

Traditional	Strategic Infrastructure Partnerships
The public sector procures assets, not services from the private sector: • Assets are input-specific; the public sector specifies its requirements in *input terms* as part of the procurement. • Components of delivery are *separated* (design, bid, build, operate) resulting in a less efficient service provision. • Asset *paid for at completion*. Hold-backs and extended warranties cover only very short period of assets useful life. • *Risks typically remain with the public sector*. The private sector is not incentivized to provide long-term quality asset.	**The public sector procures assets and services core to the vitality of the assets**: • The public sector requirements are defined in *output terms* as part of the procurement providing opportunity for innovation and risk transfer. • Components of delivery are *bundled* (design, build, finance, operation and maintenance) resulting in integrated, efficient service delivery. • *Payments made over life of asset* and linked with operational performance. Revenue earned by the private partner through a mix of direct revenues, availability payments and/or performance payments. • Significant levels of *risk transfer* to the private sector over life of contract. Risks are allocated to the party that is best able to manage them.

A further discussion on risk transfer is included in Section 7.

6.3 Ownership and delivery model assessment

6.3.1 Imposed constraints

This Project, in the context of the proposal submitted by Rank in response to the EOI, contains some imposed constraints that limit the public sector's ability to freely select among potential delivery models as presented in Figure 11. These are:

- **Ownership of land**: The public sector does not own the land on which the proposed WTCC II is to be developed. The land is owned directly by Rank and is deemed to meet the location needs, objectives, and operating requirements of the WTCC II.
- **Proposed integrated facility**: The development of the convention center is being proposed in the context of a large, inextricably integrated facility. The preliminary design contemplates that the convention center space will reside beneath a substantial hotel complex, above a parking structure and adjacent to an office tower.

These two imposed constraints create the situation whereby the public sector would not be able to, nor have the desire to, design, construct, finance and maintain the development of the convention center space. Key reasons are:

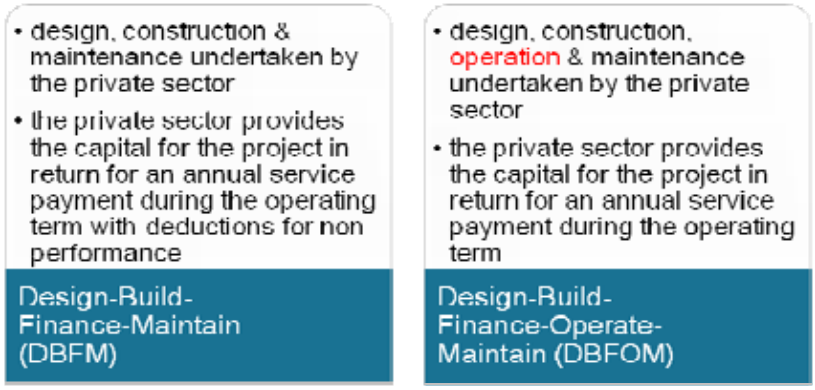
- **Ownership**: This should be retained by the private sector given that the land is currently owned by Rank. Purchase of the land and/or building by the public sector would open the public sector up to the risk of the development failing (i.e. there is less of a benefit of owning the convention center space if the hotel space above it were to be unsuccessful). In addition, the other elements of the development are outside the public sector's expertise, core experience, and desired scope of enterprise. A privately owned model also allows for enhanced flexibility on the part of the public sector to determine the length of the term and potential extensions, etc. without the risk of the facility becoming functionally obsolete.
- **Design**: The design has already been proposed and in the context of an integrated facility, the public sector would not want to retain design risk associated with a large and complex development of this type, nor would the private sector accept. In addition, the integrated nature of the facility would render it impossible to impose the public sector's own design of the convention center space into the larger project.
- **Construction**: Similar to the above, it would be impractical to have the public sector and Rank each hire separate contractors to construct the integrated facility. This would create huge interface risks in

that it would be impossible to distinguish the responsibility and the parameters of each individual contractor's scope of work.

- **Finance**: Based on the premise that the public sector would not own the land or the WTCC II, public sector financing of an interest in the larger development would not be desirable. Furthermore, third party due diligence conducted by a lender places greater positive tension on the private sector partner to deliver the space required by the public sector according to all stipulated performance standards, without fail, in satisfaction of their debt obligations with which private sector equity remains at risk.
- **Maintenance**: Similar to the construction constraints, the maintenance of such an integrated facility is best handled if performed by Rank. As the owner of the facility, Rank would want to retain a certain level of control over the lifecycle of the facility and in addition, the public sector would not want to retain the risk associated with maintaining only a portion of an integrated facility. Rank will also be able to achieve economies of scale with respect to tools, people, equipment, etc. that will already be on site and available for the rest of the facility. The synergies are clear as Rank will be providing similar scope of services with personnel and equipment already on site. There is no need to duplicate this infrastructure and delivery capacity with the public sector. This should result in a less expensive maintenance contract for the public sector.

These imposed constraints focus attention to the operation of the convention center space which is consequently limited to two specific delivery options under private ownership. These are the DBFM and DBFOM models detailed in Figure 12.

Figure 12: Overview of selected delivery models



The next section will review these models in the context of confirming which model best meets the Project goals and objectives.

6.3.2 Screening criteria

In order to further assess the proposed delivery models, we will first investigate the screening criteria that are applicable to this Project. The screening criteria identified in Table 6 are linked to the goals and objectives of the Project as described in Section 2 of this business case. An assessment of the criteria against the available delivery models will be used to determine the optimal delivery model i.e. that which best meets the Project's goals and objectives.

Table 6: Infrastructure delivery options screen

Criteria	Description
1. Value for Money The building will be cost-effective in terms of both initial capital cost and ongoing operations and will provide additional benefits (i.e. direct and indirect economic benefits) to the city and Province resulting in a value for money proposition for the taxpayers of Nova Scotia	Degree to which the ownership and/or delivery model can provide value for money to the taxpayers of Nova Scotia in terms of: • Financial impact • Risk transfer
2. Sustainable and Flexible The building will strengthen and contribute to the sustainable future of the Province through new investment In Halifax and promotion of the Province as a tourist and event destination. The development of the WTCC II will be based on a sustainable business model that will consist of concepts specific to the WTCC II that shape the decision making process for construction and development of the facility.	Degree to which the ownership and/or delivery model contributes to the economic viability of the Project, and the sustainable future of the Province including the ability of the Province to remain flexible in meeting future growth requirements.
3. Quality and Experience The building will be a contemporary and distinctive "signature" design that celebrates the importance of the WTCC II to the Province and HRM, enhances the overall image of the downtown area, and which will be a top-tier highly functional meeting and conference facility with exceptional service.	Degree to which the ownership and/or delivery model ensures that the Province and HRM are able to offer a superior level of quality and deliver the desired experience to convention center users.
4. Environmental The building will attain a high standard of LEED accreditation and will exemplify the Province's and HRM's commitment to the environment by following Environmental Goals and Sustainable Prosperity Act, the Climate Change Action Plan, and the Community Energy Plan.	Degree to which the ownership and/or delivery model demonstrate a commitment to environmental concerns.
5. Implementation The procurement process and ultimately the ownership and delivery model selected should be one that provides minimal challenges to the Province and HRM in terms of meeting the mutual goals of the partners and ensuring overall accountability and transparency.	Degree to which the ownership and/or delivery model support a streamlined procurement process that is transparent and provides an appropriate level of accountability to project partners.
6. Economic benefits for the Province and HRM The WTCC II would play an economic role which would contribute to the strengthening of the local economy, and the generation of incremental revenues and consequent economic impacts in the community via event organizer and delegate spending.	Degree to which the ownership and/or delivery model support the economic benefits to the Province and HRM.
7. Business development The WTCC II would play an important role in business development by way of: • Attracting business audiences; • Exposing delegates to the destination, lifestyle, and investment opportunities in the Province; • Encouraging related private investment; and • Building the profile of the community through promotions associated with events as well as through on-site exposure.	Degree to which the ownership and/or delivery model support the business development objectives of the Project.

Criteria	Description
8. Community impact The WTCC II would have an important community enhancement function where specific community benefits arise from its existence and the activities it attracts to the community.	Degree to which the ownership and/or delivery model supports the community enhancement role of the Project.

6.3.3 Assessment

Table 7 provides an assessment of the delivery models against the criteria noted above.

Table 7: Infrastructure delivery options assessment

Criteria		DBFM Contract	DBFOM Contract
1	Degree to which the delivery model can provide value for money to the taxpayers of Nova Scotia in terms of: • Financial impact • Risk transfer		
2	Degree to which the delivery model contributes to the sustainable future of the Province, including the ability of the Province to remain flexible in meeting future growth requirements.		
3	Degree to which the delivery model ensures that the Province and HRM are able offer a superior level of quality and deliver the desired experience to convention center users.		
4	Degree to which the delivery model demonstrates a commitment to environmental concerns.		
5	Degree to which the delivery model supports a streamlined procurement process that is transparent and provides an appropriate level of accountability to project partners.		
6	Degree to which the delivery model supports the economic benefits to the Province and HRM.		
7	Degree to which the delivery model supports the business development objectives of the Project.		
8	Degree to which the delivery model supports the community enhancement role of the Project.		
 Not at all	 Limited extent	 To some extent	 Closely meets	 Fully meets

In many respects, both delivery models to some extent meet all of the project goals and objectives. The major differences are the public sector's ability to retain control over:

Criteria 1 – Value for money: The dollar amount associated with certain risks transferred to the private sector, e.g. design, construction, financial, and maintenance, significantly reduces the risk retained under the public sector leading to a less expensive contract with the private sector partner. In addition, the integrated nature of the facility means that there will be some synergies in operating costs for the private sector partner which will also translate into a less expensive contract for the public sector.

Criteria 3 – The quality and experience of the convention center: This is mainly driven off of the public sector's ability to control food preparation and catering requests and retain the ability to manage event support and entertainment directly. Ultimately, the public sector does not want to transfer responsibility for certain key operating elements to the private sector as that would have a negative impact on risk.

Criteria 6 – One of the main objectives of the development of the WTCC II is the capacity for the Province and HRM to benefit from the economic impact associated with having a larger convention center which can attract additional and larger events. In bidding on events (particularly national and international events), the public sector will often balance the goal of "breaking even" in the cost of operating the convention center, with the greater economic impact of hosting the event. As such, their motivation is not driven by direct profit so they are best positioned to meet these competing objectives under a DBFM model, where the public sector retains some elements of the operations.

Criteria 7 and 8 – The degree to which Rank would be focused on the adjacent business and community development would be limited under a DBFOM model, in that Rank's focus on securing events would be driven by its own bottom line, rather than the economic development aspect of the Province and HRM.

The DBFM model best supports the goals and objectives of the Project due to the ability to retain control over key operational elements:

- to ensure the broader economic impact goals are achieved i.e. ability to book the venue as a loss leader for the greater good;
- to ensure quality experience of delegates is maintained and managed appropriately;
- increased tax revenue (retail, property, and other) accruing to the City and the Province as certain events are prioritized so as to achieve greater economic impact; and
- increased reputation and prominent of Halifax and Nova Scotia to tourists, commercial enterprises, and other organizations across Canada and around the World.

6.4 Summary

Based on the screening criteria above, the DBFM model is best aligned with public policy and project goals, objectives, and fits within the imposed constraints of Rank's EOI submission. The DBFM model permits the consideration of shared responsibility of certain operating elements, where appropriate.

Further financial analysis will be performed on the DBFM model to quantify the expected preliminary value for money ("PVFM").

7 Project risk and value for money

7.1 Introduction

A qualitative assessment that considered constraints specific to this Project, screening criteria that are linked to the goals and objectives of the Project, and an assessment of delivery models against selected criteria, indicates that a DBFM model best meets the goals and objectives of the Project. To validate this option as the preferred choice, a quantitative assessment was conducted to provide further support. This section details the steps in comparing the Public Sector Comparator ("PSC") or Traditional model against the SIP model / DBFM.

7.2 Defining project risk and risk transfer

All major infrastructure investments have inherent risks related to their design, construction, operation and maintenance over their useful life. Risk is defined as "the threat or probability that an action or event, will adversely or beneficially affect an organization's ability to achieve its objectives." Understanding the risks involved in a planned infrastructure investment is critical to enable public sector sponsors to make informed and appropriate decisions on how best to manage risks so that value is delivered to taxpayers efficiently and on-budget.

In the identification and consideration of project risks, it is important for a public sector sponsor of an infrastructure project to understand what project related risks it has the capability of managing or mitigating, and what risks it may require the assistance of another party to manage. This assessment and subsequent allocation of risk is fundamental to the concept of SIP because there is recognition that the public and private sectors have different expertise in managing different risk elements.

The level of risk transfer that a public sector sponsor of an infrastructure project may wish to transfer to a private sector partner is largely defined by the:

- complexity of the project;
- sponsor's internal capacity to manage or mitigate project related risks; and
- commercial capacity of the project.

A more complex project, whether that complexity is related to the size or scope of a project or the relative infrequency with which a public sector sponsor undertakes such a project, will inherently have more risks than a less complex project. The risks include program and approval risks through to construction, operation and lifecycle maintenance risks. The level of risk associated with a project necessitates a discussion on how best to mitigate those risks in order to avoid increased costs and to ensure delivery of the project within the desired timeframe.

A prudent principle to follow when identifying and determining how to manage project related risks, is to allocate risks to the party best able to manage those risks. Certain risks are generally best managed by the public sector such as: policy, programming and approvals risks. Other risks may be better managed by the private sector, particularly in areas that fall into the private sector partner's core area of business or expertise.

If the risks associated with a major infrastructure investment are not properly managed, risks materialize into substantial events that lead to increased costs to a project through delays or unanticipated emergency investments to correct critical faults.

The allocation of risk (which in the context of this business case involves the allocation of risk between the public and private sectors) is central to best managing risks and mitigating the likelihood of their occurrence, and in turn, mitigating unnecessary costs or delays. Based on Deloitte's experience with the planning, procurement, delivery and ongoing operations of major infrastructure assets, the following table illustrates generic key risks inherent in large scale projects and provides a discussion on which sector – public or private – is generally best able to manage each risk.[18]

Table 8: Generic risks and allocation

	Definition	Ideal party to retain risk	Rationale
Design / Technical risk	The risk of failures related to engineering or design.	Mixed private/public sector	Both the private and the public sector have the capability to manage this risk effectively.
Land assembly risk	The risk that acquiring land will delay the overall project schedule.	Public sector	The private sector may be unable to secure an identified or desirable site. NB: In the case of the Project, a suitable site was identified which is owned by the private sector proponent.
Environmental approval risk	The risk that securing environmental approvals will delay the overall project schedule.	Public sector	Environmental approvals are public sector approvals.
Construction risk	The risk that cost escalation will occur due to faulty construction or delays.	Private sector	This is a core skill of the private sector proponents.
Operating risk	The risk that the costs of keeping the assets in good condition (e.g., maintenance costs) vary from budget. The risk that the operating costs of the project vary from the budget.	Private sector	This is a core skill of the private sector proponents.
Financial risk	Risks related to cost and availability of credit. The risk that inflation will be greater than budgeted. The risk that the residual value of the asset at the end of the term will be lower than budgeted.	Mostly private sector	The private sector's financiers will fully account for the risks inherent in the project.
Environmental risk	Costs related to unforeseen environmental lawsuits or mitigation costs to avoid potential lawsuits.	Private sector	This is a core skill of the private sector proponents.
Regulatory risk	Costs related to delays in project approvals, changes in policy or law, etc.	Public sector	The private sector does not have any control over these elements.

If risks are optimally allocated and properly managed, value is achieved for taxpayers through the mitigation of unplanned events and associated increased costs or disruptions to vital public services.

[18] NB: Table 8 represents a generic allocation of risks which may differ depending on the specifics of the project.

7.3 Purpose of risk analysis

A key concept in infrastructure delivery is value for money, particularly where there is a choice for public sector project sponsors between pursuing a Traditional delivery or SIP delivery model. A value for money assessment is undertaken to quantitatively compare the Traditional and SIP models and it involves two main steps:

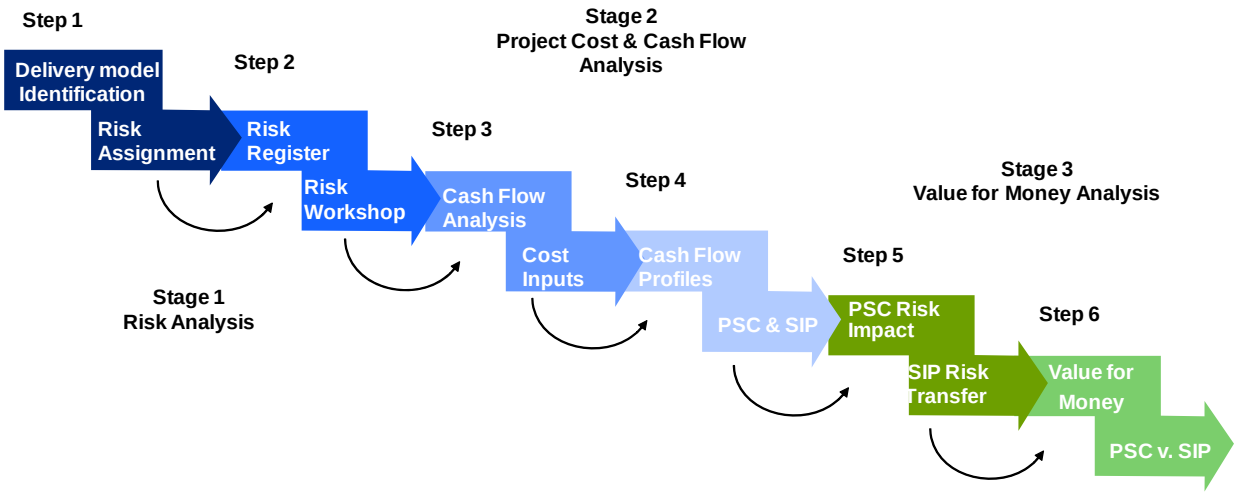
- identifying and allocating risks between the public and private sectors; and
- assigning a value or order of magnitude cost, to each risk used in the analysis. Dollar values are ascribed to the risks based on observed experience with other projects and the value is based on the cost that a project sponsor would assume if the risk became a material event.

In order to assess which delivery model, Traditional or SIP, yields greater financial value to the public sector partners, a risk identification, assessment, allocation, and valuation was undertaken and used to inform a preliminary value for money analysis on these two options.

7.4 Value for money methodology

The methodology outlined in Figure 13 was used to identify, allocate, and quantify project risks related to the WTCC II and to execute the value for money analysis.

Figure 13: Risk and value for money methodology



The risk and PVFM analysis consists of three stages and six key associated steps. The PVFM results are then updated based on the Request for Proposals ("RFP"), Project Agreement ("PA"), and final output specifications to obtain the final or detailed value for money ("DVFM").

7.5 Risk and preliminary value for money analysis

7.5.1 Risk Analysis

Evaluation of identified delivery options

Section 6 identified the preferred delivery option for the WTCC II i.e. Design, Build, Finance, Maintain, with certain operational aspects included. This option will be compared against the PSC or Traditional approach.

Each delivery model has a different arrangement of project related responsibilities between the public and private sector. A high level illustrative assignment of responsibilities between the Traditional model, the recommended model, and the full privatization model is presented in Figure 14. Deloitte prepared the

initial allocation of responsibilities based on discussions with TCL regarding WTCC operations. During the risk workshop a discussion regarding the responsibilities between the private and public sector across the different models was held and the initial allocation of responsibilities was fine-tuned.

Figure 14: Responsibility matrix

The DBFM option transfers a significant amount of responsibility and risk to the private sector. However, certain operating and maintenance functions, predominantly those directly related to events, are shared or retained by the public sector. It is important to note that the final responsibilities, particularly regarding the operating and maintenance functions will be negotiated between the public sector and private sector partner. Definitions of the responsibilities can be found in Appendix B – Operations (Scope of Services).

Risk identification, allocation, and quantification

In order to estimate and compare the total cost to the public sector of delivering a project through Traditional procurement or SIP it is necessary to identify, allocate, and quantify the monetary value of the risks that the public sector will retain under each delivery model.

A detailed risk register consisting of risk factors established from Deloitte's professional judgment and experience with projects of similar size and scale from across Canada was prepared for use during the risk workshop. Each risk had been grouped into one of three categories:

- retained risks: these are risks that are retained exclusively by the public sector;
- transferred risks: these are risks that are entirely transferred to the private sector; and
- shared risks: these are risks that are shared (and retained) to varying degrees between the public and private sector.

During the workshop, the applicability of each risk for the WTCC II project was assessed. In total 95 risks were identified as critical for the purposes of undertaking a PVFM analysis for the WTCC II. A critical risk is one that has a high probability of occurrence and high impact on the project, or low probability of occurrence and high impact on the project. The probabilities and impacts were determined based on the Project teams (the Province, HRM, and TCL) and Deloitte's input.

At the risk workshop each risk was analyzed at two levels: qualitative (risk assessment) and quantitative (value for money). The risks were amended to capture the specific risks related to the procurement of the WTCC II and were separated into ten categories.

1. Policy / Strategic
2. Design and Tender
3. Site Conditions / Environment
4. Construction
5. Permit and Approvals
6. Completion Commissioning
7. Life Cycle and Residual Risk
8. Operational
9. Revenue / Usage
10. Project Agreement

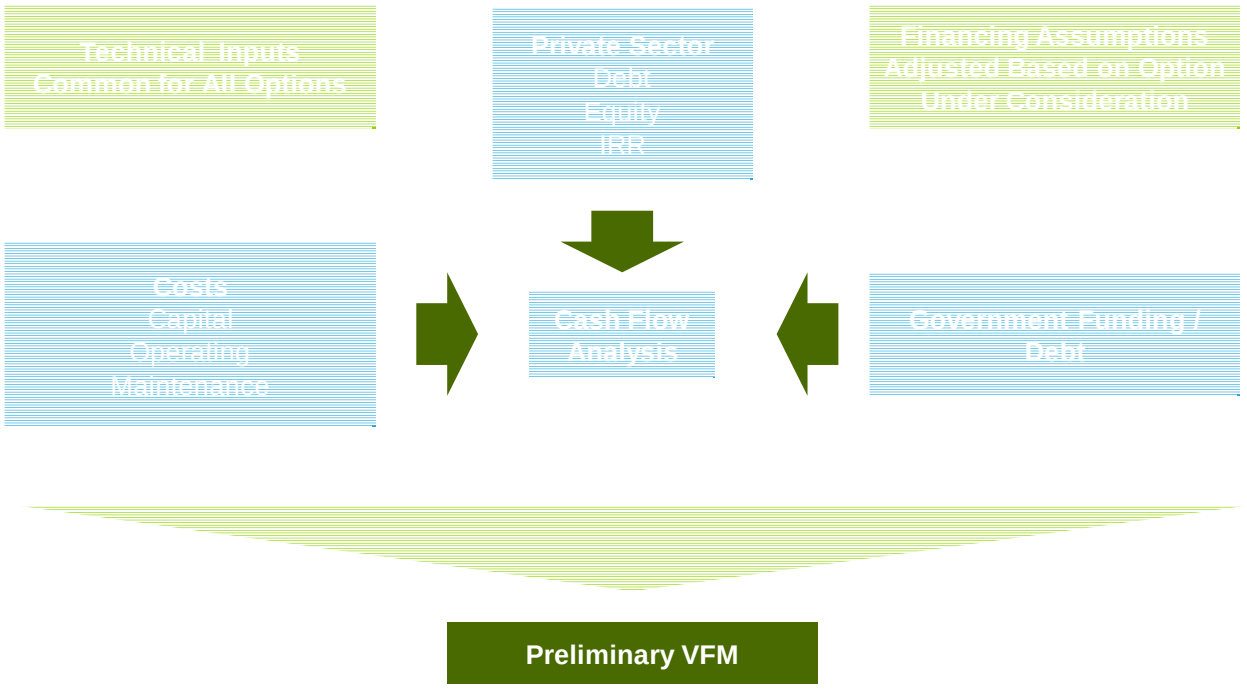
The risks will be used in a statistical analysis to establish the dollar value of the risk retained by the public sector and the risk retained by the private sector.

7.5.2 Project cost and cash flow analysis

Structure of cash flow model

The statistical analysis consists of a cash flow that determines the project cost for the Traditional approach and SIP approach. The cash flow analysis includes the construction costs, financing costs, and ancillary costs, and was developed using the format displayed in Figure 15.

Figure 15: Structure of cash flow model



General input assumptions

The general input assumptions detailed in Table 9 were used to model the PSC and SIP cash flows.

Table 9: General input assumptions

Assumption	Description	Source / Rational
Base date	July 31, 2009	We have selected a base date that is concurrent with the time of writing of this report to create a consistent timing platform for all estimates.
Construction Start	February 28, 2010	The construction start is based on the anticipated procurement timelines with regards to completion of the RFP evaluation, commercial close, and financial close.
Operating Start	February 28, 2013	A construction period of 36 months has been assumed.
Project Operating Term	30 years	The typical project term for SIP models is assumed. This may change as per specifics of the chosen delivery option.
Construction Escalation	4.8% per annum	Statistics Canada: Non residential building Construction Price Index
Capital Maintenance Escalation	2% per annum	Linked to core CPI
Operating Maintenance Escalation	2% per annum	Linked to core CPI
Taxes	No taxes are assumed for this analysis.	Simplifying assumption.

Compiled capital cost assumptions

In order to determine the project cost of the proposed WTCC II, an estimate of the development and construction costs was compiled. The development and construction costs consist of hard construction costs, site servicing costs, soft costs, FF&E costs, demolition costs, excavation costs, other factor costs, and land procurement costs. The capital cost assumptions detailed in Table 10 were used to model the PSC and SIP cash flows.

Table 10: Compiled capital cost assumptions

Assumption	Description/Rational	Cost ($2009)
Hard Construction Costs Source: Altus Heylar Construction Cost Guide 2009	Based on spatial requirements in EOI and spatial description by Rank Inc for 150,000 sq ft net and 275,000 sq ft gross size of the WTCC III. The construction cost is spread evenly over the 36 month construction period.	Range $250.00 / sq ft to $310.00 / sq ft. Higher estimate of $310.00 / sq ft is used to be conservative. This includes dining and conference facilities, and special use lounges.
Site Servicing Costs Source: Altus Heylar Construction Cost Guide 2009	This is the cost of any preliminary work done prior to construction including underground storm, sewer, water, hydro, earthworks, curbs, asphalt roadways, and sidewalks. 90% of site servicing costs are assumed to be incurred in the first year of construction and 10% in the last year of construction.	Range $12.45 / sq ft to $20.46 / sq ft A mid range estimate of $16.45 / sq ft is used.
Soft Construction Costs Source: Deloitte estimate based on analogous, recent confidential projects	This cost includes architectural and design fees, insurance costs, legal fees, special design consultants, special FF&E, permits and appraisals, and contingencies. Soft construction costs are assumed to be 20% of hard construction costs and are assumed to occur in the year prior to construction.	$62.00 / sq ft
FF&E Costs Source: Deloitte estimate based on analogous, recent projects	FF&E costs are assumed to be 10% of hard construction costs and are assumed to be incurred in the last year of construction.	$31.00 / sq ft
Demolition Costs Source: Deloitte estimate based on analogous, recent confidential projects	This is the cost associated with the demolition of the facilities occupying the proposed site for the WTCC II. Demolition costs are assumed to be 10% of hard construction costs. This appears high but it is important to note that this estimate could vary significantly depending on the various factors such as: • Proximity of other buildings – a constricted site will increase risks and costs associated with demolition; and • Construction materials of buildings to be demolished – the proposed site has old buildings which may include hazardous materials such as asbestos. Haulage and disposal of hazardous materials will increase costs associated with demolition. Demolition costs are assumed to be incurred in the first year of construction.	$31.00 / sq ft
Excavation Costs Source: Deloitte estimate based on analogous, recent projects	Excavation costs include bulk excavation, utility tunnels, earth works, bulk concrete foundation, and dewatering costs. This appears high but it is important to note that this estimate could vary significantly depending on	$46.50 / sq ft

	certain factors, e.g. rock type, whether blasting is required, etc. Excavation costs are assumed to be 15% of hard construction costs and are assumed to be incurred in the first year of construction.	
Other Factors Source: Deloitte estimate based on analogous, recent projects	Other factors refers to site specific issues that are likely to increase project costs not included in other cost categories such as – the fact that it's a hillside construction and subterranean project. Other factors that may impact project costs are assumed to be 5% of hard construction costs and are spread evenly throughout the construction period.	$15.50 / sq ft
Contingency Source: Deloitte estimate based on analogous, recent projects	A contingency amount of 10% of hard construction cost is included.	$31.00 / sq ft
Land Procurement Costs Source: Transportation and Infrastructure Renewal	This cost is based on land sales by the city in the downtown Halifax area in 2007. This is the latest estimate provided by TIR. This estimate is considered to be on the lower end as it does not include CPI and property escalation index for downtown Halifax commercial buildings. Land costs are assumed to be incurred in the year prior to construction. It is assumed that the WTCC II footprint will be 3.5 acres.	$9.2 million / acre[19]

The compiled capital cost assumptions provide a total cost estimate (excluding land procurement) of $545.80 / sq ft for construction of the WTCC II. Recent construction costs of other convention centers are shown below:

- Raleigh $429.00 /sq. ft.
- Philadelphia Convention Center $1861.00 /sq. ft. (incl. land)
- Vancouver $820.51 /sq. ft.

The wide range of costs can be attributed to the fact that construction costs are heavily impacted by certain factors such as: the local construction environment, the existence of other large projects, labor availability, material selection, "architectural" design, etc. Considerable time and investigation is usually expended to arrive at construction cost estimates. The construction cost estimate for the WTCCII is based on what is known of the proposed facility, which is limited in nature.

Operating and maintenance cost assumptions

This includes costs related to management, maintenance, and repair services of the convention center throughout the term of the Project Agreement. This also includes life cycle costs associated with planned or scheduled replacement, refurbishment of building systems, and equipment and fixtures that have reached the end of their useful life during the project term.

[19] For the SIP model, the land cost should be amortized on a proportional sq. ft. basis i.e. the WTCC proportionate share of the total land costs on a pro rata basis. This has not been done for this analysis as the project details for the larger facility are not known.

Table 11: Operating and maintenance cost assumptions

Description	PSC	SIP
Capital Maintenance This refers to major repair of the building. Source: Estimate based on analogous, confidential projects	1.25% of nominal construction cost	1.25% of nominal construction cost
Operating Maintenance This refers to general maintenance of the building and maintenance and replacement of FF&E (general) and AV/Technology (infrastructure). This also includes contract services for e.g. security, waste management, etc. Source: Estimate based on analogous, confidential projects	1.25% of nominal construction cost	1.25% of nominal construction cost
Admin & Overhead This includes costs related to catering, salaries and benefits, event expenses, marketing expenses, event contract services, insurance, energy costs, etc. Source: HLT Advisory Report	$7 million per year	$7 million per year

Ancillary cost assumptions

There are certain costs that are associated with the planning and delivery of large complex infrastructure projects. Most of these costs are incurred by both the public and private sectors and include project management costs and transaction costs. Ancillary costs are quantified and added to each delivery option. Ancillary costs are likely to be higher under the SIP approach due to the greater degree of upfront due diligence.

Table 12: Ancillary cost assumptions

Description	PSC	SIP
Transaction Costs - Design Consultant	7% of total nominal construction cost Source: TIR	2.50% of total nominal construction cost Source: Deloitte estimate based on analogous, recent projects
Admin & Overhead - Staff & Consultant	1% of total nominal construction cost Source: TIR	1.50% of nominal construction cost Source: Deloitte estimate based on analogous, recent projects
Admin & Overhead - LEED Commissioning Agent	$100K Source: TIR	N/A

Financing assumptions

The fundamental difference between a PSC and SIP model is the financing rate and structure. Table 13 details the PSC and SIP financing assumptions which are Deloitte estimates based on analogous, recent project experiences.

Table 13: Financing assumptions

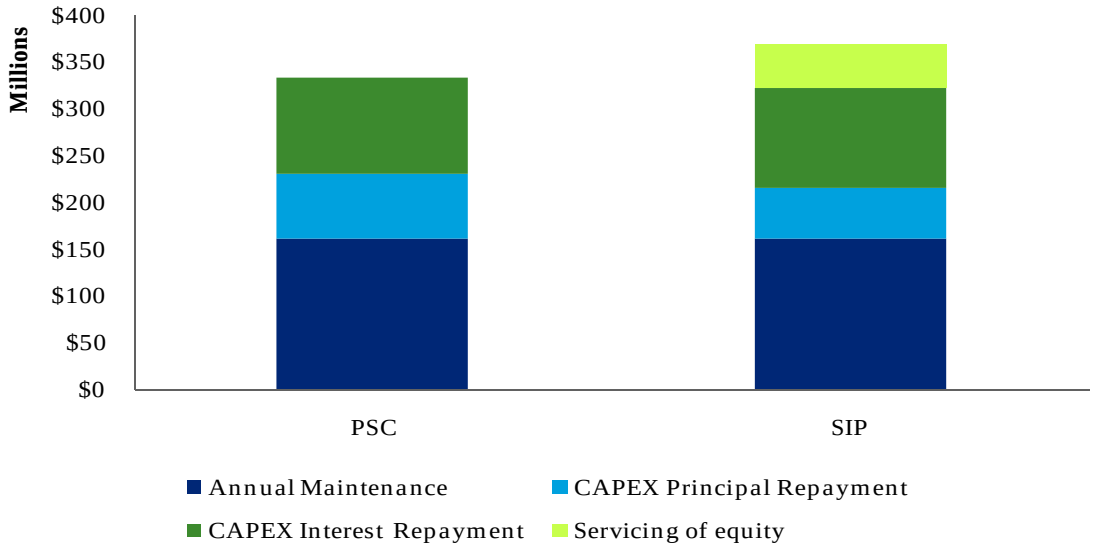
PSC Financing Assumptions	SIPs Financing Assumptions
• Province borrows all capital needed to fund construction works on an annual basis • Payments are made to the construction contractor as work is completed • Funding for operating and maintenance is from cash (consolidated revenue)	• The private sector obtains construction financing to fund construction works • The Province begins to make annual availability payments at satisfactory completion of construction and subject to compliance with performance standards
• Provincial Debenture Rate of 5.70% (Based on long term GoC bond rate (June 2009) of 3.95% + Provincial bond spread of 1.75%) • Debt Term (30 years)	• Private Sector Financing Rate 7.45% (Based on long term GoC bond rate (June 2009) of 3.95% + private bond spread of 3.50%) • Debt Term (30 years) • DSCR Minimum (1.20) • Equity IRR (12%)

Cash flow comparison profiles

Figure 16 illustrates the cash flow comparison for the proposed Project. Under both the PSC and SIP option the underlying construction, maintenance, and lifecycle costs are identical for the basis of this analysis. Early stage VFM analysis requires this assumption as the cost estimated by Rank are not known at this stage. For example, any value engineering proposed during the intended procurement by Rank would not be reflected in the capital, maintenance and operating costs used in the modeling of VFM analysis at this stage.

The cash flow does not consider "integration efficiencies" during the construction and operations of the WTCC II for the SIP model as the details are not yet known at this stage of the analysis.

Figure 16: Cash flow comparison



The implication for this is that the underlying total nominal cost for the 30 year project is identical for both options. The difference in project cost between the two options comes from the initial transaction costs and the financing costs.

7.5.3 Value for money analysis

Risk transfer

The public sector is able to transfer a significant portion of the risks identified to the private sector under a SIP project agreement. The implication of this is that the dollar value of ongoing risks to the public sector is less under a SIP structure, since it has transferred the majority of them to the private sector.

The quantification of the risks was performed using a Monte Carlo simulation. The Monte Carlo analysis takes a large number of possible outcomes for an activity through hundreds of thousands of iterations. In this manner the probabilities and associated impacts of each risk is estimated 100,000 times. We can therefore build a picture of the most likely outcome for each identified risk. A dollar value is then applied to that risk based on the present value of the either the capital, or operational cost, depending on where the risk will impact the project.

Value for money results

As illustrated in the cash flow comparison section, the only cost difference between the PSC and SIP models at the initial stage of the VFM are the ancillary and financing costs. The cost estimates by the private sector are not known at this stage.

Due to the highly integrated nature of the WTCC II there will be some efficiencies and benefits that will accrue to the SIP option during the construction and operating phases. For example, during the construction phase there will be some economies of scale that will reduce the price of construction materials. Similar economies of scale will be integrated into the SIP model for certain operational and maintenance functions such as: utilities management, waste management, pest control, housekeeping, grounds maintenance, major building repairs, etc. Any efficiency to be gained from an integrated facility is not known at this stage and is not included in the preliminary VFM analysis.

The outcome of the preliminary VFM developed for the proposed WTCC II indicates an anticipated positive percentage of approximately 10% for the SIP delivery method in comparison to the traditional delivery approach. A summary of the preliminary VFM analysis is presented in Figure 17.

Figure 17: Preliminary Value for Money Results

	PSC (Traditional)	SIPs (DBFM)
Nominal, $'s MM		
Non-Financed Construction Costs	$191.7	$191.7
Capital Maintenance Costs	$86.4	$86.4
Operating Maintenance Costs	$86.4	$86.4
PV Terms, $'s MM		
Base PSC (PV)	$325.9	$359.1
Administration and Overhead	$1.7	$2.5
Transaction Costs	$5.3	$6.5
Risks Retained under Traditional Delivery	$175.1	$91.0
PV	**$508.1**	**$459.1**
VFM Savings		
Dollars		**$49.0**
Percentage		**9.6%**

Under the SIP approach, the transaction costs are higher than those of the public sector. This higher cost is due to higher transaction costs associated with bidding for a SIP project for additional professional services and time required to plan for and prepare a diligent, well prepared response to the public sector request for proposals. This cost would however form part of the winning proponent's preliminary project

costs. In addition, the private sector must incorporate the financing costs associated with the project, which form a substantial cost to the project.

7.6 Summary

Based on the available information compiled by Deloitte, the VFM results produce an anticipated 10% reduction in project costs. The preliminary VFM is based on:

- assumed performance specifications which may vary materially from the RFP and project agreement and associated output specifications which are not yet determined in this early stage of the procurement process; and
- cost information which is in the early stages of development.

Should the Province decide to proceed with the SIP, a detailed VFM assessment should be completed based on the RFP, Project Agreement and associated final output specifications. The results of the detailed VFM assessment may vary from this preliminary VFM.

8 Recommendations

8.1 Introduction

The methodology employed in the qualitative and quantitative analysis contained herein is supportive of the case for proceeding to a procurement process for the WTCC II. The results of the business case indicate that a positive value for money outcome is anticipated using a DBFM delivery model and proceeding with Rank's proposal. The proposed development appears to meet the overall Project goals and objectives while also providing an estimated positive value for money outcome, as compared to a traditional delivery method.

8.2 Preferred ownership and delivery model

Based on the ownership and delivery model assessment in Section 6, and the financial analysis presented in Section 7, the preferred ownership and delivery model is private ownership with a DBFM delivery model. This is supported by a positive value for money estimate for the SIP option versus the traditional delivery model assessed.

Under a DBFM model, it is still possible to allocate some responsibilities associated with the operations of the WTCC II to the private sector, so long as the responsibility is not central to meeting the Project goals and objectives detailed in Section 2 of this business case.

Section 7.2 provides an overview of the allocation of responsibility between the public and private sectors. The suggested allocation of responsibility specific to this Project is discussed further in Section 8.3.

The SIP approach will allow the public sector partners to invest in the WTCC II while transferring an appropriate amount of risk from the public sector to the private sector, as well as encouraging savings through efficiencies to be gained from the integrated nature of the proposed facility.

8.3 Allocation of responsibility

As discussed throughout the business case, there are key elements of the operations of the WTCC II that will drive the success of the facility in meeting the project goals and objectives.

The allocation in Figure 8 is a suggested approach to procuring the WTCC II in terms of providing an outline for a suggested scope of service for Rank to bid on during the procurement phase should the Province and HRM proceed to a procurement phase with Rank.

Figure 18: Allocation of responsibilities between public and private partners

In order to support the Project goals and objectives of economic, community, and business development, the key components of the operations that should be retained by the public sector are:

Sales, Marketing and General Administration: This refers to the entire sales process from planning for future events/bids to the actual negotiation of contracts and ultimately to the collection of revenues and financial reporting of results of the operation. This will ensure that the public sector has maximum control over the ability to balance the fees generated from events against the greater economic impact to the community, HRM, and the Province.

Event Support/Entertainment and AV/Technology Equipment: This component of operations is directly linked to sales and marketing. Events and customers will have specific requests to cater to their needs (i.e. music or technology requests) – these requests are not always foreseeable and delivery of these special requests should be under the same responsibility as those who are securing the sale.

Catering and Daily Kitchen Cleaning: A key success factor in attracting events is the high quality of food and beverage services offered to WTCC clients. This is an aspect of operations that the public sector has been successfully providing, and for which they have a good reputation. Control over food and beverage services is therefore essential to continuing to provide the quality and experience that WTCC II clients will expect.

Security – Event Support: This refers to the specific security needs that would be required to support an event. Similar to other specific event support, it would be important for the public sector to retain the control and flexibility to meet client and customer requests without having to work through an intermediary partner.

8.4 Suggested approach to payment structure

Under a proposed DBFM arrangement, it is suggested that payment to the private sector commence once the convention center space has reached substantial completion, has been fully commissioned and is available for use by the public sector. The payment should contain the following key components/features:

- **Availability and Performance Based Payments**: The payment stream should be subject to financial deductions on a monthly basis if the private partner does not meet the contractually committed service level specifications and/or does not ensure that the WTCC II or related key areas of the integrated facility (i.e. loading docks) that directly support the WTCC II are available.
- **Term**: The term should be of sufficient length to allow the public sector to benefit and capitalize on the long sales cycles associated with large national and international events (i.e. 3-5 years), while also providing flexibility to meet future growth needs or program changes. It would be suggested that at a minimum, the term be 25 years, with at least 2 options to renew for 5 year terms as observed from analogous recently completed capital projects in the Canadian market place.
- The monthly service payment should consist of:
  - Capital payment: to provide the private sector with some repayment of capital – the amortization period should depend on both the expected useful life of the WTCC II and the term of the contract.
  - Operating payment: this would cover costs such as the provision of services that are “in scope” for the private sector, inflated over time, and adjusted for utilities.
  - Lifecycle payment: a fixed amount per month or year which is intended to cover future lifecycle needs. This can be based on a percentage of the total service payment.

  The monthly service payment should be fixed / stable.

- **Revenue Sharing**: the direct financial benefits to the private sector of operating an integrated facility above and around the WTCC II should be shared in some way with the public sector thus reducing the monthly service payments. The potential revenue sharing opportunities reside mainly with:
  - Hotel Revenue – there will be a direct benefit to Rank in terms of hotel occupancy from convention center delegates, particularly where the convention center is able to attract a greater number of national and international events, thereby requiring hotel space for delegates. The issue of competition needs to be considered in that the Project Sponsors should not be seen to be subsidizing the hotel attached to the WTCC II at the expense of other hotels in the city.
  - Parking Revenue – similar to above, there may be a direct benefit in terms of parking revenue for delegates attending local/provincial events.

The size of the hotel in terms of occupancy space and the number of parking stalls built will in part be based on the expected demand going forward. It is in the best interest of both the public sector and Rank to maximize the total number of delegates. Some potential revenue sharing models include:

  - Payment to Rank is reduced on a monthly basis using a percentage of revenue earned approach. For example, where delegate hotel occupancy and/or parking can be attributed to an event held at the convention center, the public sector shares in this revenue by obtaining a percentage of the total revenue earned.

- Public sector develops a baseline of expected events/delegates per year. The private sector partner could then build the facility (hotel and parking) to accommodate the expected demand going forward. This puts some risk on the private partner however a revenue sharing model whereby actual results above the baseline are shared between the partners may provide incentive to all the parties to ensure maximum use of both the convention center space and hotel/parking use.
- Discounted monthly payments to Rank. The discounted payments would allow for a smooth payment stream which provides some benefit to the public sector of the potential additional revenue that Rank would earn by having the WTCC II as part of the larger integrated facility.

Further due diligence and negotiation is required throughout the RFP process to determine the most appropriate revenue sharing model that best meets the objectives of both parties and incents the partners to work together for mutual benefit.

The payment structure will be further defined throughout the procurement process, however given that the recommended structure includes private ownership of the facility, Deloitte expects that the contract term would resemble a lease type arrangement whereby the public sector would “rent” the convention center space using the payment structure described above.

9 Next steps: Implementation considerations

9.1 Introduction

Based on the recommendation to proceed with the development of the WTCC II under a private ownership DBFM delivery model, this section explores certain implementation considerations in the context of this Project. In addition, an overview of the expected procurement process is provided.

9.2 Implementation considerations

9.2.1 Role of public sector partners – Governance and Funding

As the Project moves forward into the procurement phase, the public sector partners will need to establish an understanding of their respective roles in the funding and ongoing oversight of the Project. This will be a key decision point in terms of determining who will be signing the Project Agreement with Rank should the proposed project proceed.

When determining the proposed delivery model, consideration should be given to the funding requirements of all Project partners. Accessing Federal funding requires a delivery model that has the public sector accepting some of the risks and rewards of ownership, i.e. the WTCC II would not be fully owned by the private sector.

9.2.2 Single proponent

Given the existence of only one viable proponent, Rank, there will inherently be a lack of competitive tension during the negotiation and procurement process. There is a risk that with a lack of competition, the public sector will not attain a fair and transparent price and ultimately, value for money may be impacted. This risk is mitigated through:

- the due diligence process that the public sector undertakes in the development of this business case (and related public sector comparator model), in the development of the RFP documents, and throughout the transaction process; and
- inclusion of a safeguard / mechanism in the evaluation framework that will verify allocation of costs during the construction phase of the Project.

This business case is transferable. The DBFM model and general payment structure could be applied to an alternative procurement process, but not necessarily the private ownership component. Should Rank therefore fail to proceed with the Project, the business case can be transferred to an alternative procurement process.

9.2.3 Existing WTCC

The procurement of the WTCC II means that the WTCC will no longer be used as a convention center. The Province will need to consider potential future uses of the WTCC and/or will need to determine if there is any ability to lease the existing space. Development and recommendation of a plan for the WTCC is not within the scope of this business case.

9.2.4 Final cost confirmation

The project costs provided are high level estimates based on the high level specifications provided in the EOI Number 08-055 issued by HRM and the Province in March 2008. These estimates represent considerations of the WTCC II scope in the very early stages of the procurement process and have not been verified by a cost consultant. Final cost determinations must be carried out based on the final project output specifications. Use of figures presented in this business case must include these considerations.

9.3 Procurement process and timeline

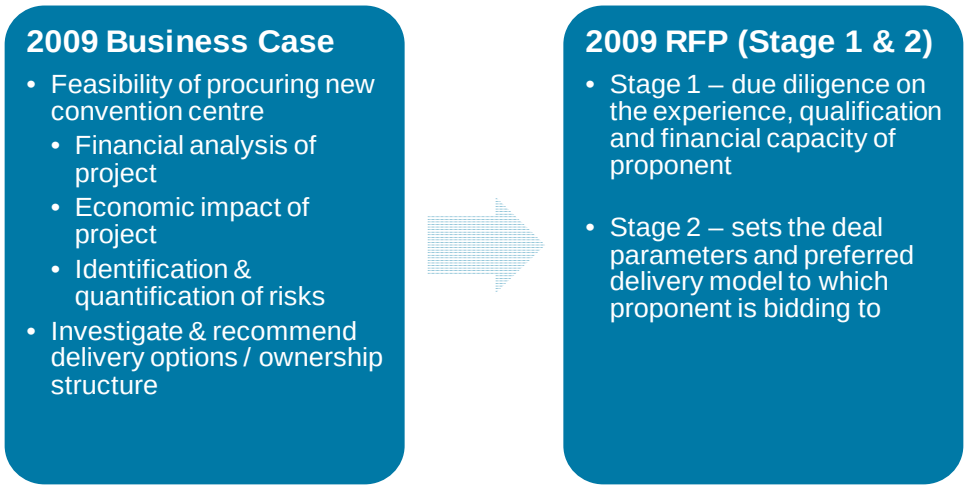
Following the response by Rank to the EOI issued in March 2008, a two staged RFP process is proposed. This two staged RFP process incorporates further due diligence on the qualification of the proponent in Stage 1, which ensures that the proponent is qualified and capable in the following categories:

- Development capability
- Property operations and management capability
- Financial capability

A satisfactory Stage 1 RFP submission is required for the Project to proceed to the next stage. The Stage 2 RFP process will present the proposed ownership and delivery model, including the project specific output specifications to which the proponent will be bidding to.

To ensure the timely delivery of this Project, the procurement aspects of the transaction are being developed concurrently to the business case. An overview of the ongoing procurement process is presented in Figure 19.

Figure 19: Procurement process overview



The expected timeline going forward with respect to the RFP is as follows:

Description	Date	Status
Stage 1 RFP Issued	May 29, 2009	Issued
Stage 2 RFP Issued	July 31, 2009	Outstanding
Stage 1 RFP Submission Due	August 31, 2009	
Proponent Notified of Stage 1 results	September 10, 2009	
Commercial Meetings	September 2009	
Stage 2 RFP Submissions Due	October 30, 2009	
Expected Commercial Close	December 2009	
Expected Financial Close	January 2010	
Construction Stage	Financial Close – December 2012	
Expected Operating Stage	January 2013 – TBD	

Appendix A: Lost Business

[The Group Names have been intentionally removed to retain confidentiality]

LOST BUSINESS DUE TO CAPACITY AND/OR LACK OF AVAILABILITY			
Group Name	**Market**	**Estimated Revenue**	**Room Nights**
	10,000	$ 150,000	15,000
	5,000	n/a	20,000
	3,500	n/a	n/a
	2,500	n/a	n/a
	2,500	$ 250,000	5,250
	2,500	n/a	n/a
	2,000	n/a	n/a
	2,000	$ 250,000	4,800
	2,000	$ 115,000	1,950
	1,750	n/a	5,300
	1,500	n/a	n/a
	1,500	n/a	n/a
	1,500	n/a	4,350
	1,500	n/a	2,500
	1,200	$ 295,000	3,455
	1,200	n/a	3,455
	1,200	$ 309,350	2,400
	1,200	n/a	4,000
	1,000	n/a	n/a
	1,000	$ 26,000	800
	1,000	$ 130,000	2,000
	1,000	$ 70,000	750
	1,000	$ 100,000	2,400
	1,000	$ 174,725	1,950
	900	$ 291,700	3,005
	850	$ 90,880	1,200
	800	n/a	n/a
	800	$ 112,000	1,650
	800	$ 400,000	3,500
	800	$ 136,210	2,600
	800	$ 124,912	1,500
	750	$ 196,000	975
	700	$ 106,741	1,050
	700	$ 97,600	975
	700	$ 125,000	750
	600	$ 130,045	2,055
	600	$ 102,000	1,350
	600	n/a	n/a
	600	$ 85,000	1,200

LOST BUSINESS DUE TO CAPACITY AND/OR LACK OF AVAILABILITY				
	600		n/a	n/a
	600		n/a	n/a
	600	$	181,540	1,500
	600	$	86,000	1,800
	550	$	87,000	1,200
	500	$	25,000	800
	500	$	38,485	750
	500		n/a	n/a
	500	$	189,175	1,650
	500	$	90,000	1,050
	480	$	75,000	1,350
	450	$	55,000	900
	450	$	55,000	675
	425	$	28,965	225
	400	$	96,000	375
	400	$	100,000	1,050
	400	$	150,000	1,350
	400	$	62,786	675
	375	$	73,084	450
	350	$	38,000	865
	350	$	379,242	450
	350	$	101,000	650
	350	$	21,000	300
	350		n/a	1,100
	300	$	42,000	525
	300	$	30,000	300
	300	$	36,000	375
	300	$	96,000	780
	300	$	32,000	375
	250	$	55,000	325
	250	$	85,000	450
	250	$	58,000	600
	250	$	23,000	300
	250	$	98,000	435
	250	$	41,935	840
	225	$	96,000	480
	200	$	50,000	450
TOTAL	**75,955**	**$**	**6,543,375**	**127,570**

Source: Assessing the Potential for Expanded Convention / Trade Show Facilities in Halifax, HLT Advisory, 2009

Appendix B:
Operations (Scope of Services)

Partner	Service	Description
Public	Program Management	Project oversight.
	Area planning and Land Use Policies	Zoning policies and permit allocations.
	Sales & Marketing	Sales and marketing to meet project goals and objectives while simultaneously maximizing revenue for the facility.
	Event Support / Entertainment	Appropriate in house staff to deal with specific event issues / requirements.
	Catering	Provision of a wide variety of food and beverage services from boardroom breakfasts and small meetings to large formal gala diners.
	General Administration / Back Office	Financial management, financial reporting, purchasing, payroll, etc.
	Kitchen cleaning – Daily	Daily cleaning of the kitchen after events.
	AV Technology / Event Support	Provision of event specific audio visual and other technology equipment.
	Security –Event Support	Provision of event specific security requirements.
	Maintenance & Replacement of FF&E – Event Specific	Maintenance and replacement of event specific FF&E e.g. specific table, chair, for event in progress or about to commence.
	Obtain Government Funding	Obtain public sector funding from the various levels of government.
Private	Property Acquisition, Purchase Right-of-way, Site Conditions	Purchase of proposed site, Site servicing (includes underground storm, sewer, water, hydro, earthworks, curbs, asphalt, roadways, sidewalks, etc.)
	Design	Design of facility as per Project specifications.
	Construction	Construction of facility as per Project specifications.
	Procurement & Installation of FF&E	Procurement and installation of major equipment.
	Procurement & Installation of AV / Technology Infrastructure	Procurement of installation of infrastructure to support audio visual and other technology equipment.
	Procurement & Installation of Fit Out	Procurement and installation of quality interior finish.
	Housekeeping	Cleaning services to include regular and ongoing maintenance as well as deep cleaning of all areas such as exhibit halls, carpets, washrooms, walls, etc.
	Kitchen cleaning – Major (deep cleaning)	Deep cleaning of kitchen to be carried out as per agreed upon schedule.
	AV / Technology Support – Infrastructure	Provision of AV/technology support for audio visual and other technology equipment.
	Security – Building	General security of integrated facility.
	Waste Management	Provision and disposing of recycling and waste management.
	Grounds Maintenance	Provisions of services to ensure grounds surrounding the facility are landscaped and accessible. This would include horticultural

		services, snow and ice removal, distribution of salt and sand in the winter, etc.
	Pest Control	Provision of services to ensure that the building remains free from pests.
	Utilities Management	Management of utility systems and monitoring of energy consumption. Ongoing analysis of consumption for future assessment/considerations.
	Major Repair (Building)	Major repair of building – lifecycle components.
	General Maintenance (Building)	General/daily maintenance of building.
	Maintenance & Replacement of FF&E – General	Minor repair of building – operational components.
	Maintenance & Replacement of AV/Technology Infrastructure	Maintenance and repair of infrastructure to support audio visual and other technology equipment.
	Debt & Equity	Obtain financing for Project development.

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