




City of Richmond

Report to Committee

To: General Purposes Committee
From: George Duncan
Chief Administrative Officer
Date: March 5, 2007
File: 01-0005-01/2007-Vol 01
Re: **Richmond Olympic Oval Project and 2010 Olympic Games Related Business Performance Status Report**

Staff Recommendation

1. Staff be directed to establish a standardized format for producing semi annual reports in keeping with this report; and
2. Staff be directed to bring forward detailed follow up, progress and status reports which cover specific items identified in the risk assessments registry and other pertinent matters resulting from this report.


George Duncan
Chief Administrative Officer
(4338)

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REVIEWED BY TAG	YES <input checked="" type="checkbox"/> <i>AE</i>	NO <input type="checkbox"/>



Staff Report

Origin

The purpose of this report is to provide an overview of the City of Richmond's involvement in the development of the 2010 Winter Olympic Project; an assessment of the City's performance as measured against the terms presented in the RFP Proposal and the staff reports through which staff were authorized to proceed with the projects. The City is now at the half way point in preparations for the Games. This document will be supported by several more specific reports that will be presented over the next month. These reports will provide Council with information and options and will seek direction as to the extent of involvement that the City of Richmond should pursue in the build up to and the presentation of the 2010 Games. The reports will identify the benefits associated with a full engagement and the options if the City chooses to play a lesser role.

Background

2003

On July 2nd the IOC voted to award the rights to host the 2010 Winter Games to Canada. Shortly there after the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) was formed and began the task of preparing to implement the plan as described in the bid documents.

2004

In June 2004, VANOC invited local municipalities to present proposals to design, build, and operate the Speed Skating Oval venue for the 2010 Winter Olympics. Council directed staff to proceed with research regarding the potential for a City of Richmond bid. This culminated in a formal proposal to VANOC on July 30th and a subsequent oral presentation to the VANOC Evaluating Committee on August 4th.

The quality of the bid reflected this research and the City of Richmond's enthusiasm and commitment to a business approach to the project. After reviewing several proposals, VANOC awarded the Oval project to Richmond. A series of agreements were developed between VANOC and Richmond. Subsequently a process was initiated resulting in the selection of a design and construction team.

2005

In July 2005, Council approved an increase in scope for the Oval Project to accommodate the inclusion of the precinct parking garage at \$23 Million. This change increased the project budget from \$155 Million to \$178 Million.

The revenue that will be generated from the parking structure has not yet been accounted for as a possible off-set of capital costs.

The City adopted the following project vision and mission under the umbrella of the City's corporate vision to guide the project:

City Vision:

To be the most appealing, livable and well-managed community in Canada.

Project Vision:

A unique destination that serves as a dynamic international gathering place and an outstanding centre of excellence for sports and wellness at the heart of an exciting urban waterfront.

Project Mission:

To use the Olympic opportunity as a catalyst to transform the City to international stature, and create a new social and economic capital that significantly enriches Richmond's quality of life. We will do this by blending the spirit of Olympism with inspired leadership, and seamlessly combining a world class site, a sport wellness agenda and innovative community planning to create the premiere legacy of the 2010 Olympic and Paralympic Winter Games.

Components of our mission include:

- Delivery of a world-class speed skating facility for the 2010 Olympic Winter Games.
- Development of a significant high performance sports legacy.
- Transforming our City Centre into a dynamic urban core that embraces its waterfront connection.
- Creating broad shared support and commitment for the City's vision throughout the entire community, including staff, volunteers, community members and other stakeholders.
- Defining Richmond as an international City in the eyes of the world.
- Enhancing quality of life for Richmond residents through sport and wellness.
- Enhancing the City's financial and economic positions through increased liveability, development, tourism and business retention.

Performance Assessment – Richmond Oval Proposal and Financial Terms:

The Oval Proposal is assessed on its performance relative to achieving the financial terms that were the basis of the authority granted to staff by Council when the City's bid was approved.

Funding Contributions From External Funding Sources and Extraordinary Sources (funding from sources other than City reserves or revenue generated from property taxes and City assets:)

Required Funding from External Sources To Satisfy Conditions of Council Approval

		<u>Status</u>
Government of Canada	\$30 Million	Committed
Government of British Columbia	\$30 Million	Received prior to due date
Legacy Revenue	\$35 Million to \$55 Million	Committed (approved prior to due date target)
Casino Revenue	\$50 Million	\$15 Million received Balance committed

Sub Total Equivalent Capital Value \$145 Million to \$165 Million

Optional Funding Sources Under Further Investigation or No Longer Under Consideration

Sponsorship/Naming	\$10 Million	Under investigation
Other (hotel tax)	\$10 Million	Not applicable – no trade & exhibition use
Sub Total	\$20 Million	

Total anticipated funding \$145 Million to \$165 Million from External and Extraordinary Funding Sources.

Required Funding from City Sources

Direct funding from City sources	\$25 Million	From revenue & other City sources
Oval Lands Revenue (proceeds from sale)	\$43 Million	Received \$43 Million + held in trust

Overall Assessment – Financial Performance

- Federal Government Funding of \$30 Million drawn quarterly based on construction progress, paid in full at final stages of the project in September 2008. Provincial Funding \$30 Million received March 31, 2005 creates an approximate \$2.5 Million unanticipated benefit to Richmond.
- Legacy Funding Contribution: Award exceeds amount required to satisfy approved financial plan; distribution date is December 31, 2007, as much as four years earlier than Operating Trust Board is allowed.
- Sponsorship/Naming: July 2005 - rejected a significant unsolicited offer for naming rights. City has received \$2 Million to date from VANOC, thereby increasing their contribution from \$30 Million to \$32 Million.
- Tendering process: 91% complete and project is under construction; \$2.5 Million under budget; 100% contingency in place; 100% owners allowance in place.
- Oval Land Sales: \$43 Million required based on original plan. Final proceeds of sale significantly exceeds required amount.

Status

All financial targets have been met or exceeded. In 2005 Council approved a change in scope to add the parking structure to the Oval, thereby, increasing the project budget from \$155 Million to \$178 Million. Please note that associated parking revenues have not been credited in this report and could be used to offset some or all of this additional capital investment in the future.

Risk Assessments

One of the important tools designed to assist Council and staff as the project progresses was the identification and assessment of the various risks that Richmond would face as a Venue City.

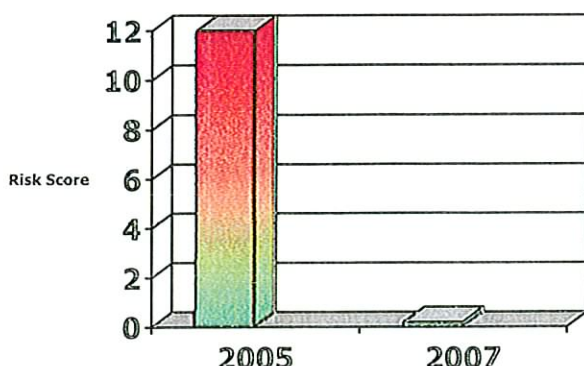
After the oval project was awarded, this risk assessment played a fundamental role in developing a functional work plan for staff. The obvious challenge was to mitigate the risks wherever possible. Following is an overview of the relevant risk and the current status of City exposure approximately half way through the six-year work plan.

These risks can be collected into three main themes:

1. Possible escalation of construction costs
2. Uncertainty with regard to securing required legacy funds and doing so in a timely manner
3. Downturn in demand for marketable city owned land adjacent to the Oval

The following is an update of the major risks:

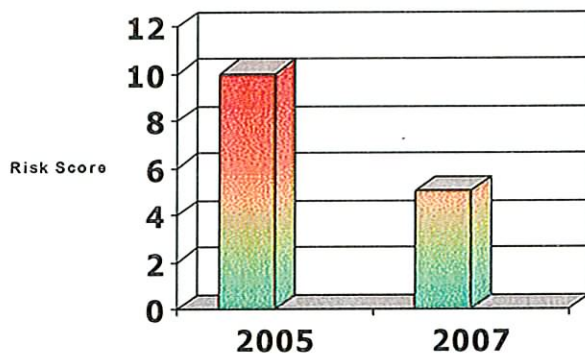
Legacy Funding



A Legacy Fund had been established by the Federal and Provincial Governments to support 3 Olympic venues. Securing legacy funding was essential to the long-term viability of the new facility. It was originally anticipated that the allocation of legacy funding to Richmond for which the City would have access to the investment income earned on it would be between \$35 to \$55M.

The City has participated in numerous discussions and negotiations over the past year. This work culminated in a joint presentation to the Trust Board by VANOC/Whistler and Richmond. We received confirmation dated February 28, 2007 from the Legacy Trust Board that meets and exceeds our original budget expectation (more information will be provided in the near future).

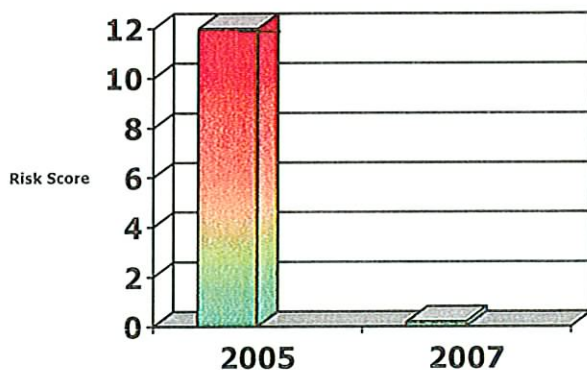
Key City Staff Retention



The labour market in the lower mainland has become quite competitive given the state of the economy. It was and is considered essential that the city maintain a skilled workforce to manage the significant challenges facing a city in this time of growth and development. The City has been very proactive in developing programs that can competitively retain and attract quality staff. At the same time the City operates with a lean staff team in comparison to other municipalities in response to a commitment to support the needs of the local taxpayer. The risks associated with this reduced scope of management is the potential loss of corporate memory when key individuals leave, which is essential to long-term good decision making.

It will be necessary to continue to refine all aspects of the Human Resources program as the labour market continues to become more competitive. The opportunity to play a significant role in hosting the world class event will have a positive impact on staff over the next three years. It will instil even greater "Pride" throughout the civic City organization at all levels of staff if managed properly.

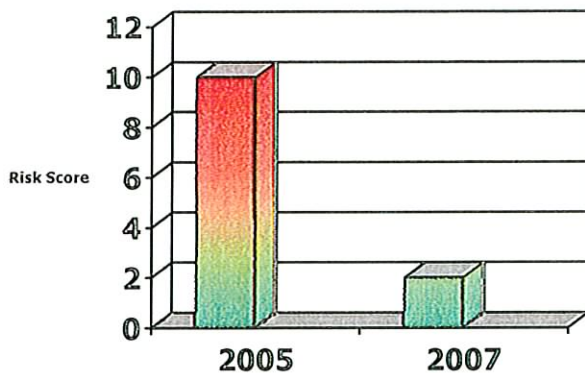
Capital Funding



Through this project the City initiated construction of the largest project in City history. Staff and Council did establish a series of capital sources including the injection of \$60 Million from the Federal and Provincial Government via VANOC before the project was initiated. VANOC has now provided an additional \$2 Million bringing the total to \$62 Million. A commitment was made that the capital funding requirements would not impact the annual property taxes. Council will meet that commitment.

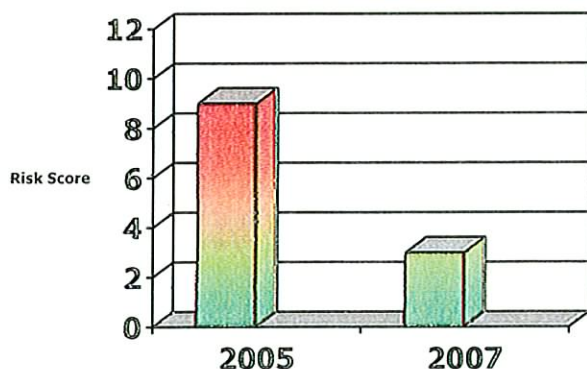
Several occurrences including the results of the City land sales immediately adjacent to the oval have dramatically reduced the City risks in this area.

Geo-technical



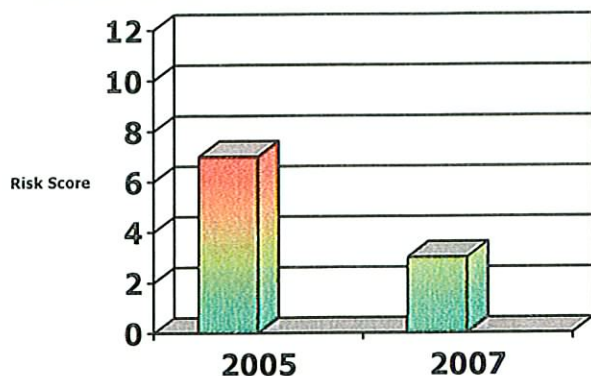
Prior to the City pursuing the Oval, the City obtained geotechnical information regarding the site. However, without conducting a complete soils investigation coupled with an understanding of the kind of structure that was to be built, the rating of geotechnical risk was high. As of this date the geotechnical consultant has completed a site soils investigation and the design work has been completed. All piles have now been installed. Field test have been completed and the geotechnical engineer has concluded that the foundation design meets the design intent. This sign off signals that the risk is now being addressed to a point where any remaining geotechnical issues are beyond our control and classified as acts of nature. These risks are more typical of the level of risk that is associated with any construction undertaken in this area of B.C.

Construction Costs/Tender Process



The City has tendered and secured contracts for 91% of the pre-Games building construction and as such has reduced the likelihood of the project going over budget. At 91% complete on tender contracts the project is \$2.5 Million under budget. What remains to tender is the landscape work and interior package, which will be tendered over the next 6 months.

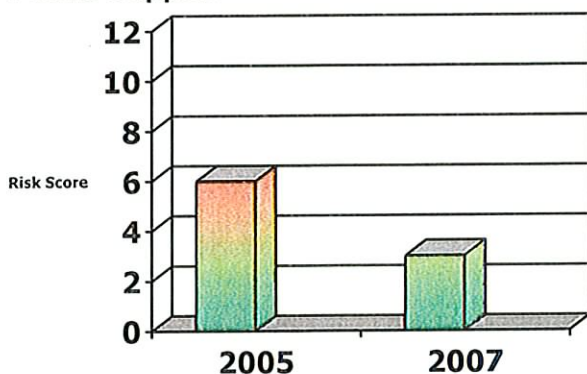
Governance



A subcommittee from the Olympic Business Advisory Committee is currently assisting staff in the development of a model for both the governance and management of the Oval. Staff continues to complete research, collection of best practices and planning in this area.

The proposed model will be brought forward for council consideration in the near future. The model will be respectful of the commitments to meet both citizen and the Legacy Trust expectations. Ultimately, the risk on governance is associated with the revenue and cost structures and the various governance models.

Public Support



Past research indicates that public support tends to wane after the Games are awarded to an area and this support does not build again until the year of the games approaches.

Overall, the support for 2010 has not dropped as much in Canada as has been the trend in other locations. A recent study indicated that there is a 98% awareness of the Games in BC. The demonstration of enthusiasm in Richmond with 15,000 participants attending the three-year countdown and Winterfest should be seen as a strong indicator that the city residents are supportive of the games. This participation level was by the strongest demonstration of public support since the awarding of the bid in July 2003.

Engaging the Richmond Community

The City will continue to be a leader in the region to engage Richmond residents to touch the 2010 Winter Games and enhance the capacity of Richmond to be a Venue City for 2010. The Countdown Celebration – 3 years to the Games was an example of how Richmond successfully engaged the community, showcased sport and community organizations, and increased awareness and excitement for the upcoming Games.

2010 City	Date	Location	Attendance
Richmond	February 10, 2007	Granville Street & City Hall	15,000
Vancouver	February 17, 2007	Pacific Coliseum	1,000
RM of Whistler	February 1- 28	Whistler Downtown during Arts Festival	Part of month-long festival running since 2003

Yet there are still many residents of Richmond that are not aware of the role that Richmond is playing in this event and more importantly the scope and quality of the Richmond Oval project. We will need to continue to build our communications program.

One of the challenges is to create opportunities for the citizens of Richmond to personally experience the games. It is expected that the Torch relay will provide wonderful opportunities to both experience and celebrate the games.

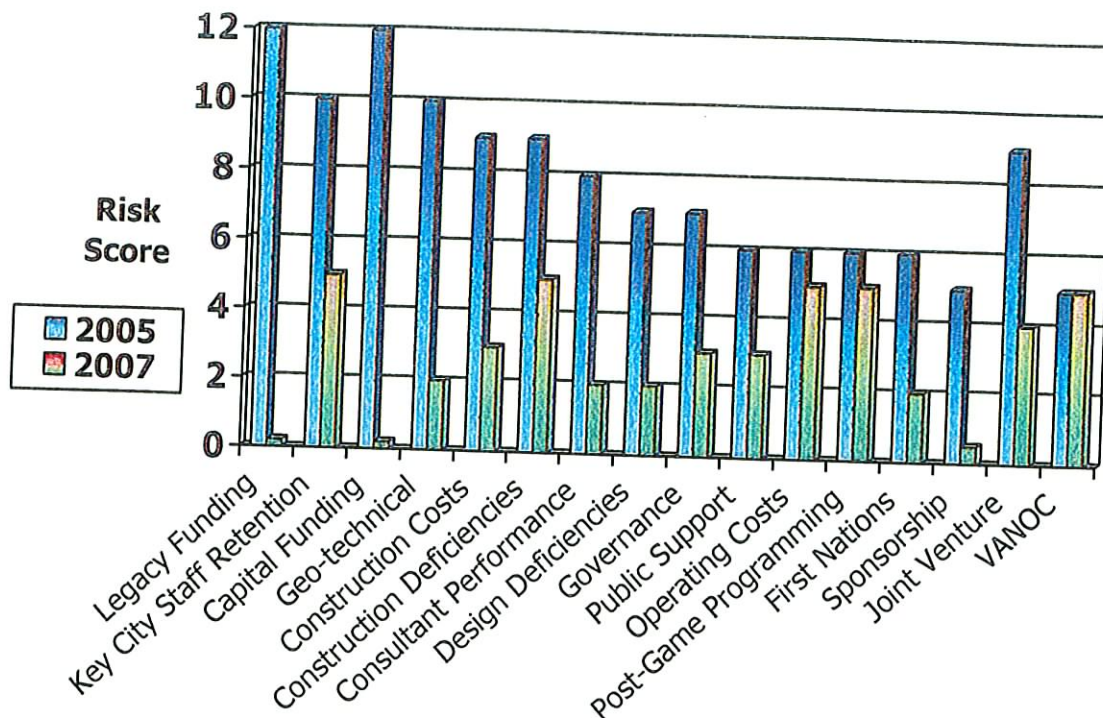
Community engagement is essential to the success of the Games experience. Torino had difficulty engaging the community and country to participate in the Games experience because they started too late and there did not seem to be a clear plan.

The international experience and the global spirit of competition in speed skating are inspiring. The overall Olympic experience creates national and civic pride. Bearing the colours of your country is also important. Richmond has the opportunity to integrate the international focus and the spirit of competitions into the Richmond Experience for 2010.

Much effort is being put into planning citizen engagement in Richmond with excellent results to date. Staff are committed to providing citizens with an opportunity to create lifetime memories. A report will be brought forward outlining a comprehensive proposed process.

Summary of Risk Analysis

The following chart provides a summary of the status of the primary risks identified in late 2004. In the main the COR exposure to these risks has been greatly diminished as noted in the second column. However there remains, key areas that will require significant focus during 2007 and beyond to ensure that the city is properly protected from unexpected challenges. Actions associated with these risks are built into staff work plans for 2007 and beyond.



The Richmond Oval

The scope of the Oval Project relative to capital costs can be separated into three timelines: pre-Games; 2010 Games; and post-Games. Obligations of the City concerning design, functional program, and operational facets of the Oval related to the pre-Games and 2010 Games period are outlined in the Venue Agreement between VANOC and the City. The post-Games period including the post-Games fit-out is primarily controlled by and the responsibility of Richmond, however, the opportunity to be awarded legacy funding to offset the operating cost of the post-Games facility and possibly to contribute to the capital cost of some furnishings, fixtures and equipment (FF&E) has somewhat influenced the selection of elements for the post-Games program. Essentially, the post-Games Oval will serve as a community wellness and recreation facility, with an added selected mix of high performance sport, sport medicine, and sport sciences facilities augmented by a limited amount of commercial space.

The Strategic Measures and Responses – Emerging Oval Project issues discussion paper provides a strategic situation analysis of potential challenges and solutions at a critical milestone of the project – the completion of design and commencement of construction. However, please note that the cost-related challenges presented in the paper have not been encountered. The paper was intended only to assist Council to prepare for the possibility of encountering such challenges.

Richmond Oval Project Background

The Richmond Olympic Speed Skating Oval budget has been firmly established at \$178 million. This includes \$155 million for the Oval Project, and \$23 million for the Parking Structure Project. The Oval Project budget was approved in 2004 and the addition of the parking structure was approved in July 2005.

The City took three steps in an effort to ensure sound fiscal management and ultimately to protect the Project budget at the approved value. Some of these measures were intended to insulate the Project against construction cost escalation to the extent it was possible to do so.

Protective Measures included:

1. It happens that all 2010 venues, with the exception of the Richmond Oval, were budgeted in 2002 dollars. The Oval was budgeted in 2006 dollars and included both project contingency and an additional contingency for escalation. This measure has provided a significant cushion against escalating construction prices. Even in the event any Oval tenders had exceeded approved budget allocations, the degree of variation would have been much lower than otherwise would have been the case.
2. The City invested a portion of the Project budget in the retention of outside professional resources, such as separate project management and construction management services, as an alternative resource to assigning City personnel. Although more expensive than internal resources, this measure brought a higher degree of credibility to management of the Project, and in the final analysis, served as a cost effective insurance policy.
3. The City retained a second QS to review the cost analysis of the Project QS, thereby providing the Project with redundancy in the critical area of the cost assessment/containment function. Finally, in recognizing the geotechnical as the potential high risk area, the City retained outside geotechnical experts to conduct peer review of the Project's geotechnical consultant's design.
4. A joint VANOC/City of Richmond management group Capital Works Committee) was established which facilitates the City tapping into the experience and expertise that is available on VANOC's senior team as well as additional resources available via VANOC sponsors.

Based on the project's performance through near completion of the tender process (91% complete) and commencement of construction, the above noted precautions have served the City well.

Procurement of the Richmond Olympic Oval:

The City of Richmond accepted a large challenge when it received the award from VANOC for hosting the largest new venue, the Speed Skating Oval. While it is not only a complex structure in size and function, it is also being built during one of the largest construction booms British Columbia has ever seen.

There are \$40 billion dollars of major projects under construction, \$58 billion proposed and \$4 billion on hold. The magnitude can be expressed by 769 projects over \$20 million with the Richmond Oval being one of them. In this market place, owners are competing for professional consultants and builders. Concerns of quality of services and workmanship, lack of interest "non-desirable" projects results in project deferrals, increased risk, employee turnover and litigation. This 'hot' market is not being driven entirely only by the Olympic projects which total approximately \$700 million, or 1.75% of the total volume of major projects currently under construction. Some of these projects have been successful in the procurement of the facility while others are being challenged by budget over runs and/or meeting project schedules.

A brief summary of the Vancouver based Olympic capital projects is listed below:

Project	Initial Project Budget	Budget Increases (Scope & Construction Costs)				Current Budget	Variation Due to Increased Construction Costs (exceeded scope changes)	Delivery Phase
		2004			2007			
Convention Centre	\$495M	\$40M	\$30M	\$50M	\$185M	\$800M*	\$375M	Design, construction & tendering
Hillcrest/Nat Bailey Stadium	\$28M		\$20.9M	\$29.95M**		\$79.1M**	\$21.5M	- Under design & ground preparations - Start to tender trade packages
Richmond Oval	\$155M		\$23M***			\$178M***	- \$2.5M	Under construction (91% tendered)
* \$30M of additional scope was added to the project ** \$29.95M of additional scope was added to the project *** \$23M scope increase (parking structure)								

By comparison the Richmond Oval which is slightly ahead of the Convention Centre project at 91% tendered is \$2.5 million under budget with its full contingency and owners allowance in place.


The City has been successful with the procurement of the Richmond Olympic Oval from concept to start of construction in a market place where its \$178 million budget is 0.4% of the projects under construction by some early risk identification, research and organizational change. The City created an Integrated Project Team with an understanding of the project scope (Legacy mode "vs." Olympic mode). Using the construction management model rather than the traditional model of Owner, Architect, and General Contractor, has allowed the City to manage its risk, rather than transfer it to another party and pay a large premium for doing so.

The Richmond Olympic Oval is not yet completed, however, it has been well managed under some of the toughest tests that a project may ever see. The Integrated Project Team will continue to be diligent through construction as it has been through design and construction start up, to deliver the largest facility that the City has ever undertaken for its community for the budget provided.

Conclusion

The City planning process included due diligence exercise, best practices reviews, in depth research, and risk assessments. The quality of this process was instrumental in guiding the implementation phase of the project. At this stage, the City is 18 months from opening the Oval and 34 months from hosting the world. To date the project can be classified as very successful. The Oval is under construction, on budget and on time and with 100% of the contingency and owner's allowance still available.

There is much to do over the next three years that will require the cycle to be repeated on the next projects in the work plan if the City is to maximize the opportunities associated with hosting the 2010 Winter Olympics.


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