

Analyst Briefing Notes

Budget Advisory Committee (January 13, 2006)

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PART I: 2006 OPERATING BUDGET OVERVIEW

Table 1: 2006 Proposed Budget

	2005		2006 Proposed Operating Budget			Change 2006 Proposed from 2005 Budget		FY Incremental Outlook	
	2005 Approved Budget	2005 Proj Act.	2006 Proposed Base	2006 New Council Priorities	2006 Proposed Op. Bud.	\$	%	2007	2008
(In \$000s)	\$	\$	\$	\$	\$			\$	\$
GROSS EXP.	46,383.9	46,889.2	45,408.5	2,203.4	47,611.9	1,228.0	2.6		
REVENUE	46,194.0	45,499.5	44,787.5	2,389.2	47,176.7	982.7	2.1		
NET EXP.	189.9	1,389.7	621.0	(185.8)	435.2	245.3	129.2	0.0	0.0
Approved Positions	427.0	427.0	452.0		452.0	25.0	5.9		
TARGET			193.7						
\$ Over / (Under) Program Target			241.5						
% Over / (Under) Program Target			124.7%						

Executive Summary

- The 2005 projected year-end net expenditure of \$1.390 million is \$1.200 million over the 2005 Approved Operating Budget. This unfavourable variance is attributable to lower than anticipated revenue from parking and grounds rental, and utilities and fuel cost increases.
- The 2006 Proposed Operating Budget for Exhibition Place of \$0.435 million net is comprised of an increase of \$0.621 million net for Base funding and net revenue of \$(0.186) million for an enhanced service that is fully funded and the net revenue generated will serve to reduce the net expenditure of the Program’s Proposed Base Budget. There are no incremental impacts on future-year operating budgets. The 2006 Proposed Operating Budget also includes an increase of 25.0 approved positions for seasonal staff as a result of the aforementioned enhanced service which will serve to reduce the net expenditure of the Program since Exhibition Place earns a profit from the mark-up on services delivered by these seasonal staff. (Refer to page 13 for details.)
- The 2006 Proposed Base Budget is above the target by \$0.341 million or 176.4%. However, with the net revenue of \$(0.186) million for the proposed enhanced service, the 2006 Proposed Operating Budget is \$0.242 million or 124.7% above the 2006 target of 2% over the 2005 Approved Budget.

- It is proposed that the Deputy City Manager, in consultation with the Chief Financial Officer, report to Budget Advisory Committee, during the 2006 Operating Budget Process, on the appropriateness and financial implications of transferring from the Community Partnership and Investment Program (CPIP) to Exhibition Place’s Operating Budget the funding of \$0.885 million which the City usually provides to the Royal Agricultural Winter Fair (RAWF) through a grant to cover direct fixed costs related to facility usage at Exhibition Place.
- Key cost drivers include non-discretionary staff and wage increases, Workplace Safety and Insurance Board (WSIB) cost pressures and higher employer contributions to OMERS, group health and dental insurance plans as well as higher loan costs for the RICOH Coliseum.

Recommendations

It is recommended that:

- (1) the Exhibition Place 2006 Proposed Operating Budget of \$47.612 million gross and \$0.435 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Canadian National Exhibition	20,726.2	(784.6)
Exhibition Place	14,146.6	2,074.6
National Trade Centre	12,739.2	(854.8)
Total Program Budget	<u>47,612.0</u>	<u>435.2</u>

- (2) the General Manager of Exhibition Place report to the Budget Advisory Committee before the end of January 2006 with options for further reduction strategies in the amount of \$0.242 million net in order to achieve the 2006 Operating Budget target of a 2% increase over the net 2005 Approved Operating Budget; and
- (3) the Deputy City Manager, in consultation with the Chief Financial Officer, report to Budget Advisory Committee during the 2006 Operating Budget Process, on the appropriateness and financial implications of transferring the Royal Agricultural Winter Fair funding of \$0.885 million from the Community Partnership and Investment Program (CPIP) to the Exhibition Place Program.

PART II: BASE BUDGET

Section A: 2005 Budget Variance Analysis

Table 2: 2005 Budget Variance Review

	2004 Actuals	2005 Approved Budget	2005 Projected Actuals *	2005 Approved vs Projected Actuals Variance Over / (Under)	
(In \$000s)	\$	\$	\$	\$	%
GROSS EXP.	43,085.9	46,383.9	46,889.2	(505.3)	(1.1)
REVENUES	43,276.6	46,194.0	45,499.5	694.5	1.5
NET EXP.	(190.7)	189.9	1,389.7	(1,199.8)	(632.0)
Approved Positions	426.0	427.0	427.0	0.0	0.0

*Projected Actual expenditures to year-end based on 3rd Quarter Variance Report

2005 Experience

Exhibition Place's Third Quarter Variance report indicates that the Program is over budget. The Program's year-end projection of \$1.390 million net exceeds its 2005 Approved Operating Budget of \$0.190 million net. This variance is attributable to the following factors:

- Lower than anticipated revenue from parking:

One of the most significant revenue earning activities for Exhibition Place is the provision of parking services for the patrons of various events held on the Exhibition Place grounds. In 2005, neighbouring Ontario Place has been offering a flat rate for the use of its parking facilities to organizers of events being held at Exhibition Place, who in turn, offer free parking to event patrons. This has adversely impacted Exhibition Place's budgeted parking revenue. In addition, the tenants for two buildings, the Horticultural Building and the Bandshell Restaurant, were scheduled to take up occupancy in January 2005 but have yet to do so. This has had a further adverse effect on budgeted parking revenue for 2005, bringing the anticipated shortfall to \$1.0 million.

- Additional Workplace Safety and Insurance Board (WSIB) Costs arising from accident:

Unanticipated costs as a result of the serious injury of 2 Exhibition Place employees in an electrical accident in 2005 increased expenditures by \$0.350 million.

- Lower than anticipated revenue from grounds rental:

Exhibition Place granted a 50% discount in the grounds rental to the organizers of the Molson Indy, in recognition of the race's widespread economic benefit to Toronto. This resulted in a \$0.200 million shortfall from budgeted grounds rental revenue for Exhibition Place.

- Operational cost savings:

In an effort to mitigate the significant operating variance, Exhibition Place undertook measures to generate operational savings in the amount of \$0.350 million.

Impact of 2005 Operating Variance on 2006 Proposed Budget

The following 2005 Operating Variances are expected to impact the 2006 Proposed Operating Budget:

- Exhibition Place anticipates that it will be able to address the factors contributing to the projected revenue shortfall in 2005 from the provision of parking services for the patrons of various events held on the Exhibition Place grounds. The Program is hopeful that the matter with Ontario Place can be resolved. It is also expected that the tenants for the Horticultural Building and the Bandshell Restaurant will take up occupancy in winter 2006.
- Exhibition Place has again granted a discount of \$0.200 million in the grounds rental fee to the organizers of the Molson Indy for 2006, thereby adversely impacting the grounds rental revenue for Exhibition Place.

Section B: 2006 Proposed Base Budget

Table 3: 2006 Proposed Base Budget

(In \$000s)	2005 Approved Budget	2006 Requested Base	2006 Proposed Base	Change 2006 Proposed Base v. 2005 Approved Budget		FY Incremental Outlook	
						2007	2008
	\$	\$	\$	\$	%	\$	\$
GROSS EXP.	46,383.9	47,686.9	47,611.9	1,228.0	2.6		
REVENUE	46,194.0	47,151.7	47,176.7	982.7	2.1		
NET EXP.	189.9	535.2	435.2	245.3	129.2	0.0	0.0
Approved Positions	427.0	452.0	452.0	25.0	5.9		
NET TARGET			193.7				
\$ Over / (Under) Program Target			241.5				
% Over / (Under) Program Target			124.7%				

2006 Proposed Base Budget

- Exhibition Place’s 2006 Proposed Base Budget of \$0.435 million net represents a 129.2% increase over the Program’s 2005 Approved Operating Budget and, as such, is above its target.
- The City made the in-year technical adjustments to Exhibition Place’s 2005 Approved Operating Budget for the transfer of funding for property and liability insurance premiums in the amount of \$0.588 million (an increase in gross expenditures) and applied a gapping target in the amount of \$0.149 million (a decrease in gross expenditures). The aggregate impact of these adjustments was an increase in net expenditure of \$0.439 million. Beyond those adjustments, the base budget increases are attributable to:
 - Economic factor increases of \$1.250 million, made up of a \$0.645 million Cost of Living Adjustment (COLA) and \$0.606 million for non-labour inflationary increases.
 - Other base changes with the aggregate impact of a \$2.151 million reduction in gross expenditure and a \$0.719 million reduction in net expenditure, comprised of the following factors:
 - National Trade Centre: Since some major shows are held biannually, this adversely impacts revenue and gross expenditure every second year and, consequently, reduces net expenditure in 2006 by \$0.192 million.

- RICOH Coliseum activity and recoveries: The change in tenant at the RICOH Coliseum – from Toronto Road Runners Hockey Club to the Toronto Marlies’ owner, Maple Leaf Sports and Entertainment – and other recoveries have resulted in a reduction of \$1.016 million in net expenditure.
 - Third party adjustments and others: Adjustments were made for Workplace Safety and Insurance Board (WSIB) expenses and third-party expenditure and revenue changes including the discount to the Molson Indy organizers offset by an increase in tax recovery from tenants, resulting in an increase of \$0.134 million in net expenditure.
 - Miscellaneous: More efficient administrative procedures, such as converting purchase order documentation to an electronic medium, led to \$0.030 million in savings on overhead expenses.
- These base budget changes are expected to have no incremental impact in future years.
 - The 2006 Proposed Base Budget includes reduction options which reduce Exhibition Place’s net funding requirement by \$0.100 million from \$0.535 million to \$0.435 million. These include a mark-up in the overhead charge to the tenants of the RICOH Coliseum and decreases in the budgeted expenditures for utilities and Workplace Safety and Insurance Board (WSIB) costs.

2006 Key Cost Drivers

Gross expenditures are expected to increase by \$1.228 million – from \$46.384 million in 2005 to \$47.612 million in 2006. The key cost drivers are as follows:

- As previously discussed, the serious injuries sustained by 2 Exhibition Place employees in an electrical accident led to an increased Workplace Safety and Insurance Board (WSIB) provision to cover hospitalization, medical costs and wages for the injured employees in the amount of \$0.350 million.
- The negotiation of renewed collective agreements resulted in non-discretionary staff costs in the form of 3% salary and wage increases in the amount of \$0.348 million.
- A 9% increase in OMERS contributions and an increase in employer-paid premium to Manulife for employee benefits resulted in increased non-discretionary costs in the amount of \$0.060 million.
- Following Council direction, the loan for the RICOH Coliseum was renewed for 2 consecutive 10-year terms instead of a single 20-year term, resulting in additional costs which are expected to lower net profits by \$0.305 million.
- As a result of lower activity levels at the National Trade Centre (NTC) previously discussed, Exhibition Place anticipates that ancillary revenue from shows and events in 2006 will fall by \$0.278 million.

- Exhibition Place anticipates higher usage levels in 2006 necessitating an increase in its Hydro budget in the amount of \$0.200 million.
- As previously discussed, Exhibition Place has again granted a discount on the grounds rental fee to the organizers of the Molson Indy for 2006, thereby adversely impacting the grounds rental revenue for Exhibition Place in the amount of \$0.200 million.
- Based on actual results in 2003-2005, Exhibition Place has revised its projections for parking revenues for 2006 downward by \$0.114 million.
- Based on actual results in 2004-2005, Exhibition Place has revised its projections for sponsorship revenue from the National Trade Centre (NTC) downward by \$0.105 million.

Of these cost pressures, Exhibition Place absorbed \$1.524 million net in their 2006 Operating Budget Submission and subsequent reduction strategy.

**Table 4: Summary of Proposed Base Budget Changes
From 2005 Approved Budget**

	Summary of 2006 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2007	2008
(\$000's)		\$	\$	\$	\$	\$
2005 Approved Operating Budget	427.0	45,945.0	46,194.0	(249.0)	0.0	0.0
In-year approvals and technical adjustments		438.9		438.9		
2005 Approved Operating Budget	427.0	46,383.9	46,194.0	189.9	0.0	0.0
Annualizations				0.0		
Economic factors		1,250.4		1,250.4		
Adjusted Base Budget	427.0	47,634.3	46,194.0	1,440.3	0.0	0.0
Other base changes		(2,150.8)	(1,431.5)	(719.3)		
Base revenue changes				0.0		
2006 Base Budget Request	427.0	45,483.5	44,762.5	721.0	0.0	0.0
Recommended Base Adjustments:						
Other base changes				0.0		
Service efficiencies		(75.0)	25.0	(100.0)		
Revenue adjustments				0.0		
Minor service impact				0.0		
Major service impact				0.0		
Total Proposed Base Adjustments	0.0	(75.0)	25.0	(100.0)	0.0	0.0
2006 Proposed Base Budget	427.0	45,408.5	44,787.5	621.0	0.0	0.0
2006 Program Operating Target	N/A	N/A	N/A	193.7		
% Over (Under) Program Target	N/A	N/A	N/A	220.7		
% Over (Under) 2005 Approved Budget	0.0	(2.1)	(3.0)	227.1		

Section C: 2006 Base Budget Issues**Key Issues and Recommendations***Service Level Changes*

During the administrative review of the 2006 Operating Budget in the fall, Exhibition Place submitted service efficiency measures which reduce the 2006 Proposed Operating Budget by \$0.100 million from \$0.535 million to \$0.435 million with no change in approved positions and are expected to have no incremental impact in future years. The service efficiency measures consist of the following components:

- 12% mark-up in administrative overhead charge to new tenants of RICOH Coliseum – Maple Leaf Sports and Entertainment – will increase revenue from \$0.049 million to \$0.075 million – an increase of \$0.025 million.
- Decrease in Workplace Safety and Insurance Board (WSIB) expenditure: Average WSIB expenses over the past 2 years were \$0.418 million. Notwithstanding exposure in 2005 with 2 employees seriously injured in an electrical accident, Exhibition Place estimates that it can reduce WSIB expenses by \$0.025 million in 2006.
- Decrease in expenditure on utilities: Based on the 2005 experience, Exhibition Place estimates that it could reduce its 2006 budget of \$3.052 million by \$0.050 million.

National Trade Centre – Decreased Activity

- Although the National Trade Centre (NTC) remains a consistently profitable service for Exhibition Place, it is experiencing significant pressures on several of its revenue sources, including sponsorship income, RICOH Coliseum income and ancillary income for show services. With the new RICOH Coliseum tenants – Maple Leaf Sports and Entertainment – and the proposed mark-up in the administrative overhead charge, a portion of these pressures should be mitigated. In addition, Exhibition Place is hopeful that the Toronto Marlies' games will generate increased ancillary income and parking revenue.
- Through a rigorous business development program including extensive marketing, media relations and communications, Exhibition Place will continue to maximize efforts to attract event organizers to NTC by positioning it as a world class venue for trade shows and events. An increased number of bookings would compensate for heightened competition from other venues in Toronto and the fact that major shows which are held biannually.

Canadian National Exhibition – Extension of Season for Casino and Horse Show

- The Canadian National Exhibition (CNE) is also a consistently profitable service for Exhibition Place. In 2005, the season for the Casino and Horse Show events was lengthened by 2 weeks beyond the regular CNE season. Based on the positive response from patrons, Exhibition Place plans to extend the season for those events in 2006 as well. The final results for the 2005 CNE are not expected to be available until early 2006.

Exhibition Place – Parking and Building & Grounds Rental

- The Exhibition Place Operations are a consistently unprofitable service for the Program. Parking revenue – which accounts for 45% of revenue for this service area – was severely impacted in 2005 as a result of competition from Ontario Place and unanticipated delays in tenant occupancy in 2 buildings. Although these matters are expected to be resolved by 2006, there may be new factors impacting revenue from parking and building and grounds rental in 2006, including the potential disruption that will arise from the construction of a 20,000-seat soccer stadium.
- In addition, a recurrent discount in the amount of \$0.200 million to the organizers of the Molson Indy adversely impacts grounds rental revenue for Exhibition Place. This discount is expected to continue in 2006.

Further Proposals to Achieve Target

- Table 4 indicates a net 2006 Proposed Base Operating Budget of \$0.621 million. However, the table does not include a proposal for an enhanced service that is fully funded and will generate net revenue which will serve to further reduce the 2006 Proposed Operating Budget by \$0.186 million. That proposal is discussed in Section D of these Notes. (Refer to page 13 for details.)
- Incorporating that reduction, Exhibition Place's 2006 Operating Budget still remains at \$0.242 million or 124.7% over target. As such, it is proposed that the General Manager of Exhibition Place report to the Budget Advisory Committee before the end of January 2006 with options for further reductions in the amount of \$0.242 million net in order to achieve the 2006 target of a 2% increase over the net 2005 Approved Operating Budget.

3 Year Operating Budget Overview

- Many of the activities of the Exhibition Place program support the Council priority of "Making Progress on the Waterfront" by making the area physically more attractive and providing a venue for public celebrations.
- By providing employment and bringing tourists into the City, Exhibition Place programs such as the CNE and the NTC provide an economic stimulus for the City and support the Council objective of "Improving the Business Climate."

- The NTC will continue to face competitive pressure for trade and consumer shows, particularly since some major shows have reduced their frequency from annual to bi-annual. However, management is continuing to strive to increase the number of bookings each year.
- Management will continue to strive to achieve increases in tenant revenue and other income generated by the grounds of Exhibition Place.
- As of July 1, 2005, the Maple Leaf Sports and Entertainment Group – the owners of the Toronto Marlies – took over the lease for the RICOH Coliseum. The Toronto Marlies' first hockey game there was held on October 12, 2005. Management will also focus on non-hockey related shows and entertainment.
- A new soccer stadium is scheduled for construction at Exhibition Place in 2006. The stadium will be home to Toronto's new Major League Soccer franchise and it is also anticipated to be a venue for the 2007 FIFA World Youth Championships. Exhibition Place is expected to benefit from the operating profits of the stadium in the coming 3 year period.
- During the construction of the soccer stadium, it is anticipated that there may be some disruption to other activities on the Exhibition Place grounds. All efforts will be made to minimize the impact on significant events held at the National Trade Centre (NTC) and other buildings. However, there may be some unavoidable disruption to certain parking facilities.

Service Levels, Delivery, or Gap Issues

- There are no service level, service delivery or gap issues for Exhibition Place.

Issues Referred to 2006 Operating Budget Process

Royal Agricultural Winter Fair – Rent Expense (\$83.0 thousand net)

Over the years, the City has provided support to the Royal Agricultural Winter Fair (RAWF) through a grant to cover direct fixed costs related to facility usage at Exhibition Place. In 2005, the RAWF received \$0.885 million in grant funding. An increase of \$0.083 million is requested for 2006, to cover increased rental expenses.

Each year, Exhibition Place reviews the operating costs and assigns a rental charge to RAWF and, each year, the increases flow through to the Community Partnership and Investment Program (CPIP).

It is proposed that the Deputy City Manager, in consultation with the Chief Financial Officer, report to Budget Advisory Committee during the 2006 Operating Budget Process, on the appropriateness and financial implications of transferring the Royal Agricultural Winter Fair funding from the CPIP budget to the Exhibition Place budget. No increase is proposed at this time.

Outstanding Issues from 2005 and Prior Years

There are no outstanding Exhibition Place issues from 2005 and prior years.

Appendix A

Summary of Service Level Adjustments

PART III: NEW COUNCIL PRIORITIES

Section D: 2006 Proposed New Council Priorities

Table 5: Summary of 2006 Proposed New Council Priorities (\$000)

Council Priority	Description	Total 2006 New Requests		2006 Not Proposed		2006 Proposed Council Priorities		Proposed New Positions	Net Incremental Impact	
		Gross Exp.	Net Exp.	Gross Exp.	Net Exp.	Gross Exp.	Net Exp.		2007	2008
		\$	\$	\$	\$	\$	\$	#	\$	\$
Council Priorities:										
	[None]									
	Sub-Total Council Priorities									
New Requests Referred to 2006 Operating Budget:										
	[None]									
	Sub-Total Referred									
New Program Requests:										
	CNE - Extension of Casino and Horse Show events	2,203.4	(185.8)			2,203.4	(185.8)	25.0		
	Sub-Total New Program Requests	2,203.4	(185.8)			2,203.4	(185.8)	25.0		
Total New Council Priorities		2,203.4	(185.8)			2,203.4	(185.8)	25.0		
Council Priority										
1 - Improve Public Service 2 - Make Progress on the Waterfront 3 - Improve Business Climate 4 - Make Toronto a clean and beautiful city 5 - Strengthen our at-risk neighbourhoods 6 - Ensure housing is affordable 7 - Get the powers and funding needed for Toronto to succeed 8 - Improve the planning process 9 - Increase public involvement in civic affairs 10 - N/A										

Key Issues and Recommendations

New Request Referred to 2006 Operating Budget Process

2006 New Program Requests

- Extension of Canadian National Exhibition (CNE) Events

Exhibition Place’s 2006 Operating Budget Submission included a request which will result in increased gross expenditures of \$2.203 million and additional revenues of \$2.389 million resulting in net surplus revenue of \$0.186 million by lengthening the Canadian National Exhibition (CNE) season by 2 weeks for the Casino and Horse Show events. This enhanced service will reduce the net expenditure of the Program by \$0.186 million but will require an increase of 25.0 approved positions to deliver the extended season for these 2 events. These positions are classified as seasonal staff (mainly students) and hourly staff (tradespersons, such as carpenters and cleaners). Exhibition Place earns a profit from the mark-up on services delivered by these seasonal staff. This new request is proposed for 2006.

Appendix B

Summary of Council Priority Services and New Service Requests