

Analyst Briefing Notes

Budget Committee

(March 26, 2007)

2007 OPERATING BUDGET

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2007 OPERATING BUDGET**Executive Summary**

- The Theatres' 2006 preliminary year-end net expenditure of \$2.579 million represents a favourable variance of \$0.327 million from the 2006 Approved Budget due to positive net revenue from presentations and enhanced ancillary revenue at Hummingbird Centre for the Performing Arts and lower operating costs and proceeds from an ongoing legal matter at Toronto Centre for the Arts.
- The City's theatres are currently undergoing a period of transition and their strategic directions over the next three years are aimed at positioning the theatres to survive in an increasingly competitive Toronto theatres market.
 - In 2007, Hummingbird Centre for the Performing Arts will face the first full year of impact from the departure of its long-time resident companies. Although the Centre is aggressively seeking replacement business, it expects to require \$1.175 million in City support in 2007. The implementation of an extensive Council-approved redevelopment plan is scheduled to begin in 2008 and it is still uncertain how this will affect the operations of the Centre over the next three years.
 - St. Lawrence Centre for the Arts is in the final phase of a facility renewal project which will require the Centre to be temporarily shut down for four months in 2007. As such, the Centre expects to require \$1.819 million in City support in 2007. However, the Centre intends to leverage the renewed facility to generate increased revenue, which will reduce its reliance on the City in 2008 and future years.
 - Toronto Centre for the Arts has been successful in consistently reducing its requirement for City support. This large facility continues to seek a third-party management contract to optimize its operations. Until such time, the Centre will continue to actively expand its multicultural client base and will review its mandate as a rentals-only facility.
- As summarized in Table 1, the 2007 Recommended Budget of \$4.332 million net represents a \$1.426 million or 49% increase over the 2006 Approved Budget of \$2.906 million net. Therefore, the 2007 Recommended Budget exceeds the target by \$1.426 million or 49%.
 - The 2007 Recommended Budget is over target because the City's theatres are undergoing a period of transition and require additional City support at this time.

Table 1: 2007 Recommended Budget

	2006		2007 Recommended Operating Budget			Change - 2007 Recommended from 2006 Approved Budget		FY Incremental Outlook	
	2006 Appvd. Budget	2006 Projected Actual	2007 Base	2007 New /Enhanced	2007 Operating Budget			2008	2009
	\$	\$	\$	\$	\$	\$	%	\$	\$
(In \$000s)									
GROSS EXPENDITURE									
Hummingbird Centre	22,093.2	25,510.3	19,328.3	2,620.0	21,948.3	(144.9)	(0.7)		
St. Lawrence Centre	3,747.3	4,051.3	4,525.8	50.0	4,575.8	828.5	22.1	(50.0)	
Toronto Centre for the Arts	3,996.4	3,606.0	4,080.3	0.0	4,080.3	83.9	2.1	(211.1)	
	29,836.9	33,167.7	27,934.4	2,670.0	30,604.4	767.5	2.6	(261.1)	0.0
REVENUE									
Hummingbird Centre	21,965.0	25,783.4	17,056.6	3,716.8	20,773.4	(1,191.6)	(5.4)		
St. Lawrence Centre	2,253.3	2,345.0	2,756.0	0.0	2,756.0	502.7	22.3	360.1	8.4
Toronto Centre for the Arts	2,712.9	2,460.6	2,743.2	0.0	2,743.2	30.3	1.1	(243.1)	
	26,931.2	30,588.9	22,555.8	3,716.8	26,272.6	(658.6)	(2.4)	117.0	8.4
NET EXPENDITURE									
Hummingbird Centre	128.2	(273.0)	2,271.7	(1,096.8)	1,174.9	1,046.7	816.5		
St. Lawrence Centre	1,494.0	1,706.3	1,769.8	50.0	1,819.8	325.8	21.8	(410.1)	(8.4)
Toronto Centre for the Arts	1,283.5	1,145.5	1,337.1	0.0	1,337.1	53.6	4.2	32.0	
	2,905.7	2,578.7	5,378.6	(1,046.8)	4,331.8	1,426.1	49.1	(378.1)	(8.4)
Approved Positions									
Hummingbird Centre	112.4	112.4	78.8	11.6	90.4	(22.0)	(19.6)		
St. Lawrence Centre	42.2	44.1	40.2	0.0	40.2	(2.0)	(4.7)		
Toronto Centre for the Arts	47.3	39.3	46.5	0.0	46.5	(0.8)	(1.7)	1.4	
	201.9	188.2	165.5	11.6	177.1	(24.8)	(12.3)	1.4	0.0
TARGET			2,905.7		2,905.7				
\$ Over / (Under) Program Target			2,472.9		1,426.1				
% Over / (Under) Program Target			85.1%		49.1%				

- The 2007 Recommended Budget of \$4.332 million net is comprised of base funding of \$5.379 million and Program-initiated enhanced service priorities which generate net revenue of \$1.047 million.
 - The 2008 outlook, which accounts for only two of the three theatres, forecasts a net incremental decrease of \$0.378 million arising from revenue increases offset by the reversal of one-time expenditure, salary and wage increases and other inflationary increases. The 2009 outlook includes only a small revenue impact of \$0.008 million from a 2007 new/enhanced service at St. Lawrence Centre for the Arts. For consistency with City programs, for which 2009 cost-of-living adjustments (COLA) is subject to future negotiations, all other estimates for the 2009 outlook have been omitted because they forecast COLA increases.
- The 2007 Recommended Base Budget is \$5.379 million net.
 - The key cost drivers include salary and wage increases averaging 3¼%, non-labour inflationary increases and annualized labour costs approved in 2006. In the case of Hummingbird Centre for the Performing Arts, the first full-year impact of the departure

- of its long-time resident companies increased its base budget by \$1.577 million.
- Efficiencies at St. Lawrence Centre for the Arts, such as retrofitting the heating system and the implementation of a previously agreed rental rate increase, reduced the base budget by \$0.110 million.
 - The 2007 Recommended Budget includes two enhanced service priorities which generate net revenue of \$1.047 million and require 11.6 new positions.
 - In its efforts to secure business to replace its long-time resident companies, Hummingbird Centre for the Performing Arts will enhance its operations in 2007 and generate \$1.097 million in net revenue which will fully support the costs associated with the required 11.6 positions.
 - St. Lawrence Centre for the Arts requires \$0.050 million in one-time expenditure to re-brand and promote its renewed facility in 2007 to generate net incremental revenue of \$0.360 million in 2008 and \$0.008 million in 2009.
 - The Hummingbird Centre for the Performing Arts requires a facility for short-term borrowing to meet the cash flow challenges that arise because of the seasonal nature of its operations. The 1968 operating agreement between the City and the Centre, which is still in effect, provides a short-term borrowing facility with a limit of \$0.250 million. This amount is no longer adequate to meet the Centre's needs. As such, it is recommended that the City provide a new short-term borrowing facility with a limit of \$1.250 million to replace that in the 1968 agreement.
 - In 2005, Toronto Centre for the Arts received \$1.848 million in proceeds from a legal settlement with Livent. In its report to the Budget Committee for consideration on April 4, 2007, the Board of Directors of Toronto Centre for the Arts recommends the following options for the disposition of those funds:
 - That \$1.500 million of the 2005 Livent claim receipts be allocated to the NYPACC Capital Reserve Fund; and
 - That the balance of \$0.348 million of the funds from the 2005 Livent claim receipts remain in the NYPACC Stabilization Reserve Fund and be earmarked to cover costs associated with transitioning to a potential third-party management agreement of the facility with a view to reducing the City's annual financial contribution to the Centre.

Recommendations

The City Manager and Chief Financial Officer recommend that:

- (1) the 2007 Recommended Operating Budget for Theatres of \$30.154 million gross and \$4.332 million net, comprised of the following services, be approved:

<u>Service:</u>	<u>Gross</u> <u>(\$000s)</u>	<u>Net</u> <u>(\$000s)</u>
Hummingbird Centre for the Performing Arts	21,498.3	1,174.9
St. Lawrence Centre for the Arts	4,575.8	1,819.8
Toronto Centre for the Arts	<u>4,080.3</u>	<u>1,337.1</u>
 Total Program Budget	 <u><u>30,154.4</u></u>	 <u><u>4,331.8</u></u>

- (2) a facility for short-term borrowing be established for Hummingbird Centre for the Performing Arts through the following actions:
 - (a) Clause 7 of the operating agreement dated September 25th, 1968 between the City and the Board of Directors of the Hummingbird Centre for the Performing Arts be revoked;
 - (b) authority be given to the Deputy City Manager and Chief Financial Officer to provide to the Board of Directors of the Hummingbird Centre for the Performing Arts in-year advances not to exceed \$1.250 million, to be repaid by December 31 of each year, at an interest rate that is set on a monthly basis by Corporate Finance and is fixed for the term of the loan, to address cash flow challenges arising from the seasonal nature of activity at the Centre; and
 - (c) the appropriate City officials be authorized and directed to take the necessary action to give effect to these recommendations.

Section A: 2006 Budget Variance Analysis

Table 2: 2006 Budget Variance Review

(In \$000s)	2005 Actuals	2006 Approved Budget	2006 Projected Actuals*	2006 Appvd. Budget vs Projected Actuals Variance	
	\$	\$	\$	\$	%
GROSS EXPENDITURE					
Hummingbird Centre	10,538.7	22,093.2	25,510.3	(3,417.1)	(15.5)
St. Lawrence Centre	3,748.1	3,747.3	4,051.3	(304.0)	(8.1)
Toronto Centre for the Arts	4,184.6	3,996.4	3,606.0	390.3	9.8
	18,471.4	29,836.9	33,167.7	(3,330.8)	(11.2)
REVENUE					
Hummingbird Centre	10,675.6	21,965.0	25,783.4	(3,818.4)	(17.4)
St. Lawrence Centre	2,174.3	2,253.3	2,345.0	(91.7)	(4.1)
Toronto Centre for the Arts	2,871.0	2,712.9	2,460.6	252.3	9.3
	15,720.9	26,931.2	30,588.9	(3,657.7)	(13.6)
NET EXPENDITURE					
Hummingbird Centre	(136.9)	128.2	(273.0)	401.2	313.0
St. Lawrence Centre	1,573.8	1,494.0	1,706.3	(212.3)	(14.2)
Toronto Centre for the Arts	1,313.6	1,283.5	1,145.5	138.0	10.8
	2,750.5	2,905.7	2,578.7	326.9	11.3
Approved Positions					
Hummingbird Centre	107.4	112.4	112.4	0.0	0.0
St. Lawrence Centre	44.7	42.2	44.1	(1.9)	(4.5)
Toronto Centre for the Arts	42.7	47.3	46.2	1.1	2.3
	194.8	201.9	202.7	(0.8)	(0.4)

Source: *Projected Actuals Based on the Preliminary Year-End Operating Variance Report.

2006 Experience

As summarized in Table 2, the Theatres have reported a favourable preliminary year-end net variance of \$0.327 million or 11% of the 2006 Approved Budget.

The favourable variance is attributable to Hummingbird Centre for the Performing Arts and Toronto Centre for the Arts.

- Hummingbird Centre for the Performing Arts underspent its 2006 Approved Budget by \$0.401 million, due to positive net revenue from presentations, enhanced ancillary revenues and slightly lower than budgeted heating costs.
- Despite a shortfall in rental revenue, Toronto Centre for the Arts underspent its 2006 Approved Budget by \$0.138 million, due to lower operating costs and \$0.067 million in proceeds from an ongoing legal matter.

The preliminary year-end results for St. Lawrence Centre for the Arts partially offset the Theatres' favourable variance.

- Despite slightly lower than budgeted utility costs, St. Lawrence Centre for the Arts overspent its 2006 Approved Operating Budget by \$0.212 million. The resultant deficit is due to a shortfall in rental revenue and higher than budgeted personnel costs arising from the recruitment of a new General Manager.

Impact of 2006 Operating Variance on 2007 Recommended Budget

The 2006 variances for Hummingbird Centre for the Arts and Toronto Centre for the Arts have no impact on the Theatres' 2007 Recommended Budget because of the one-time nature of the cost savings and revenue. The annualized cost for the new General Manager at St. Lawrence Centre for the Arts is included in the Theatres' 2007 Recommended Budget.

Section B: 2007 Operating Budget Overview

3-Year Operating Budget Overview

Hummingbird Centre for the Performing Arts

Hummingbird Centre for the Performing Arts is undergoing a period of transition. In 2007, the Centre will contend with the loss of substantive “evergreen” contracted business in the form of the first full year of impact of the departure of its long-time resident companies, the Canadian Opera Company and the National Ballet of Canada. In accordance with the Business Plan submitted to Council in 2006 as part of the Hummingbird Redevelopment Proposal, the Centre has targeted to improve its 2007 base use by 44 days to achieve 157 usage days. Management is also working to engage programming for 2007 to reduce the requested net expenditure from \$2.272 million to \$1.175 million, a reduction of \$1.097 million.

For 2007 and beyond, the Centre will continue to pursue new attractions which meet with its operating mandate. However, in the short term, while it adjusts economically to the departure of its former resident companies and embarks on a Council-approved redevelopment plan, the Centre expects that it will require net expenditure funding from the City. The Centre will continue to explore all available opportunities for business growth so that it can reduce future funding requests to the City. At this time, incremental budget impacts for 2008 and 2009 cannot be identified.

Although a detailed 3-year overview is not available at this time, Hummingbird Centre for the Performing Arts has identified the following objectives for 2007:

- To operate a multi-purpose, multi-cultural theatrical venue committed to enriching the entertainment and artistic experience of Toronto patrons; and
- To provide high quality, reasonably priced attractions which will appeal to a wide diversity of patrons in Toronto.

St. Lawrence Centre for the Arts

For the period 2007-2009, St. Lawrence Centre for the Arts will seek to achieve the following objectives:

- To implement the second and final phase of the Facility Renewal Project in 2007, which will require programming to be reduced by 20%, down to 57% for the year; and
- To re-brand St. Lawrence Centre for the Arts to leverage the Facility Renewal Project into increased rentals over the next 3 years. The marketing strategy includes implementation of a marketing blitz and a gala re-opening in 2007.

St. Lawrence Centre for the Arts is currently undergoing a facility renewal. Programming at the Centre will be suspended for 4 months in 2007, from June to September. While this creates a pressure of \$0.313 million for 2007, the outlook for 2008 and beyond reflects a significant increase in programming as the Centre leverages its renewed and revitalized facility through its marketing

strategy. The percentage of days booked to days available is budgeted to increase from 57% in 2007 to 91% in 2008. This is reflected in the incremental net budget reductions of \$0.360 million for 2008 and \$0.008 million for 2009.

Toronto Centre for the Arts

Toronto Centre of the Arts' has the following objectives for the period 2007-2009:

- To review the Centre's current Council approved mandate and operating model;
- To continue third-party management discussions with all interested parties; and
- To implement action plans to achieve the 2007 operating budget and to minimize the requirement for City support in 2008 and 2009.

Toronto Centre for the Arts will seek to minimize its funding requests to the City in 2007 and beyond through increased utilization of the facility by rental clients. The Centre's new Board of Directors is expected to review and update the Centre's mandate in early 2007 and the Centre will continue to explore opportunities for third-party management contracts. The outlook for 2008 is a net incremental increase of \$0.032 million. The Centre also forecasts a net incremental increase of \$0.033 million in 2009; however, for consistency with City programs, for which 2009 cost-of-living adjustments (COLA) is subject to future negotiations, estimates for the 2009 outlook have been omitted because they forecast COLA increases.

Service Delivery - Challenges and Issues

Hummingbird Centre for the Performing Arts' mission is to present a broad variety of entertaining and profitable theatrical and concert events for the enrichment of the diverse public in Toronto and to re-invent One Front Street East as the Arts and Heritage Awareness Centre (the AHA! Centre) – a window to the world for residents and tourists alike to celebrate the diversity and cultural interchange that is Toronto.

St. Lawrence Centre for the Arts is Toronto's civic cultural centre for music, the performing arts and public affairs forums. It strives to provide state-of-the-art performance facilities and services for Toronto's "not for profit" performing arts at an affordable cost.

Toronto Centre of the Arts' mission is to ensure that the Centre functions as a first class venue for a full range of performing arts to enliven and enrich the cultural life of the citizens of Toronto.

Although each City theatre is striving to maintain or increase business, each faces an increasingly competitive market in the Toronto theatres sector. Specifically, St. Lawrence Centre for the Arts will complete a \$3.300 million facility renewal project in 2007 and the Theatres' 2007 Recommended Budget includes \$0.050 million to re-brand and promote the renewed facility.

The ability to consistently present programming that will appeal to a discerning public is critical to the success of the City's theatres. In addition, achieving self-sufficiency through a balance between revenue and escalating production/staging costs remains a significant challenge.

Section C: 2007 Recommended Base Budget

Table 3: 2007 Recommended Base Budget

(In \$000s)	2006 Appvd. Budget	2007 Recommended Base	Change 2007 Recommended Base v. 2006 Appvd. Budget		FY Incremental Outlook	
			\$	%	2008	2009
GROSS EXPENDITURE						
Hummingbird Centre	22,093.2	19,328.3	(2,764.9)	(12.5)		
St. Lawrence Centre	3,747.3	4,525.8	778.5	20.8	(50.0)	
Toronto Centre for the Arts	3,996.4	4,080.3	83.9	2.1	(211.1)	
	29,836.9	27,934.4	(1,902.5)	(6.4)	(261.1)	0.0
REVENUE						
Hummingbird Centre	21,965.0	17,056.6	(4,908.4)	(22.3)		
St. Lawrence Centre	2,253.3	2,756.0	502.7	22.3	360.1	8.4
Toronto Centre for the Arts	2,712.9	2,743.2	30.3	1.1	(243.1)	
	26,931.2	22,555.8	(4,375.4)	(16.2)	117.0	8.4
NET EXPENDITURE						
Hummingbird Centre	128.2	2,271.7	2,143.5	1,672.1		
St. Lawrence Centre	1,494.0	1,769.8	275.8	18.5	(410.1)	(8.4)
Toronto Centre for the Arts	1,283.5	1,337.1	53.6	4.2	32.0	
	2,905.7	5,378.6	2,472.9	85.1	(378.1)	(8.4)
Approved Positions						
Hummingbird Centre	112.4	78.8	(33.6)	(29.9)		
St. Lawrence Centre	42.2	40.2	(2.0)	(4.7)		
Toronto Centre for the Arts	47.3	46.5	(0.8)	(1.7)	1.4	
	201.9	165.5	(36.4)	(18.0)	1.4	0.0
NET TARGET		2,905.7			0.0	0.0
\$ Over / (Under) Program Target		2,472.9			(378.1)	(8.4)
% Over / (Under) Program Target		85.1%			-13.0%	-0.3%

2007 Recommended Base Budget and Key Cost Drivers

As shown in Table 3 on the previous page, the Theatres' 2007 Recommended Base Budget of \$5.379 million net represents an increase of \$2.473 million or 85% over their combined \$29.837 million gross and \$2.906 million net 2006 Approved Budget to maintain 2006 service levels. The reasons for the \$2.353 million decrease in gross expenditures, the \$4.825 million decrease in revenues and the net increase of \$2.473 million are detailed by theatre as follows.

Hummingbird Centre for the Performing Arts

- The 2007 Recommended Base Budget contains a gross expenditure reduction of \$6.876 million as a result of the departure of resident companies and contracted business. This reduction is partially offset by increases from prior year impacts and inflationary increases totalling \$0.529 million, special item improvements of \$2.450 million as well as other base changes totalling \$0.037 million.
- The following are the key cost drivers:
 - The departure of resident companies and contracted business creates a net pressure of \$1.577 million.
 - Cost-of-living adjustments (COLA) that average 3¼% for 2007 are non-discretionary and result in additional costs of \$0.214 million.
 - Non-labour inflationary increases account for a pressure of \$0.183 million.
 - The annualized impact of the 2006 approved increase in marketing staff produces incremental net expenditure of \$0.132 million.
 - A base budget change to reflect the 52% year-over-year rate increase from Enwave for steam heating accounts for a pressure of \$0.033 million.
- The 2007 Recommended Base Budget also contains a revenue reduction of \$8.452 million as a result of the departure of resident companies and contracted business and a reserve fund draw of \$2.450 million for special item improvements.
- There is also a reduction of 33.6 positions as a result of the departure of resident companies and contracted business from the Centre.
- Hummingbird Centre for the Performing Arts' 2007 Recommended Base Budget is \$2.143 million over its corporate affordability target of \$0.128 million.

St. Lawrence Centre for the Arts

- The 2007 Recommended Base Budget contains gross expenditure increases of \$1.327 million for annualized labour costs, merit increases, inflationary increases and special item improvements. These are partially offset by reductions totalling \$0.374 million from efficiency changes and a temporary suspension in programming.
- The following are the key cost drivers:
 - Cost-of-living adjustments (COLA) that average 3¼% for 2007 are non-discretionary and result in a net pressure of \$0.071 million.
 - Non-labour inflationary increases account for a pressure of \$0.053 million.

- Merit increases at St. Lawrence Centre for the Arts produce incremental net expenditure of \$0.019 million.
- The 2007 Recommended Base Budget also contains revenue increases of \$1.303 million comprised of inflationary increases and a reserve fund draw of \$1.275 million for special item improvements. This increase is partially offset by a reduction of \$0.702 million for annualized recoverable labour costs approved in 2006 and a temporary suspension in programming.
- The reduction of 2.0 positions also relates to the temporary suspension in programming.
- The 2007 Recommended Base Budget includes five recommended base adjustments for St. Lawrence Centre for the Arts totaling \$0.110 million, as reflected in Appendix 1 on page 20.
 - Three of these adjustments are service efficiencies which produce net savings of \$0.011 million: \$0.074 million from retrofitting the heating system, \$0.015 million from consolidation of insurance coverage and \$0.021 million from savings on various services including telephone and printing costs and lease payments.
 - One adjustment consists of previously agreed rental rate increases that produce incremental revenue of \$0.026 million for 2007.
 - The final adjustment produces a one-time net pressure of \$0.263 million and reduces approved positions by 2.0. This adjustment is for the temporary shutdown of the Centre for approximately four months from June to September 2007 to accommodate the final stages of the facility renewal project.
- St. Lawrence Centre for the Arts' 2007 Recommended Base Budget is \$0.276 million or 18% over its corporate affordability target of \$1.494 million.

Toronto Centre for the Arts

- The 2007 Recommended Base Budget contains a gross expenditure reduction of \$0.444 million to revert to a budgeting approach based on reasonable projections as opposed to prior year results. This reduction is partially offset by increases from a prior year reversal, special item improvements and inflationary increases totalling \$0.528 million.
- The following are the key cost drivers:
 - Cost-of-living adjustments (COLA) that average 3¼% for 2007 are non-discretionary and result in additional costs of \$0.078 million.
 - Non-labour inflationary increases account for a pressure of \$0.057 million.
 - Base budget changes to reflect improved budget estimates reduce net expenditure by \$0.088 million and reduce positions by 0.8.
- The 2007 Recommended Base Budget also contains a revenue reduction of \$0.356 million to revert to the previous budgeting approach. This reduction is partially offset by a reserve fund

draw of \$0.386 million for special item improvements.

- The reduction of 0.8 positions also relate to the reversion to the previous budgeting approach.
- Toronto Centre for the Arts' 2007 Recommended Base Budget is \$0.054 million or 4% over its corporate affordability target of \$1.283 million.

2008 and 2009 Outlook: Net Incremental Impact

The 2008 and 2009 Outlook includes forecasts for only two of the three theatres: St. Lawrence Centre for the Arts and Toronto Centre for the Performing Arts. The transitional nature of the operations of Hummingbird Centre for the Performing Arts at this time makes it impossible to formulate an outlook for 2008 and 2009.

- The outlook for St. Lawrence Centre for the Arts includes increased revenue of \$0.360 million in 2008 and \$0.008 million in 2009. In addition, the 2008 outlook includes the reversal of the one-time expenditure of \$0.050 million in 2007. These net incremental impacts do not include salary and wage increases since the estimates of the staffing levels required to operate the renewed facility at an increased level of activity in 2008 and 2009 are still being formulated.
- The outlook for Toronto Centre for the Arts includes a net incremental increase of \$0.032 million for 2008 to accommodate salary and wage increases and other inflationary increases of approximately 3%. The Centre has also forecast a net incremental increase of \$0.033 million for 2009; however, for consistency with City programs, for which 2009 COLA is subject to future negotiations, the 2009 outlook has been omitted because it includes COLA increases.

Section D: 2007 Recommended Service Priorities

Table 4: Summary of 2007 New / Enhanced Service Priorities (In \$000s)

Description	2007 Recommended		Rec. New Positions	Net Incremental Impact	
	Gross Exp.	Net Exp.		2008	2009
	\$	\$	#	\$	\$
(a) Enhanced Service Priorities - Council Approved					
(b) Enhanced Service Priorities - Program Initiated					
Hummingbird - Enhanced operations for 2007	2,620.0	(1,096.8)	11.6		
StLC - One-Time Expenditure to Promote Renewed Facility	50.0	50.0		(360.1)	(8.4)
Sub-Total Enhanced Services	2,670.0	(1,046.8)	11.6	(360.1)	(8.4)
(a) New Service Priorities - Council Approved					
(b) New Service Priorities - Program Initiated					
Sub-Total New Service Priorities	0.0	0.0	0.0	0.0	0.0
Total Recommended New / Enhanced Service Priorities	2,670.0	(1,046.8)	11.6	(360.1)	(8.4)

2007 Recommended Service Priorities**Recommended Enhanced Service Priorities - Program Initiated:**

- ***Hummingbird Centre for the Performing Arts – Enhanced Operations for 2007***

The 2007 Recommended Budget includes an enhancement to existing service levels at Hummingbird Centre for the Performing Arts that would increase gross expenditure by \$2.620 million and revenue by \$3.717 million, generating a decrease of \$1.097 million in net expenditure. This adjustment entails an increase from 113 usage days and 117 performances to 157 usage days and 144 performances and requires 11.6 new positions: 2.1 permanent and 9.5 temporary. This enhanced service is recommended since it significantly reduces this theatre's base funding and fully supports the required new positions. The future year impact of this change is not known at this time. There is not expected to be an annualization effect since the new positions are self-funded.

- ***St. Lawrence Centre for the Arts - One-Time Expenditure to Promote Renewed Facility***

The 2007 Recommended Budget includes \$0.050 million in one-time funding to re-brand and promote St. Lawrence Centre for the Arts upon completion of its \$3.3 million Facility Renewal Project in 2007 through a marketing blitz and gala re-opening. This one-time expenditure is recommended since it is expected to leverage the Facility Renewal Project into increased revenue of \$0.360 million in 2008 and \$0.008 million in 2009.

Issues for Discussion

2007 Operating Budget Issues

Recommended Budget Over Target

The Theatres' 2007 Recommended Operating Budget is \$4.332 million net which is \$1.426 million or 49% over the Program's target of \$2.906 million.

Although the Theatres provided efficiencies, reduction options and enhanced services to reduce their 2007 budget, they have not managed to attain the 0% target and cannot identify any further achievable reductions.

- Hummingbird Centre for the Arts included a service adjustment that will reduce its base budget by \$1.097 million. This enhanced service is recommended and is discussed in further detail on page 16.
- St. Lawrence Centre for the Arts included service efficiencies and a rental rate increase which will reduce its requested base by \$0.137 million. These have been incorporated into the 2007 Recommended Base Budget and are discussed in detail on pages 13-14.
- Toronto Centre for the Arts has aggressively reduced expenditure over the past 5 years and is unable to provide any further reductions that do not impact service delivery.

In the event that any new opportunities for reductions to the Theatres 2007 Recommended Operating Budget arise during the budget process, the Theatres will bring these forward for consideration.

Hummingbird Centre for the Performing Arts - Short-Term Borrowing Facility

The seasonal nature of the activity at Hummingbird Centre for the Performing Arts creates cash flow challenges for the Centre. In recognition of this, the operating agreement dated September 25th, 1968, between the City and the Board of Directors of the Hummingbird Centre for the Performing Arts, which the City's Legal Services have confirmed is still in effect, contains a clause that reads as follows:

Clause 7. That the Metropolitan Corporation will lend to the Board for its use as working capital and temporary financing, exclusive of capital expenditures referred to in paragraph four above, such sums as the Board may require from time to time to an aggregate amount of \$250,000.00 outstanding at any one time and such borrowing is hereby approved pursuant to the provisions of section 225 b of the Municipality of Metropolitan Toronto Act, and that the Metropolitan Treasurer is authorized to advance such sums.

Staff of the Centre and the City's Financial Planning Division have concluded that the quantum of \$0.250 million, formulated almost 40 years ago, is no longer adequate for the short-term borrowing needs of the Centre and have determined that an amount of \$1.250 million would be more

appropriate. As such, it is recommended that Clause 7 of the operating agreement dated September 25, 1968 be revoked and that authority be given to the Deputy City Manager and Chief Financial Officer to provide to the Board of Directors of the Hummingbird Centre for the Performing Arts in-year advances not to exceed \$1.250 million, to be repaid by December 31 of each year. Interest will be charged at a rate based upon the cost for the City to borrow in the short-term market; Corporate Finance will set the rates on a monthly basis. The interest rate will be fixed for the term of each loan, based on the rate in effect at the start of each loan term.

2008 and 2009 Outlook Issues

The 2008 and 2009 outlook is incomplete because, as a result of the transitional nature of the operations of Hummingbird Centre for the Performing Arts and St. Lawrence Centre for the Arts at this time, these two theatres are unable to formulate complete forecasts for the next two years.

Hummingbird Centre for the Performing Arts is facing the first full year of impact of the departure of its long-time resident companies, the Canadian Opera Company and the National Ballet of Canada and is in the process of securing replacement business. In addition, implementation of the extensive Hummingbird Redevelopment Proposal is scheduled to begin in 2008. As such, the 2008 and 2009 outlook for the Centre is uncertain.

St. Lawrence Centre for the Arts is also undergoing a transition on a smaller scale as its \$3.3 million Facility Renewal Project is scheduled to conclude in 2007. The Centre plans to re-brand itself and leverage the renewed facility into higher usage and increased revenue. Although the Centre's outlook includes estimates for increased revenue, it does not include salary and wage increases since the staffing levels required to operate the renewed facility at higher activity levels is still being formulated.

In addition, Toronto Centre for the Arts has forecast a net incremental increase of \$0.033 million for 2009; however, for consistency with City programs, for which 2009 COLA is subject to future negotiations, the 2009 outlook for Toronto Centre for the Arts has been omitted because it includes COLA increases.

Issues Referred to 2007 Operating Budget Process*Toronto Centre for the Arts – Options for the Disposition of Livent Settlement Funds*

In June 2006, Council adopted the recommendation in the 2005 Final Year-end Operating Variance Report which stated that “\$1.848 million of additional 2005 operating surplus generated from the Toronto Centre for the Arts (TCA) be contributed to the TCA Stabilization Reserve Fund pending a report from the TCA Board on recommended options for its disposition.”

That additional 2005 operating surplus arose from the receipt by TCA of two settlement payments in 2005 from its 1998 lawsuit against Livent for breach of a management agreement. The Centre’s new Board of Directors reviewed the matter, considered 7 short-, medium- and long-term options and formulated its recommendations for disposition of the \$1.848 million of additional 2005 operating surplus.

A review and update of the Centre’s 1995 40-year reserve fund study determined that the Centre requires an average of \$0.800 million annually to address its state of good repair requirements. The average annual contributions to the Capital Reserve Fund have been approximately \$0.200 million. Therefore, there is a shortfall in contributions to the Capital Reserve Fund of approximately \$0.600 million annually. The balance in the Capital Reserve Fund as at December 31, 2006 was \$5.399 million. The Centre, which opened in 1993, is now 14 years old and, as such, it is important that adequate provisions are put in place to address the aging of the 190,000 square foot facility.

In addition, the Centre is actively trying to secure a third-party management agreement. The transition to a third-party management agreement would involve costs such as employee severance settlements and legal fees. These costs, which would be borne by the City, are not included in the Centre’s net incremental budget forecasts. Therefore, it would be prudent to make a provision to offset such costs.

Accordingly, it is recommended that the following actions, contained in a report from Toronto Centre of the Arts for the consideration of the Budget Committee on April 4, 2007, be adopted:

- That \$1.500 million of the 2005 Livent claim receipts be allocated to the NYPACC Capital Reserve Fund; and
- That the balance of \$0.348 million of the funds from the 2005 Livent claim receipts remain in the NYPACC Stabilization Reserve Fund and be earmarked to cover costs associated with transitioning to a potential third-party management agreement of the facility with a view to reducing the City’s annual financial contribution to the Centre.

Appendix 1

**Summary of Recommended Base Budget Changes
From 2006 Approved Budget**

(In \$000s)	Summary of 2007 Base Budget Adjustments				Net Incremental Outlook	
	Approved Positions	Gross Expenditures	Revenues	Net	2008	2009
		\$	\$	\$	\$	\$
2006 Council Approved Operating Budget	201.9	29,798.1	26,931.2	2,866.9		
In-year approvals and technical adjustments						
Corporate adjustments		38.8		38.8		
2006 Final Operating Budget	201.9	29,836.9	26,931.2	2,905.7	0.0	0.0
Prior year impacts		(104.5)	(249.9)	145.4		
Zero base items						
Economic factors		702.6	27.7	674.9	32.0	
Adjusted Base Budget	201.9	30,435.0	26,709.0	3,726.0	32.0	0.0
Other base changes	(36.4)	(2,840.5)	(4,273.5)	1,433.0		
Base revenue changes		450.0	93.8	356.2		
Recommended Service Level Adjustments:						
Service efficiencies		(110.1)		(110.1)		
Revenue adjustments			26.5	(26.5)		
Minor service impact						
Major service impact						
Total Recommended Base Adjustments	(36.4)	(2,500.6)	(4,153.2)	1,652.6	0.0	0.0
2007 Recommended Base Budget	165.5	27,934.4	22,555.8	5,378.6	32.0	0.0
2007 Program Operating Target	N/A	N/A	N/A	2,905.7	0.0	0.0
% Over (Under) Program Target				85.1%	1.1%	0.0%
% Over (Under) 2006 Approved Budget				85.1%	1.1%	0.0%

Appendix 2
Summary of Service Level Adjustments

Appendix 3

Summary of 2007 Recommended New / Enhanced Service Priorities

Appendix 4

Inflows / Outflows to / from Reserves & Reserve Funds

Reserve / Reserve Fund Name	Reserve / Reserve Fund Number	Balance as of December 2006 \$	Proposed Withdrawals (-) / Contributions (+)		
			2007	2008	2009
			\$	\$	\$
<u>Hummingbird Centre:</u>					
Insurance Reserve	XR1010	17,456.0	56.1		
Hummingbird Stabilization Res Fund	XR2031	171.7			
Humbird Centre Cap Improvement RF	XR3003	3,023.7	1,094.1 (2,450.0)		
<u>St. Lawrence Centre:</u>					
Insurance Reserve	XR1010	17,456.0	5.1		
St. Lawrence Centre for the Arts RF	XR1046	1,059.0	1,275.0 (1,275.0)		
<u>Toronto Centre for the Arts:</u>					
Insurance Reserve	XR1010	17,456.0	26.0		
NYPACC Operating Stab Reserve Fund	XR1060	2,629.1			
NY Perf Arts Centre Cap R F Bldg Repl	XR3007	5,398.7	195.3 (386.5)		
Total Reserve / Reserve Fund Draws / Contributions			(1,460.0)	0.0	0.0