

Budget Committee

Meeting No.	21 (Special)	Contact	Merle MacDonald, Committee Administrator
Meeting Date	Wednesday, November 14, 2007	Phone	416-392-7340
Start Time	9:30 AM	E-mail	buc@toronto.ca
Location	Committee Room 2, City Hall		

Budget Committee		
Councillor Shelley Carroll (Chair) Councillor Paul Ainslie (Vice-Chair) Councillor Maria Augimeri	Councillor A. A. Heaps Councillor Joe Mihevc	Councillor Gord Perks Councillor Kyle Rae

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Declarations of Interest under the *Municipal Conflict of Interest Act*

Communications/Reports

BU21.1	ACTION			Ward: All
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City of Toronto 2008 Recommended Capital Budget and 2009-2012 Capital Plan

(October 29, 2007) Report from Financial Planning Division

Summary

See Analyst Briefing Notes.

Communications

(September 27, 2007) letter from Claude Bergeron, President, Carleton Village Residents' Association (BU.Main.BU21.1.1)

1a Public Works and Infrastructure Committee Item 8.4 Scarlett Road/CP Rail Bridge Class Environmental Assessment Study

(October 2, 2007) Letter from City Clerk

Summary

City Council on September 26 and 27, 2007, referred this item to the Budget Committee for further consideration, and directed that any change in the status of this project be reported out to Council, through the appropriate Committee, as a discrete item.

Background Information

Public Works and Infrastructure Committee Item 8.4 Scarlett Road/CP Rail Bridge Class Environmental Assessment Study

<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8400.pdf>

Attachment 1

<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8401.pdf>

1b Conference Centre Design and Costing Issues - Exhibition Place

Confidential Attachment - The security of the property of the municipality or local board

(November 7, 2007) Report from Chief Executive Officer, Exhibition Place

Recommendations

The Board of Governors of Exhibition Place, on the advice of the Chief Executive Officer of Exhibition Place, recommends that City Council:

1. Approve of the increase in the overall Conference Centre capital budget from \$29.0M to \$46.88M;
2. Increase its loan to the Board from \$21.2M to \$35.6M for the renovation of the Automotive Building to a Conference Centre facility with an increase in the interest rate from 4.75 to 5.0 percent and an increase in the amortization period from 20 to 25 years;
3. As before, allow for the depletion of the full Exhibition Place Capital Reserve which as of September 30, 2007 stands at \$1.966M but will receive interest payments of approximately \$0.059 by 2007 year-end for a total of approximately \$2.025M; and
4. Request the Preservation Board to report directly to City Council at its meeting of December 11, 2007 on matters relating to the Automotive Building being a “Listed Building”.

Financial Impact

Increasing the City loan from \$21.2M to \$35.6M (with an amortization period of 25 years) will result in positive cash flow for the Board over 20 years of \$34.45M before debt service and \$13.73 after debt service.

In addition to the positive cash flows noted above, the conference centre will have a positive economic impact for the City. Exhibition Place marketing staff has already received very positive feedback from the marketplace and event organizers have indicated their willingness to go to contract as soon as the construction and opening date of the facility is finalized. There has been strong response from the Canadian Associations market and, as well, a number of the existing shows have indicated that they are increasing their educational component of their trade shows and can only remain at Exhibition Place if the meeting requirements can be met. Exhibition Place is currently bidding on a major citywide event that has never been held in Toronto but can only come if the conference centre is built.

Finally, in part, as a result of the financial commitment of the Board and Council to the development of the conference centre at Exhibition Place, the Board through a publicly tendered Request for Proposals has attracted a very high profile New York hotel developer to the grounds. This private sector development would see the construction of a 300-room hotel at the sole cost of the private sector developer of approximately \$80.5M. This would be a major economic generator both for Exhibition Place and the City.

Summary

The report on the Conference Centre Design and Costing Issues was considered and unanimously approved by the Board of Governors of Exhibition Place at its meeting of November 7, 2007. At the same meeting, the Board of Governors approved of a report dated November 1, 2007 and entitled “Heritage Elements within the Conference Centre Design”. This second report has been sent to City Planning staff to report this matter to the Preservation Board and then directly to Council for its deliberation on the 2008 Capital Budget.

Background Information

Staff Report - Conference Centre Design & Costing Issues

(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8399.pdf>)

1c Financial Assessment of Increased Loan for the Proposed Conference Centre at Exhibition Place

(November 9, 2007) Report from Deputy City Manager and Chief Financial Officer

Recommendations

The Deputy City Manager and Chief Financial Officer recommends that:

1. the terms of the proposed loan from the City to the Board for the conference centre be amended to:
 - a. increase the principal amount from \$21.2 million to \$35.6 million;
 - b. increase the term of the loan from twenty to twenty-five years;
 - c. increase the rate of interest from 4.75% to 5.0%;
2. the terms of the City loan to the Board of Governors of Exhibition Place be to the satisfaction of the Deputy City Manager and Chief Financial Officer;
3. Council establish an obligatory reserve fund, called the 'Exhibition Place Conference Centre Reserve Fund, with criteria as defined in Appendix 1, to provide a source of funding for any shortfalls in loan payments to the City from Exhibition Place for a new conference centre;
4. the Board of Governors of Exhibition Place be directed to place the revenues from the current and future Direct Energy Centre naming rights agreements into the 'Exhibition Place Conference Centre Reserve Fund';
5. the 2007 and any subsequent Operating Surplus for Exhibition Place be placed into the 'Exhibition Place Conference Centre Reserve Fund';
6. Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the 'Exhibition Place Conference Centre Reserve Fund' to Schedule '14' – Third Party Agreements Reserve Fund; and
7. that leave be granted for the introduction of any necessary bills in Council to give effect thereto;

Financial Impact

As discussed in the accompanying report from the Chief Executive Officer of Exhibition Place, the construction cost estimate for the proposed conference centre project has increased from the \$29 million amount originally reported to Council in March, 2007 to \$46.88 million.

In order to finance this additional amount, the Board has proposed revisions to the funding model for the project. In particular, the Board is proposing that the amount of the City loan be increased from \$21.2 million to \$35.6 million. The Board is also proposing that the loan be repaid over a longer term (25 years rather than 20 years).

In addition, the Board is now assuming that \$3.4 million of the furniture, fixtures and equipment (FF&E) cost can be financed through equipment sponsorship or leasing arrangements.

The revised funding model is summarized below:

Summary of Capital Funding (\$ millions) - Proposed by the Board of Exhibition Place	
City Loan	35.60
Food Services Provider Contribution Towards Food & Beverage Fixtures and Equipment	4.00
Exhibition Place Capital Reserve fund	2.02
Exhibition Place 2007 & 2008 Capital Budgets	1.86
Lease, sponsorship funding for Furniture, Fixtures and Equipment	3.40
Total:	46.88

In the Board's updated pro-forma income forecast for the project, the greater debt costs are partially offset by the inclusion of the estimated naming rights revenues for the conference centre. These naming rights revenues were not included in the original financial model for the project. However, as a result of a naming rights revenue analysis prepared by the Board's naming rights consultant, and feedback from potential naming rights sponsors, the Board's staff are now confident that a substantial naming rights agreement can be achieved.

The inclusion of the conference centre naming rights revenue results in a substantial increase in project revenues. However, the forecast conference centre naming rights revenues are insufficient to offset the increase in the initial capital cost. According to the pro-forma income statements, the various direct and indirect revenues generated by the project over the financing term will still fall \$7.5 million short (\$5.5 million in present value terms) of the total combined amounts required to fund the loan payments to the City. However, after repayment of the loan, the Board will have a debt-free facility with an original construction cost of \$46.88 million.

The Board has proposed that any shortfalls in the project revenues be funded using revenues derived from the Board's current and future Direct Energy Centre naming rights agreements. To that end, this report recommends that the naming rights revenue for the Direct Energy Centre be placed in a City reserve fund to fund any shortfalls in the City loan payments.

Staff have applied the same alternative demand scenarios used in the earlier analysis to determine the potential extent of these shortfalls under adverse demand conditions and to determine whether the Direct Energy Centre naming rights will provide sufficient funding to these offset shortfalls. This analysis has indicated that the Direct Energy Centre naming rights revenues will likely provide a sufficient buffer against these shortfalls. In order to further protect the City from any negative financial impact resulting from this revenue-backed loan (ie. no impact on tax-supported debt), this report recommends that any overall annual surpluses generated by the Board through its operations of Exhibition Place also be placed in an obligatory City reserve fund together with the Direct Energy Centre naming rights revenues.

Moreover, the risk of larger than forecast financial shortfalls must be weighed against the benefits that the project will bring through its contribution to the City's overall attractiveness as

a major trade and consumer show destination.

According to a study recently completed by the University of Guelph, 2.3 million people visit the GTA each year to attend trade and consumer shows and these shows result in \$1.1 billion in annual expenditures within the GTA. These expenditures are estimated to support approximately 10,000 jobs in the Toronto region.

Summary

Following Council's original approval of a \$21.2 million loan for the conference centre project in March, 2007, the Board of Governors of Exhibition Place ("the Board") has engaged a project manager, architects and a cost consultant to proceed with a program review and a detailed design. As a result of scope changes arising from a more in-depth examination of the building requirements (which are described in an accompanying report from the Chief Executive Officer of the Board of Governors of Exhibition Place) and allowances for overall construction cost inflation, the overall cost of the project is now estimated to be \$18 million higher than originally forecast.

In order to finance the forecast increase in construction cost, the Board has proposed that the size and term of the loan from the City be increased. The Board is now requesting that the City provide a loan amount of \$35.6 million that would be repaid over a period of twenty-five years beginning in the first full year of conference centre operations.

According to the pro-forma prepared by the Board, the cash flows generated from the operation of the conference centre will not be sufficient to repay the City loan. However, the Board has proposed that the revenues from the naming rights for the Direct Energy Centre be used to cover any shortfall.

Finance staff have used the same type of sensitivity analysis as was described in the Feb. 26, 2007 staff report to assess the potential financial outcomes for the project and to determine whether the Board will have sufficient financial resources to cover shortfalls under adverse demand conditions.

This analysis indicates that under adverse demand conditions cash flows from operations may fall short of the amounts required to repay the City loan. However, the Direct Energy Centre naming rights should provide adequate revenues to offset these shortfalls.

The project's potential inability to generate revenues that will offset the initial construction cost (exclusive of Direct Energy Centre naming rights revenues) must be weighted against the economic benefits that the project will bring through its contribution to the City's overall attractiveness as a major trade and consumer show destination.

Economic Development, Culture and Tourism staff have been consulted during the preparation of this report and they have indicated their support for the conference centre project.

Background Information

Financial Assessment of Increased Loan for the Proposed Conference Centre at Exhibition Place

(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8454.pdf>)

1d Review of Market Assessment Analysis for the Proposed Conference Centre Development at Exhibition Place

(November 9, 2007) Report from Executive Director of Tourism, Economic Development, Culture and Tourism Division

Financial Impact

There is no financial impact resulting from this report. Financial Impacts of the proposed Conference Centre have been identified in a separate report from the Deputy City Manager and Chief Financial Officer titled “Financial Assessment of Increased Loan for the Proposed Conference Centre Development at Exhibition Place.”

Summary

This report provides an update on the Economic Development, Culture and Tourism Division’s assessment of the current and projected market demand for conference centre facilities in the City of Toronto and comments on the economic impact of meetings, conference, and trade and consumer shows for the City.

The lack of conference facilities connected to the Direct Energy Centre at Exhibition Place has been identified as a barrier to the Direct Energy Centre achieving higher levels of usage. An expanded Conference Centre has been identified in the strategic development plans for Exhibition Place. The current proposal for expanded Conference Centre facilities has been approved by the Board of Governors of Exhibition Place.

The market analysis and revenue projection report commissioned to support the proposed expansion concludes that there is sufficient demand from Canadian corporate meetings, Canadian associations, and local special event and gala markets to justify the expansion. Economic Development, Culture and Tourism staff have reviewed the analysis and support the findings and have identified other market segments that were not considered in the market analysis that give increased confidence that there would be demand for the new facilities.

The proposed conference centre will have a positive economic impact on the City of Toronto.

Background Information

Review of Market Assessment Analysis for the Proposed Conference Centre Development at Exhibition Place

<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8455.pdf>

1e Toronto Public Health 2008 – 2012 Capital Budget and Plan Submission

(September 19, 2007) Letter from Secretary, Board of Health

Recommendations

The Board of Health recommended to the Budget Committee for its consideration during the 2008 budget process that:

1. City Council approve a 2008 Capital Budget with a total project cost of \$1.929 million and a 2008 cash flow of 3.879 million and future year commitments of \$3.237 million as detailed in Appendix 3, “Toronto Public Health 2008 Capital Budget”. The 2008 Capital Budget Submission consists of the following:
 - a. new cash flow funding for:
 - i. our change in scope sub-projects with a 2008 total project cost of \$1.929 million that requires cash flow of \$0.693 million in 2008, \$0.450 million in 2009, (\$0.072) million in 2010, \$0.468 million in 2011 and \$0.391 million in 2012; and
 - ii. four previously approved sub-projects with a 2008 cash flow of \$2.797 million and future year commitments of \$1.436 million in 2009 and \$0.564 million in 2010, totalling \$4.797 million; and
 - b. 2007 approved cash flow for two previously approved sub-projects, with carry-forward funding from 2007 into 2008, totalling \$0.389 million;
2. City Council approve a 2009-2012 Capital Plan of \$10.562 million with future year estimates of \$1.614 million in 2009, \$3.007 million in 2010, \$2.932 million in 2011 and \$3.009 million in 2012 as outlined in Appendix 1; and
3. the net operating impacts \$0.088 million for 2009 and \$0.057 million for 2010 emanating from the approval of the 2008 Capital Budget as detailed in Appendix 2, “Toronto Public Health 2009-2012 Operating Budget Impact of Capital” be considered within the future years’ Toronto Public Health operating budget submissions.

Summary

Advising of the action taken by the Board of Health on September 19, 2007.

Background Information

Letter - Toronto Public Health 2008 y 2012 Capital Budget and Plan Submission
(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8402.pdf>)

Report on Toronto Public Health 2008 y 2012 Capital Budget and Plan Submission
(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8403.pdf>)

Appendix 1, 2 and 3 Toronto Public Health 2008 y 2012 Capital Budget and Plan Submission
(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8404.pdf>)

1f Toronto Public Library - 2008-2012 Capital Budget - City Manager's Recommended Debt Funding Target

(October 15, 2007) Report from Josephine Bryant, City Librarian

Recommendations

The Toronto Public Library Board recommends that:

1. The Debt Target of \$12 million for the years 2008-2011 be maintained as submitted.

Financial Impact

The City Manager's recommended debt targets for 2008 to 2012 will result in capital budget funding reductions of \$3 million gross and debt over the five years resulting from delaying two projects, and reallocation of cash flows between years for a number of projects to meet the debt target in each year. Attachments 1 and 2 detail the impact of the reductions on capital projects.

The Director, Finance and Treasurer has reviewed this report and agrees with the financial impact information.

Summary

The purpose of this report is to inform and request direction from the Board regarding the impact the City Manager's recommended reduction to the 2008-2012 Capital Budget request. The City Manager has recommended that the annual funding debt target for 2008 to 2011 be reduced to \$11 million resulting in a \$1 million annual reduction, and for 2012 to 2103 the debt target be set at \$12 million as submitted.

Background Information

Letter - 2008-2012 Capital Budget - City Manager's Recommended Debt Funding Target

(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8405.pdf>)

2008-2012 Capital Budget - Library - City Manager's Recommended

(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8406.pdf>)

2008-2012 Capital Budget - Library - City Manager's Recommended.ATT1 & 2

(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8407.pdf>)

1g Funding the first phase of Six Points

(November 12, 2007) Report from Deputy City Manager and Chief Financial Officer

Recommendations

The Deputy City Manager and Chief Financial Officer recommends that:

1. authority be granted to the General Manager of Transportation Services to undertake the

detailed design of the Dundas Street West realignment as well as the development of the overall construction staging plan for the reconfiguration of the Six Points interchange;

2. the 2008 Recommended Capital Budget for Transportation Services be increased by \$1.0 million gross, \$0 net; and
3. this report be considered with the City's 2008 Capital Budget and 2009 – 2012 Capital Plan.

Financial Impact

Approval of this report will result in an increase of \$1.0 million in the 2008 Recommended Capital Budget for Transportation Services, \$0 net. The funding will be provided by a third party. Opportunities for third-party funding for the construction of the Dundas Street West realignment and any temporary roads required for construction staging will be considered as part of the 2009 Capital Budget process.

Summary

This report seeks authority to proceed with the detailed design of the Dundas Street West realignment and the development of the overall construction staging plan for the replacement of the Six Point interchange as a preliminary step in the Six Points interchange reconfiguration strategy. Funding will be provided by a third party.

Background Information

Funding the first phase of Six Points

(<http://www.toronto.ca/legdocs/mmis/2007/bu/bgrd/backgroundfile-8475.pdf>)