



Conference Centre – Exhibition Place

Reasons for confidentiality

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Date:	January 2, 2007
To:	Executive Committee & City Council
From:	Dianne Young, CEO, Exhibition Place
Wards:	N/A
Reason for Confidential Information:	This report involves the security of property belonging to the City or one of its agencies, boards, and commissions.
Reference Number:	

SUMMARY

This report recommends that City Council approve a Letter of Intent (LOI) between The Board of Governors of Exhibition Place and the partnership of Servomation Inc. (Centerplate) and The National Hotel Corporation (NHC) (together herein called the “Food Service Provider” or “FSP”) regarding the redevelopment of the Automotive Building as a Conference Centre at an overall construction cost estimated to be \$25.0M excluding the cost of food and beverage equipment which will be provided at the cost of the FSP. The timeframe for redevelopment of the Automotive Building Conference Centre provides for the finalization of the construction costs by May 31, 2007; finalization of all legal agreements including any loan agreements by June 30, 2007; commencement of construction in November 2007; and reopening in September 2008.

Since the opening of the Direct Energy Centre in 1997, the addition of a conference facility at Exhibition Place was essential for the growth of the trade and consumer show business. A study in 2000 by Pannell Kerr Forster Consulting Inc. (PKF) compared the Direct Energy Centre to other competitive facilities and found that other major trade centres had a ratio of meeting room space to event floor space in the range from 7.2% to 32.0% with the average ratio being 18%. The ratio in the Direct Energy Centre is 1.9%. In addition, all comparable facilities (except the Direct Energy Centre) had a ballroom for larger association meetings.

The PKF study concluded the Direct Energy Centre needed additional meeting room space in the range of 30,000 to 50,000 net sq. ft. including a 20,000 sq. ft.

ballroom/banquet facility. It suggested that the utilization of the Direct Energy Centre was hindered by the lack of complementary meeting room space.

RECOMMENDATIONS

It is recommended that City Council:

1. Authorize **The Board of Governors of Exhibition Place (the “Board”)** to enter into a Letter of Intent (“LOI”) with Servomation Inc. (Centerplate) and The National Hotel Corporation (NHC) (together herein called “FSP”) contemplating a food services agreement, lease/sublease agreement (including a City guarantee of sublease rental payments) and funding arrangements substantially on the terms and conditions contained in Attachment 1 for an exclusive catering agreement with the FSP in the Conference Centre proposed for the renovated Automotive Building, and such further terms and conditions as may be satisfactory to the **Board’s** General Manager & CEO, the City’s Deputy City Manager & Chief Financial Officer and the City Solicitor;
2. Authorize the **Board’s** General Manager & CEO, in conjunction with the City Solicitor and the City’s Deputy City Manager & Chief Financial Officer, to negotiate and finalize the agreements as required under the LOI;
3. Provide funding for the Conference Centre project in an amount estimated to be \$29.0 Million for the cost of construction and furniture and fixtures for the Conference Centre project as follows:
 - (a) Expenditure of all funds held by City in the name of the Exhibition Place Capital Reserve Fund estimated as of December 31, 2006 to be in the range of \$1.94 million;
 - (b) In consideration of the exclusive catering agreement, a contribution by the FSP to pay directly for the purchase of all necessary food and beverage equipment to completely outfit the food service and kitchen areas in the Conference Centre, which amount is estimated to be \$4.0 Million;
 - (c) Contribution of \$12.0 Million by NHC secured by a sublease by the Board to the NHC of the Automotive Building for 20 years with a guarantee annual rent payment equal to the cost of repayment of the \$12.0 Million contribution amortized over a 20-year period at the interest rate charged to NHC by the lending financial institution plus a premium of 1% to NHC on the payments made by the Board over the term of the NHC sublease;
 - (d) Funding from the City of Toronto of \$9.2 Million to be repaid by the Board on terms and conditions to be negotiated by the City’s Chief Financial Officer and Exhibition Place which repayment will be secured by the Direct Energy Centre naming rights agreement held by Exhibition Place and if a naming partner is secured for the Conference Centre then the City loan will be repaid with the proceeds of this naming rights fee; and,
 - (e) Within the Exhibition Place Capital Budget envelop for 2007 and 2008 of \$4.8 and \$5.0 Million respectively, include base building upgrades to the Automotive

Building totalling \$1.86 Million given the requirements stated in the 2005 Building Assessment for the Automotive Building.

4. (a) Request the City's Deputy City Manager & Chief Financial Officer, in consultation with Exhibition Place staff, to prepare a risk/benefit analysis of the project as required under the City of Toronto Act, 2006 regulations;
- (b) After consideration of the report requested under Recommendation 4(a), declare the proposed Conference Centre to be a municipal capital facility for the purposes of the municipality and public use pursuant to section 252 of the *City of Toronto Act, 2006*, and pass a by-law to authorize the entering into of an agreement for the provision of such facility; and
- (c) Direct the City Clerk to give notice of the municipal capital facility by-law as required under the *City of Toronto Act, 2006*;
5. Request that staff meet with the City Heritage staff to ensure the renovations of this designated building meet the requirements of the *Heritage Act*; and
6. Direct that the confidential information in Attachment 1 not be released publicly in order to protect the competitive position of the facility and the future economic interests of the City of Toronto and The Board of Governors of Exhibition Place..

FINANCIAL IMPACT

Based on a financial analysis completed by Horwath Horizon Consultants in September 2006, and based on the loan terms as provided in the LOI and a construction cost of \$25.0 Million, the Conference Centre project will have over a 20-year period a positive cash flow for the Board of \$34,452,863 before debt and \$13,402,131 after debt. This translates into a NPV cash flow of \$20,779,914 before debt and \$7,351,363 after debt. In the first partial year of operation (September to December 2008) and the first full year (January to December 2009), the Conference Centre operations has a negative net revenue of approximately (\$190,000) and (\$265,000) respectively after debt payments. However, from a stabilized second full year forward (January to December 2010) net cash flows are projected to be positive.

The Deputy City Manager and Chief Financial Officer is in the process of reviewing this report and supporting documents and will be submitting a separate report.

DECISION HISTORY

THE BOARD OF GOVERNORS OF EXHIBITION PLACE AT ITS MEETING ON DECEMBER 15, 2006 CONSIDERED AND RECOMMENDED APPROVAL OF THIS REPORT BY CITY COUNCIL.

ISSUE BACKGROUND

At its meetings of June 1998 and January 1999, the Board approved the 1998 Program and Development Concept Plan and set as a first priority the development of a hotel/conference centre complex.

At its meeting of April 2, 2004, the Board approved of entering into a LOI with the NHC for the lease of lands and the development and construction of a 175-room hotel and a 75,000 gross sq. ft. conference centre facility in the parking lot area west of the Automotive Building. This LOI was subsequently approved by City Council at its meeting of June 22, 23 and 24, 2004.

At its meeting of March 2005, the Board received an update on the Hotel/Conference Centre project and specifically received information related to the cost of this new development which exceeded \$36.0M and the major archeological artifacts found on the proposed site during the due diligence period. Because of these two issues, the Board directed staff to look at alternative sites for the Conference Centre including the Automotive Building.

COMMENTS

(a) Need for a Conference Centre at Exhibition Place

Trade and consumer shows offer a forum for exchanging industry ideas and are product, sales and exhibit-oriented, typically attracting a large number of out-of-town attendees. As economic generators, a 2006 Tourism Toronto study found that the exiting trade and consumer shows located in the Direct Energy Centre, the Metro Toronto Convention Centre and the International Centre generate in excess of \$1.1 billion in direct expenditures in the GTA. Since the mid-90's organizers have been enhancing their trade and consumer shows with the addition of a meeting or educational program. Consequently, the selection of a tradeshow facility is increasingly dependent on both the availability of suitable exhibition space coupled with flexible and multiple meeting rooms to permit several concurrent education sessions. The Direct Energy Centre has not been able to attract some of the events originally envisioned for it due to the lack of meeting rooms.

When the Direct Energy Centre announced the possibility of building a new conference centre in 2004, it generated about 10 different industry articles related to the announcement. In addition, it received 25 leads from Tourism Toronto and submitted 22 proposals on shows and meetings that would physically fit into the conference centre. As a comparison, from 1997 to 2003, the Direct Energy Centre received no more than 8 leads in 7 years from Tourism Toronto. In addition, Direct Energy Centre re-established discussions with Messe Frankfurt for the 2008 or 2010 ISH North America tradeshow. Without the conference centre expansion, Messe Frankfurt would not consider returning to Toronto as a location for the ISH tradeshow

(b) Benefits of the Automotive Building Site

The major advantages to considering a renovated Automotive Building for the Conference Centre versus a new build are as follows:

- Allows for a more intensified use of an historic building which is presently underutilized.
- Avoids costs of constructing a new tunnel as the Automotive Building is already connected to the Direct Energy Centre.

- Retains the present exhibit space and at the same time upgrading this space taking it from Class B to Class A space.
- Does not result in any decrease in parking spaces or parking revenues.
- Addresses the “state-of-good-repair” requirements of this historic building. The 2005 Automotive Building assessment indicated that the requirements over the next 5 years to spend \$4.013M and another \$5.95M in years 6 to 10. These costs would be just to maintain the building in its present functioning state (Class B exhibit space) with no real improvements from the perspective of marketing and sales.

(c) Design of Conference Centre in the Automotive Building

The Board engaged Brisbin Brook Beynon Architects to provide a preliminary layout and costing for a Conference Centre within the existing footprint of the Automotive Building. The program that was developed and estimated to cost \$23.8M is as follows:

- Will be able to serve a dual purpose as trade/consumer exhibit show space and a Conference Centre
- Will be completely renovated to class “A” space
- The ground floor Exhibit Hall can be sub-divided with “huff-wall” moveable partitions to provide new Exhibit Hall (112,000 sq. ft.) or one large Ballroom (51,000 sq. ft.) or two Ballrooms (25,000 sq. ft. each) which will facilitate attracting meetings business and social galas
- Eight existing columns on the ground floor which are presently an impediment to shows will be removed
- The Ballroom will be served by new pre-function space, washrooms, kitchen and storage space
- The main entrance lobby remains in place with access off Princes’ Boulevard and below grade pedestrian connection to Direct Energy Centre garage
- Replacement of new escalators and elevator to current code and standards
- The Ballroom space will be finished with vinyl covered moveable walls on the lower level and decorative glass and metal on the upper level; the ceiling will feature a removable sculptural fabric profile with decorative chandeliers
- Lighting grids/stage lighting and a house sound system with built-in A/V in the Ballroom and all meeting rooms is part of the base building
- Minimum ceiling height of the Ballroom/Exhibit Hall is 22 feet
- The mezzanine level is reconstructed to house 29,622 net sq. ft. of meeting rooms of various sizes including a Junior Ballroom of 7,061 sq. ft.
- All existing washrooms are refurbished and new washrooms are added
- Existing open area overlooking the ground floor is enclosed with a combination of frosted glass and decorative sound absorptive wall panels
- Exterior building retains historic character with cleanup of existing stone and addition of new double glazed windows in present openings
- New landscaping will be provided around the south end of the building
- It would be renovated to meet the City’s Green Development Standard (generally equivalent to a LEEDS plus standard)

(d) Benefits of the FSP Proposal

Pursuant to the present food services agreement between Centerplate and the Board, Centerplate has an exclusive right to provide food services within the unrenovated Automotive Building until 2010. Removal of this contractual right from the Centerplate agreement would require a reopening of the agreement and renegotiations of some of the terms of that agreement. In addition to Centerplate's contractual rights, Exhibition Place and the NHC have, in good faith, been working together to develop a feasible hotel/conference centre project. NHC approached Centerplate in June 2006 and formed a partnership to undertake the Conference Centre project.

The NHC/Centerplate partnership presents a unique opportunity for the new Conference Centre as the principle of NHC, Mr. Friedmann is based in Toronto and has business connections with many of the major catered annual events within the GTA. On the other hand, Centerplate, as a food provider of conference centres and arenas throughout North America, has exclusive contracts with major meeting planners.

(e) Municipal Capital Facility

Given the public-private nature of the proposed project, which includes a proposed financing lease/sublease arrangement that will result in the provision of a renovated Automotive Building as a conference centre (including fully equipped facilities for the provision of food services) owned at all times by the City of Toronto and dedicated to municipal purposes and public use, the City Solicitor has advised that it is appropriate that City Council declare the facility to be a municipal capital facility and pass a by-law to authorize an agreement for the provision of the conference centre to the Board and the City of Toronto. This designation provides legal authority for the arrangement as contemplated in the LOI. As the complete care and control of the renovated Automotive Building remains with the Board through the lease/sublease arrangement with NHC, it is expected that the Conference Centre facility (like the Direct Energy Centre itself) will be exempt from property taxes pursuant to the current *Assessment Act* regime.

CONTACT

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SIGNATURE

ATTACHMENTS

Conference Centre- Exhibition Place – Letter of Intent