

2018 OPERATING BUDGET

Date: July 7, 2017
To: The Board of Governors of Exhibition Place
From: Dianne Young, Chief Executive Officer
Wards: Wards 14 and 19

SUMMARY

City Council at its meeting of May 25, 2017 adopted the 2018 Budget process to establish guidelines, targets and a process for the 2018 Operating Budget. The City has directed that the Exhibition Place Operating Budget submission with the City will have a two-phase approach:

- 1) Base budget submission due June 12, 2017; and
- 2) Base reductions and new request submissions due August 2, 2017, if any.

The 2018 Operating Budget Directions and Guidelines provide a directive to all City Programs, Agencies and Accountability offices to achieve a 0% net budget increase for 2018. The Board has exceeded the City objective with a budgeted surplus of \$200,000 versus \$123,502 in 2017 for an improvement year over year by 62%.

RECOMMENDATIONS

The Chief Executive Officer recommends that the Board:

1. Approve the 2018 Consolidated Operating Budget; and
2. Request that City Council transfer any consolidated surplus for 2018 to the "Exhibition Place Conference Centre Reserve Fund".

FINANCIAL IMPACT

The proposed 2018 Operating Budget for the Board will result in a surplus of \$200,000.

DECISION HISTORY

The Exhibition Place 2017 – 2019 Strategic Plan had a Financial Goal to achieve positive financial performance across Exhibition Place and all of its business and deliver operating results that met or show positive revenue surplus and / or positive under expenditure to budget.

At its meeting of March 5,6,7 and 8, 2007 Council adopted the report entitled "Financial Assessment of Proposed Conference Centre Development at Exhibition Place" which included the recommendation that the Board be directed to place the revenues from the Enercare Centre (formerly Direct Energy Centre) naming rights agreement and any revenues from any future naming rights agreement for the new conference centre into a single-purpose interest bearing City reserve account from which any shortfalls in the City loan payments can be directly funded.

<http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-6995.pdf>

At its meeting of November 5, 2012, City Council approved of a recommendation to expand the purpose of the Exhibition Place Conference Centre Reserve Fund to provide a source of funding for both Beanfield Centre loan repayments and also for maintaining Enercare Centre and Beanfield Centre in a state of good repair.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.EX24.19>

At its meeting on September 9, 2013 City Council recommended that Exhibition Place use its funds from the Conference Centre reserve to fund the cost for the disposal of pre-existing contaminated soil dating from the early 1900's which expenditures are keeping with the terms of the lease agreement between Exhibition Place and Princes Gates Hotel LLP.

<http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-61392.pdf>

On December 13, 14 and 15, 2016 City Council adopted the extension of the repayment term of the capital loan to the Exhibition Place for the conference centre, by an additional five years, with a revised amortization period ending in 2040 for the full loan balance amount.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX20.16>

COMMENTS

A. Prior Year's Results and 2018 Issues

As in previous years, the preliminary 2018 operating budgets have been prepared on a "budget-to-budget" basis, not on 2017 "actual to budget" basis.

However, since 1998, the Board established budgetary targets aimed at maximizing net income paid to the City. This has been a very positive, albeit challenging, endeavour and has required management on an annual basis to aggressively pursue service review processes, cost containment, constraint in discretionary spending, operational efficiencies and new business opportunities in order to meet budget expectations. For the ten year period from 2007 to 2016, the Board (including the CNEA Program prior to 2013) has paid over its operating surplus to the City totalling approximately \$20.72M.

In the development of the 2018 operating budget there were a number of major factors that were considered as set out below. The Cost of Living increases are provided at 1.25% which is consistent with City directives. Merit increases (financial performance rewards) are also per City directives of up to 2.65% blended rate which will be paid based on employee performance. Other expenditures are provided for on the forecasted City budget economic factors.

B. 2018 Operating Budget by Program Area

The following section provides information on the proposed level for 2018 operating budget revenues and expenditures for each of the two Exhibition Place programs: the Exhibition Place / Enercare Centre program and the Beanfield Centre program.

Exhibition Place and Enercare Centre Program

This program includes the service areas of Exhibition and Events, Asset Management and Parking Access. These programs provide a focus for public celebrations and events, such as the Honda Indy and Caribbean Festival while preserving the architecturally and historically significant structures on the ground. The Enercare Centre is the largest trade and consumer show facility in Canada and the sixth (6th) largest in North America with over 1.1 million square feet of contiguous space. Exhibition Place and Enercare Centre are responsible for the event management and asset management for this facility which hosts events and shows such as the CNE, Royal Agricultural Winter Fair, Toronto International Boat Show, National Home Show/Canada Blooms and One-of-a-Kind Craft Show. It is also a leader and a world class site for advanced “green” energy technology.

The Exhibition Place Program area carries most of the costs associated with the 192-acre grounds as a “public park” including:

- Maintaining the grounds, parks, historic buildings, structures, roadways and physical services of Exhibition Place;
- Providing parking services and various skilled trades to support the many shows and events on the grounds.

The budgetary objective for this Program is to stabilize or decrease the net loss year-over-year through the redevelopment and rental of the underutilized buildings and other business opportunities and each year this objective is actively being pursued to make up the annual non-controllable budget pressures. The year 2018 will be the second year of increased seating at BMO Field which continues to have a positive effect on parking revenues. While 2018 is the third full year that the hotel pays contractual rent it will be

the first full year that Hotel X will be operational which is scheduled to open in the fall of 2017.

For the trade and consumer show business, industry research on future directions is published in Trade Show Executive. The April 2017 issue discusses that since the 2008 US sub-prime mortgage crisis, the US economy has grown slowly. There is still some more healing but the growth effect from corporate profits is good news and should encourage additional corporate spending especially sporting, entertainment and leisure goods which should impact our industry positively. Although consumer spending is leading the way, the US government spending is not expected to grow as Industry specialists advice that with all the government cuts this will impact government spending. All of these trends in the US should also reflect positively in Canada to the Trade and Consumer Show Industry. Overall, the Trade Show Executive's industry forecasters continue to be optimistic for the remainder of 2017 and into 2018 with continued growth in most shows.

Energare Centre is operating in a very competitive market in Toronto and the GTA and continues to strive to generate new business and to maximize profitability. The 2018 Exhibition Place and Energare Centre operating budget for total direct and indirect expenses of \$35.801M represents an increase from the 2017 budget is of \$4.332M or 13.7%. The increase is primarily due to the following:

(1) \$3.336M which is due to the change in reporting of the CNE work order costs as revenue due to the new Master Agreement. In prior years these costs were reported on a net recovery basis with no impact to revenue and expenditures. The change in 2018 was primarily done to reflect the budget consistently to how this item will be reported for our year end audited financial statements.

(2) Inflationary adjustment directed by the City (salary, utilities and other) totalling \$0.431M; and

(3) The required change in the funding of equipment and maintenance items that were previously bought through the capital program but must now be funded 100% by special appropriations and is an increase in indirect expense totalling \$0.250M; and

(4) Increase of \$.314M arising from increase in utility costs due to increase in City economic factors.

BUDGET 2018 - MAJOR FINANCIAL PRESSURE		
		TOTAL POSITIVE (NEGATIVE)
1	<u>PRESSURE FROM SHOWS</u>	
1.1	SIAL TORONTO (BIENNAL 2015; 2017)	(394,262)
1.2	RESTAURANT CANADA - RENT (2017 VS 2018 BUDGET)	(44,194)
1.3	RAWF - RENT (2017 VS 2018 BUDGET)	(10,126)
1.4	NEIGHBOURHOOD PHARMACY - LEFT IN 2017	(80,314)
1.5	EVERYTHING TO DO WITH SEX - LEFT IN 2017	(138,426)
1.6	BARRISTER LICENSING EXAM - LEFT IN 2017	(93,597)
1.7	SOLICITOR LICENSING EXAM - LEFT IN 2017	(95,349)
	SUBTOTAL - PRESSURE FROM SHOWS	(856,267)
	<u>POSITIVE (NEGATIVE) PRESSURE</u>	
2.0	SALARY & BENEFITS CHANGES, includes COLA @1.25%, up to 2.65% Merit	(431,365)
3	OTHER DEPARTMENTAL OVEHEAD EXPENSES	
3.1	SPECIAL APPROPRIATION	(250,000)
3.2	UTILITIES - ECONOMIC FACTORS INCREASE	(314,340)
3.3	OTHER	(68,973)
	SUBTOTAL	(633,313)
4	<u>CNE - New Master Agreement + QE Office Lease</u>	
4.1	EVENT RENT INCREMENTAL RENT VS 2017 BUDGET (3% VS CPI INCREASE)	157,550
4.2	QE OFFICE RENT - INCREMENTAL (\$27K IN 2017 - \$133K IN 2018)	106,770
4.3	PRESS BUILDING RENT	45,500
4.4	FOOD BUILDING RENT	37,500
4.5	PRESS & FOOD BUILDING UTILITIES & R&M	398,409
4.6	12% MARK UP ON WORK ORDERS	400,314
4.7	ADMIN FEE - Records & Archives Removall	(148,563)
4.8	SUBTOTAL - CNEA	997,480
	TOTAL PRESSURE - (NEGATIVE) POSITIVE	(923,464)

Beanfield Centre Program (formerly Allstream Centre)

This program includes the service areas of Conventions, Conferences and Meetings. The Conference Centre opened in October 2009 and the first and second full year budget for 2010/2011 was based on the original 2006 Horwath Study for which the proforma financial information was provided to the Board and City Council when the project was approved in 2006. The 2012 to 2016 budget followed the same trend and was based on the proforma financial information except to the extent it is adjusted for specific revenue and expenditures items where there was sufficient information from the 2010 - 2015 operations to provide for different amounts based on the 6-year history.

While Beanfield Centre met the proforma in 2010, since 2011 it has underperformed compared to the original Horwath proforma's. Because of this, Horwath was also retained in 2015 to complete an updated Market Analysis and Revenue Projection. The updated 2015 proforma has been used for the 2017 and 2018 operating budgets except to the extent it is adjusted for specific expenditure items from the 2010–2016 operations history.

Beanfield Centre is a LEED Silver certified conference facility in the renovated historic Automotive Building. The facility compliments the event activities at Enercare Centre by attracting more international conferences, consumer and trade shows, exhibits, festivals and conventions to Toronto. It will be further enhanced with the opening of the new 400-room Hotel in the fall of 2017. Hotel X is located just inside the iconic Princes' Gates and opposite the Enercare Centre. The hotel's sports and entertainment concept along with a lavish garden setting and spectacular lake views create an unparalleled environment for visitors and locals alike. Hotel X Toronto is a candidate for LEED certification, aspiring to the highest levels of environmental sustainability.

Corporate bookings for the Beanfield Centre continue to be short-term from 2 weeks to 3 months and are seldom booked, unlike trade shows, many months or years in advance.

The 2018 Operating Budget for Beanfield Centre before interest, amortization and transfers is \$1.101M (\$1.077M – 2017) an increase of net revenue of \$0.024M or 2.2%.

Related to the construction of the Beanfield Centre, the Board has an outstanding loan of \$38.7M with the City at a 5% interest rate amortized over 30 years (including the interest on the advance payments during construction). In addition to the City construction loan, as approved at the Board at its meeting held July 10, 2009, the Federation of Canadian Municipalities (FCM) provided a \$2.0M loan for energy upgrades and LEED certification at a 2.375% interest rate amortized over 20 years. Annually, the cost of these loans to the Beanfield Centre Operating Budget is \$2,453,205. By the end of 2017, Exhibition Place would have paid loan principal in an amount of \$6.561M and FCM in an amount of \$0.642M for a total of \$7.203M resulting in a remaining balance owing of \$33.472M.

C. Other Issues

City Reserve Fund for the Benefit of Exhibition Place

As noted in the Decision History, the City and the Board agreed on the establishment of an obligatory interest-bearing reserve fund to be called the "Exhibition Place

Conference Centre Reserve Fund” (CCRF) to provide a backstop and source of funding for any shortfall by the Board in respect of the City loan payments for Beanfield Centre as required under the loan agreement. Since the establishment of the CCRF in 2007, the Board has contributed a surplus of \$20.720M to the City. The forecasted balance in the Conference Centre Reserve Fund at the end of 2017 is expected to be \$3.565M.

Some of the significant directions taken with respect to the annual consolidated surplus for Exhibition Place and contribution and / or withdrawals from the CCRF are as follows:

- 2007 - year end surplus of \$3.1M was not added to this Reserve but used by the City for general operating purposes;
- 2008 - the surplus of \$2.4M was allocated for Allstream Centre masonry restoration;
- 2009 – \$1.4M of the CCRF was allocated to fund the Horse Palace roofing in addition to ISF Funding from the operating surplus of \$2.0M;
- 2011 / 2012 – the surplus of \$1.854M (2012) and \$1.320M (2011) for a total of \$3.174M was transferred to the CNEA as part of the independence of the CNEA;
- In the years 2013 (\$1.633M), 2014 (\$.621M) and 2015 (\$.345M) amounts totaling \$2.6M were withdrawn to fund for the disposal of pre-existing contaminated soil on the hotel lands in accordance with the lease agreement; and
- 2014 - \$.474M as budgeted was withdrawn for the renovation of the Enercare Centre washrooms.

Greening and Energy Projects

One of the Board’s strategic directives is the achievement of net energy self-sufficiency through several energy and environmental initiatives. To fund these environmental projects the Board has agreements with the City of Toronto, Toronto Atmospheric Fund (TAF) and the Federation of Canadian Municipalities (FCM) for repayable loans and accordingly, all savings/incentives generated from these environmental initiatives are used to fund current and future debt payment.

The following energy initiatives projects have been completed up to the current year:

- Enercare Centre LED lighting retrofit for Halls A, B, C, D and Heritage Court was completed in 2015, and provides annual savings of \$123,000;
- Installation of the east Horse Palace photovoltaic (PV) system (100Kwh) realizes annual electricity savings of \$11,000 annually, in addition, to \$60,000 in rebates;
- The five building retrofit project (Queen Elizabeth, General Services, East Annex, Horse Palace and Better Living Centre) completed early in 2008 will provide annual savings of approximately \$223,000;
- Mid Arch Steam Boilers Replacement project in the Coliseum Complex for Enercare Centre completed in 2008 provides an annual savings of \$81,000;
- Press Building Geothermal project completed in 2008 provides an annual savings of \$24,000;
- Underground Lighting Control Retrofit for Enercare Centre underground parking was completed in 2008 and provides an annual savings of \$44,000;
- Back-pressure steam turbine project when fully operational will have an annual proposed savings of \$112,000;

- LED Pathway lighting project completed in 2011 with an annual savings of \$2,000;
- The East Annex PV Roofing (150Kwh), West Horse Palace PV Roofing (100Kwh), and other smaller energy projects were completed in 2011 with annual savings of \$40,000 and FIT incentives of \$200,000;
- The PV - Better Living Centre will generate \$5,500 in rent and royalties annually from Toronto Hydro; and,
- District Energy System – City Council approved a \$4.5M capital expenditure from recoverable debt to redesign and connect existing energy generation assets at Exhibition Place to supply heating, cooling and water heating to the Hotel development which will be operational in late 2017 with the opening of the Hotel. This will generate capacity charge revenue of \$415,399 annually.

The total loan advance received by the Board to-date for all of the above energy projects is \$14,947,572. By the end of 2017 Exhibition Place would have paid \$4,350,084 in principal amount and \$3,553,459 in interest amount with the remaining interest and principal balance of \$9,750,506.

Property Tax Based Capital Funding

As outlined above, Exhibition Place through its annual Operating Budget is responsible for all annual operating costs associated with the grounds, the repayment of the Conference Centre loan (with interest) and the repayment of all energy project loans (with interest). Also as outlined above, Exhibition Place has achieved a surplus since 2007. Since this date this surplus has been directed by the City to a Reserve Account except for \$3.14M in 2007 when it was directed by the City Manager for the City's general operating revenues.

However, in addition to the annual expenditures on the Exhibition Place assets from the Operating Budget, the Capital Program and projects within that envelop are funded 100% through the City of Toronto tax base as reported in the Capital Budget report and are not repaid to the City by Exhibition Place. The only exceptions to this regime are as follows:

- As noted above in the discussion of the City Reserve Fund, in 2008 and 2009 funds were withdrawn from the Reserve Fund for the purpose of supplementing the City-funded Capital Program
- Energy projects which are typically funded through low or no-interest loans to Exhibition Place from climate change agencies (BBP, TAF, FCM) are funded in the Operating Budget through annual energy savings
- Major renovations of the former Automotive Building (Beanfield Centre) was funded through a City loan with interest

Financial support from the City and the property tax base for capital projects has been a vital part of maintaining the grounds. From the period of 1998 to 2018 (21 years inclusive), capital funding received from the City is in the range of \$118.41M, without interest. The City generally funds its Capital Programs through long-term debentures of 20 to 30 years and therefore this \$118.41M (plus interest) would still be outstanding and owed by the City.

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SIGNATURE

Dianne Young
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ATTACHMENTS

Appendix A - 2018 Operating Budget