REPORT FOR ACTION

2020 OPERATING BUDGET

Date: May 30, 2019
To: The Board of Governors of Exhibition Place
From: Dianne Young, Chief Executive Officer
Wards: All

SUMMARY

The City Manager has not provided the 2020 Budget Process, Directions and Guidelines yet to all City Divisions and Agencies for 2020 as of yet. Until such direction is given the Board is following last years directive to all City Divisions and Agencies which is to submit a zero change budget year over year.

Exhibition Place staff have developed a 2020 Operating Budget that is meeting this prior year directive and as well exceeding this by budgeting a surplus of $175,000 which is an increase of $15,000 (9%) over the 2019 Operating Budget.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board approve the 2020 Operating Budget attached as Appendix 'A".

2. The Board request that City Council transfer any surplus above budget target for 2020 to the “Exhibition Place Conference Centre Reserve Fund”.

3. The Board direct the Chief Executive Officer to submit the 2020 Budget to the City Financial Planning Division as part of the 2020 Budget Process.

FINANCIAL IMPACT

The proposed 2020 Operating Budget will result in a surplus of $175,000.

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 in included the recommendation that the Board be directed to place the revenues from the Enercare 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 2020 Issues

As in previous years, the preliminary 2020 operating budgets have been prepared on a "budget-to-budget" basis, not on 2019 "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 twelve year period from 2007 to 2018, the Board (including the CNEA Program prior to 2013) has paid over its operating surplus to the City totalling approximately $25.182M.

In the development of the 2020 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 prior years City directives. Merit increases (financial performance rewards) are also prior years 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 and adjusted for volume changes.

B. 2020 Operating Budget by Program Area

The following section provides information on the proposed level for 2020 operating budget revenues and expenditures for each of the two Exhibition Place programs: 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 Toronto's 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 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 for the care and maintenance of the 192-acre park site. One direction has been the redevelopment and rental of the underutilized buildings and other business opportunities and each year this objective is actively being pursued to offset the annual non-controllable budget pressures. The year 2020 will be the third year of increased seating at BMO Field which continues to have a positive effect on parking revenues with the success of TFC as well as being home to Toronto Argonauts. While 2020 is the fifth full year that Hotel X pays contractual base rent, it will be the second full year that Hotel X is fully operational and paying percentage rent.

The future growth of the Convention & Trade Show Organizers is influenced by internal and external factors. Internal factors include structure and competition within the industry, market demand, and innovative and disruptive factors. External factors include the state of the economy and cyclical patterns. For the trade and consumer show business, industry research on future directions of the economy is published in Trade Show Executive.

In the February 2019 report from Trade Show Executive, the Center for Exhibition Industry Research (CEIR) released the 2019 CEIR Index Report, an analysis of the 2018 exhibition industry and an economic and exhibition industry outlook for the next three years. In 2018, the exhibition industry's performance finally surpassed its last peak and is now anticipated to break new ground performance-wise through 2021. “Previously, the exhibition industry peaked in 2007,” CEIR CEO Cathy Breden, CMP, CAE, told Trade Show Executive. “The forecast is predicting growth but at a slower pace over the next three years.” In North America moderate economic, job and personal disposable income growth should continue to drive exhibitions,” said CEIR Economist Allen Shaw, Ph.D., Chief Economist for Global Economic Consulting Associates, Inc. “However, the downward secular trend in financial, consumer goods and Education will exert a drag on the overall performance of the exhibition industry. This trend should be maintained as CEIR expects the growth to slow moderately 2019 through 2021 as the economy settles into a slower but more sustainable growth path.”

Exhibition Place / Enercare 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 2020 Exhibition Place and Enercare Centre operating budget for total direct and indirect (overhead) expenses of $37.236M (2019 - $36.571M) represents an increase from the 2019 budget of $0.665M or 2.0%. The increase is primarily due to the following:

(1) Increase in salary and utilities totalling $0.369M due to inflationary and City economic factors; and
(2) Increase in special appropriations, equipment purchases and systems implementation and upgrade of $0.296M.

BUDGET 2020 - MAJOR FINANCIAL PRESSURE		
		TOTAL POSITIVE (NEGATIVE)
1	**PRESSURE FROM SHOWS**	
1.01	GREAT NORTHERN CONCRETE TOBOGGAN RACE 2020	6,233
1.02	OVA PROVINCIAL CHAMPIONSHIPS 2020	557,365
		-
1.03	SIAL TORONTO (BIENNAL 2019; 2021)	(438,990)
1.04	VOLLEYBALL CAN. NAT. CHAMPIONSHIPS - ONE OFF	(282,878)
1.05	ZOOMER MEDIA SHOW - EVENT LEFT	(144,574)
1.06	WASTE AND RECYCLING EXPO - BUDGET IN 2019, NOT IN 2020	(105,147)
1.07	**SUBTOTAL - PRESSURE FROM SHOWS**	**(407,990)**
	POSITIVE (NEGATIVE) PRESSURE	
2	**SALARY AND BENEFITS - @ 1.25% COLA, UP TO 2.65% MERIT, SAVINGS FROM LOWER RATES**	**(117,579)**
3	**OTHER DEPARTMENTAL OVEHEAD EXPENSES**	
3.01	UTILITIES - ECONOMIC FACTORS INCREASE, BUDGET ADJUSTMENTS	(251,507)
3.02	AODA COMPLIANCE - WEBSITES MODIFICATION (ONE TIME)	(50,000)
3.03	SOFTWARE UPGRADE - EBMS , GREAT PLAIN	(45,000)
3.04	OPERATION - ONE TIME CONSULTING FEE FOR LEED, PMP OPTIMIZATION	(45,000)
3.05	OPERATION - PM FOR HIGH VOLTAGE, RECOVERIES FROM CAPITAL PROGRAM (2020 VS 2019)	225,244
3.06	SPECIAL APPROPRIATION	(250,000)
3.07	OTHERS - VARIOUS DEPARTMENTS	(131,427)
3.08	**SUBTOTAL**	**(547,690)**
4	**ADDITIONAL REVENUE**	
4.01	BILLBOARD ADVERTING (ANTICIPATED ADDITIONAL REVENUE FROM DIGITAL SIGN)	57,272
4.02	DISTRICT ENERGY SYSTEM INCREMENTAL NET PROFIT	99,337
4.03	GROSS PARKING REVENUE (2020 VS 2019 BUDGET; RATE INCREASE IN 2019)	206,000
4.04	BMO MINIMUM PAYMENT (CPI INCREASE)	17,571
4.05	HOTEL BASE RENT INCREASE	11,000
4.06	CNE EVENT RENT INCREMENTAL RENT VS PREVIOUS YEAR BUDGET (3% VS CPI INCREASE)	115,604
4.07	**SUBTOTAL - INCREMENTAL REVENUE**	**506,784**
	TOTAL PRESSURE - (NEGATIVE) POSITIVE	**(566,476)**

Beanfield Centre Program

This program includes the service areas of Conventions, Conferences and Meetings. The Conference Centre opened in October 2009 and the profoma supporting the construction of this project were completed by Horwath in 2006. The 2012 to 2016 budget for this program were based on this 2006 Study. In 2015, Horwath was retained to complete an updated Market Analysis and Revenue Projection. The updated 2015 proforma has been used for the 2018, 2019 and 2020 operating budgets except to the extent it is adjusted for specific revenue and expenditure items from the 2010–2018 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 now that the 404-room Hotel X is operational and as well the Board in its 2019 and 2020 Capital Budget has the Beanfield Centre Bridge Project which will install a connecting bridge between Beanfield Centre and the Hotel X which will allow guests ease of use between the two facilities without having to go outdoors.

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. However, the opening of the hotel will allow Exhibition Place to bid for future self-contained conferences to our site.

The 2020 Operating Budget for Beanfield Centre before interest, amortization and transfers is $1.298M ($1.155M – 2019) an increase of net revenue of $0.142M or 12%.

Related to the construction of the Beanfield Centre, the Board has two (2) loans. There is an outstanding loan of $38.675M with the City at a 5% interest rate which is 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 (principal and interest) to the Beanfield Centre Operating Budget is $2.454M. By the end of 2019, Exhibition Place would have paid loan principal to the City in an amount of $8.150M and to FCM in an amount of $0.833M for a total reduction in principal of $8.983M for a remaining balance owing of $31.692M both to the City ($30.525M) and FCM ($1.167M).

C. Other Issues

City Conference Centre Reserve Fund (CCRF) 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). Since the establishment of the CCRF in 2007, the Board has contributed a surplus of $25.182M to the City. The balance in the Conference Centre Reserve Fund at the end of 2019 is forecasted to be $7.568M. This reserve is a source of funding for both state of good repair as well as for the loan repayment of the Beanfield Centre.

At this point in time, the funds in the CCRF are sufficient enough to only cover three (3) consecutive years of loan repayments. Therefore, as consistent with prior year's financial performance, staff will work towards exceeding budget targets to build up this reserve to an amount at a minimum of at least $10.0M which we believe is a conservative direction to take so as not to require any tax base funding for the Exhibition Place operations in case of any cash shortfall due to operations.

Some of the significant directions taken with respect to the annual 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;
- 2014 - $.474M as budgeted was withdrawn for the renovation of the Enercare Centre washrooms; and,
- 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.

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 $120,000;
- Installation of the east Horse Palace photovoltaic (PV) system (100Kwh) realizes annual electricity savings of $11,000 annually, in addition, to $45,000 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 $259,000;
- 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 $40,000;
- 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 $205,000;
- The PV - Better Living Centre will generate $6,000 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 Hotel X, Enercare Centre Complex and Coca Cola Coliseum. Hotel X opened in March of 2018. This will generate capacity charge revenue of $413,974 and $541,671 net profit before loan principal repayment annually.

The total loan advance received by the Board to-date for all of the above energy projects is $14.948M. By the end of 2019 Exhibition Place would have paid $10.231M in interest and principal. The remaining interest and principal balances at the end of 2019 for the above energy projects is $8.131M.

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 2019 (22 years inclusive), capital funding received from the City is in the range of $140.490M, without interest. The City generally funds its Capital Programs through long-term debentures of 20 to 30 years and therefore this $140.490M (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 - 2019 Operating Budget