EP8.8

REPORT FOR ACTION

REVISED 2020 OPERATING BUDGET

Date: November 28, 2019
To: The Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All

SUMMARY

At its meeting of June 13, 2019 the Board approved without amendment the 2020 Operating Budget surplus of $175,000 an increase of $15,000 or 9% over 2019. At that time the City was undergoing a budget modernisation process and the City Manager had not provided the 2020 Budget Process, Directions and Guidelines yet to City Divisions and Agencies for its 2020 submissions.

In November 2019 the City Manager issued the budget process and guidelines to all City Divisions and Agencies. The City Manager request to Exhibition Place for 2020 was to prepare an operating budget that better align with our actual historical performance. Previously, as directed by the City the Exhibition Place operating budget was prepared on a "budget to budget" basis.

Exhibition Place have since worked with the City Financial Planning staff and have developed a revised operating budget that meets this directive. The revised operating budget is a net surplus of $500,000. The revised budget includes an expenditure for a contribution to the Conference Centre Reserve Fund ("CCRF") of $300,000. Previously the City allowed contribution to the CCRF since 2007 based on budget surplus in excess of budget target. City Council, at its meeting of January 17, 2012, reaffirmed the policy that Exhibition Place continue to contribute future operating budget surpluses (if any) to the Exhibition Place CCRF.

The revised budget showing the changes as per Schedule 1 below increases the operating surplus from $175,000 to $500,000 to reflect Exhibition Place historical results which represent an increased surplus of $325,000 or 186%

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board approve the revised 2020 Operating Budget as per Schedule 1 on page 3 of this report.

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

FINANCIAL IMPACT

The revised 2020 Operating Budget will result in an operating surplus of $500,000.

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

On June 13, 2019 the Board adopted the 2020 Operating Budget without amendment showing a surplus of $175,000.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EP3.5

COMMENTS

The City Manager office have requested staff to present a budget being more reflective of our actual past results and not to prepare the submission on a "budget to budget" as have been directed in prior years.

The Board already adopted the detailed 2020 operating budget at its meeting of June 13, 2019. Schedule 1 below only provides a high level summary of the changes to the operating budget.

THE BOARD OF GOVERNORS OF EXHIBITION PLACE		**Schedule 1**		
2020 OPERATING BUDGET				
Additional adjustments made to 2020 Board's approved Budget				
#	**Description**	**Division**		**Amount**
	2020 Board approved budget net income			$ 175,000
	City's directive - in-year insurance adjustment			12,568
	City's directive - to remove Gapping from budget - new City initiative			(181,050)
				6,518
	Additional revenue (expense) adjustments proposed by Exhibition Place:			
1	Anticipated additional percentage revenue from Billboard advertising	Finance	75,000	
2	Anticipated additional recoveries from clients (Liability Contribution, Miscellaneous Recoveries)	Finance	104,182	
3	Cost saving/reduction in WSIB	Finance	180,000	
4	Special appropriation - Defer equipment replacement	Finance	250,000	
5	Additional staff to streamline business processes & support organizational structure in 2020	CEO	(167,700)	
6	Adjustments to electricity expense and recoveries regarding Toronto hydro bills to reflect actual experience - Net	Operations	(75,000)	
7	Reduce Enbrige Gas cost - implementation of equipments to increase efficiency of the District Energy System	Operations	140,000	
	Anticipated additional revenue and direct costs from the District Energy System system: (2 nd year of operations)			
8	Additional energy sales revenue - District energy system	Operations	248,000	
9	Additional direct cost (contract service, equipment fuel) - District Energy System	Operations	(111,000)	
10	Additional buillding rent from Beanfield Centre	Sales	150,000	
11	Contribution to Conference Reservce Fund to secure future funding for SOGR backlog	Finance	(300,000)	
	Total additional adjustments to 2020 budget submission			**493,482**
	Revised Budget Net Surplus			**500,000**

Other Issue

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 $25.182 million to the City. The balance in the Conference Centre Reserve Fund at the end of 2019 is forecasted to be $7.568 million (excluding any 2019 surplus).

City Council, at its meeting of January 17, 2012, reaffirmed the policy that Exhibition Place continue to contribute future operating budget surpluses (if any) to the Exhibition Place CCRF. Also, as part of Toronto Municipal Code Chapter 227, Reserves and Reserves Funds, City Council approved the purpose of the CCRF to provide a source of funding, in the first instance, for any shortfalls in the loan payments to the City from Exhibition Place for the new conference centre; and in the second instance to support cash shortfalls with respect to capital funding required to maintain the Enercare Centre and the Beanfield Centre in a state of good repair.

At this point in time, the funds in the CCRF are sufficient enough to only cover three (3) consecutive years of City loan repayments. Consistent with prior year's, staff will contribute to this reserve in an effort to achieve at least $10.0 million 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.

The City Financial Planning has advised moving forward that the Board start to use some of the funds in the CCRF to help fund annual SOGR Capital Expenditures. Staff believe that the CCRF should first be grown and maintained at a minimum of $10.0 million to cover any shortfall in loan repayments. In prior years any surplus above budget were transferred into the CCRF as approved by the Board and City. With this contribution option possibly not being available as advised by the City Financial Planning, staff have therefore included with City Financial Planning concurrence a contribution of $300,000 to the CCRF within the budget to help grow the CCRF. In addition, at the end of 2019 we have a SOGR backlog of $30.4 million and growing and therefore would like to grow the CCRF by an additional $10.0 million to $20.0 million to assist the City in future years with the SOGR backlog funding as supported by City Council direction. For information purpose, the cost value (not replacement value) of buildings managed by Exhibition Place is $500 million and as a commercial operations should be able to set aside at a minimum at least 1% ($5.0 million) of its asset value in a reserve such as the CCRF to fund SOGR above amounts allowed/provided by the City on an annual basis.

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.

CONTACT

Hardat Persaud, Chief Financial Officer & Corporate Secretary, 416-263-3031, hpersaud@explace.on.ca

Steven N. Nushis, Director of Accounting Services, 416-263-3039, snushis@explace.on.ca

SIGNATURE

Don Boyle
Chief Executive Officer