EP13.8

REPORT FOR ACTION

2020 Operating Budget Financial Impact Update due to COVID-19

Date: September 3, 2020
To: The Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All

SUMMARY

The City of Toronto made a decision in March to cancel all programs and events up to June 30, 2020 due to COVID-19 pandemic risk to public health and safety. Provincial Public Health Officials have further restricted gathering numbers to a limit of 50 persons indoors. Since March, nearly every Exhibition Place Show Organizer and Meeting Planner client have invoked their Force Majeure clause in their License Agreement to cancel or postpone their 2020 events. The same meeting and event cancellation is occurring in every convention centre across Canada. In addition to the cancellation of shows/meetings, Tenants such as Liberty Grand, QE Theatre, Aqua Dolce Resto Venue and Medieval Times have been completely closed while other tenants have opened in very limited capacity and therefore the loss of related ancillary revenue, such as Parking and Show Services from their closure.

The Boards operations are highly dependent on the cash flow and net income from our trade and consumer shows, conferences, conventions, socials, galas, meetings and tenants operations. Since early in March, given the rise in concern over COVID-19, staff has been monitoring its cash flow from operations on a daily basis and have put a hold on all non-essential costs and discretionary expenditures such as travel, training, etc.

Given the cancellation / postponement of all events up to August 31, 2020 Exhibition Place staff has been in constant communications with the City Managers Office and the City Financial Planning Department regarding financing opportunities to cover the Boards next 4 month cash shortfall requirements. Show Organizers and Meeting Planners of these cancelled events and conventions are requesting a full refund of their space rental fees due to Force Majeure. The Board approved 2020 operating budget is a surplus of $500,000. The estimated impact from COVID-19 to the Boards operating budget as at August 31, 2020 is a reduction of net income/surplus of $18.306 million (Schedule A).

The loss of net income and resultant cash flow is a concern not only to Exhibition Place, but also to the City of Toronto as the Board operates, manages, and maintains

Exhibition Place on behalf of the City, and the City is entitled to any surplus resulting from the Board's activities, and is responsible for any deficit the Board incurs.

At its meeting of June 24, 2020 the Board received an update to the 2020 operating budget forecasted results, and directed the Chief Executive Officer to submit another update to the 2020 operating budget impact due to COVID-19 and the projected 2020 results at the September 18, 2020 Board meeting.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board direct the Chief Executive Officer to submit another update to the 2020 operating budget impact due to COVID-19 and the projected 2020 results at the December 14, 2020 Board meeting.

FINANCIAL IMPACT

The impact of COVID-19 to the Boards 2020 operating budget at August 31, 2020 is a reduction of net income of $18.306 million (Schedule A) from event rent, net show services, food and beverage, net parking, and Tenants operations.

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 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 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

On December 19, 2019, the Board adopted the revised 2020 Operating Budget without amendment showing a surplus of $500,000.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EP8.8

At its meeting of June 24, 2020, the Board received an update to the 2020 operating budget forecasted results and directed the Chief Executive Officer to submit another update to the 2020 operating budget impact due to COVID-19 and the projected 2020 results at the September 18, 2020 Board meeting.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EP11.16

COMMENTS

The reduction of net income and cash flow is a concern not only to Exhibition Place, but also to the City as a whole; as the Board operates, manages, and maintains Exhibition Place on behalf of the City of Toronto. The City is entitled to any surplus resulting from the Board's activities and is responsible for any deficit the Board incurs.

The reduction of net income due to COVID-19 at August 31, 2020 is $18.306 million (Schedule A below):

SCHEDULE A

1	Lost net profit from known shows (excluded parking)	(15,374,527)
2	Lost parking revenue (net of direct wages, rebates and parking overhead costs)	(5,297,424)
3	Operating cost savings (hydro, gas, water and other non-labour cost etc…)	410,091
4	Saving from delay in hiring of non-unionized management staff due to COVID-19	829,143
5	Wages and benefits cost savings from temporary laid off and reduction of base building maintenance (net of recoveries)	2,040,995
6	Incremental operating cost COVID 19 related	(450,000)
7	Saving from stop contribution to CCRF	300,000
8	Lost revenue from tenants events (participated rent and net net service)	(295,437)
9	Lost of admin mark up, interest and misc revenue	(468,471)
	Total 2020 budget pressure before City fundings	**(18,305,630)**

For events that are cancelling due to Force Majeure, they are requesting full refund now of their deposited rent monies. Since 1999 the Board has never borrowed funds from the City. Contrary to our current cash flow position, over the past 13 years the Board has established internal budgetary targets aimed at maximizing net surplus paid to the City, which has totalled approximately $27.5 Million.

Management has put in place cost mitigation measures across all departments, reducing staffing levels, cancellation of all business travel, training, and other measures including the cancellation of all discretionary expenditures. As well, management is working closely with the City on all operations including trade payables and receivables and on financing options.

Options for Financing through the City

On April 6, 2020, the City Executive Director of Financial Planning sent out guidelines for an assessment of all Agencies, Boards, and Commissions ("ABC's") regarding short-term liquidity and required assistance from the City. Staff continue to work with the City on financing options for Exhibition Place given the monies that the City has comes from the same pool of general operational cash flow that all ABC's can access. The City do want to support all ABC's with their liquidity challenges, and City Financial Planning to August 31, 2020 has provided weekly funding to Exhibition Place in the amount of $9.546 million to cover cash shortfall.

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