



REPORT FOR ACTION

2021 OPERATING BUDGET

Date: October 9, 2020

To: The Board of Governors of Exhibition Place

From: Don Boyle, Chief Executive Officer

Wards: All

SUMMARY

On August 7th, the City Manager's Office provided the preliminary 2020 Budget Process, Directions, and Guidelines for all City Divisions and Agencies for 2020 which is subject to change. Until such other 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.

In preparing our budget plan, we have taken into consideration the financial impacts of COVID-19, and therefore have provided for a 0% COLA increase and 0% pay for Performance increases for 2021 per Council directives. There is still some uncertainty as to the future financial impacts and the extent of COVID-19, and it is still too early to assess 2021 operating impact. Exhibition Place staff have developed a 2021 status quo Operating Budget that is consistent with 2020 budget principles with a nil (\$0) increase over the 2020 Operating Budget. This preliminary budget plan will not have an impact on the City property tax base year-over-year. Wages and benefits cost saving from delaying in hiring replacements for management staff who retired in 2020, temporary laid off of casual/temporary staff, and reduction in volume of base building maintenance and overtime.

Staff are optimistic that although the volatility of COVID-19 may not be completely gone, the exhibition business will return to some normalcy in a COVID-19 world, but are aware that measures may have to be taken again for 2021 with similar financial impact as in 2020. The measures taken to mitigate the risk of additional lost business or increase in costs due to COVID-19 is that all non-essential costs have been delayed/deferred, and discretionary expenditures such as travel, training, etc. has been eliminated. COVID-19 costs include both ongoing day to day service costs, as well as, restart/recover/rebuild costs.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board approve the 2021 Operating Budget attached as Appendix 'A'.
2. The Board request that City Council transfer any surplus above budget target for 2021 to the "Exhibition Place Conference Centre Reserve Fund".
3. The Board direct the Chief Executive Officer to submit the 2021 Budget to the City Financial Planning Division as part of the 2021 Budget Process.

FINANCIAL IMPACT

The proposed 2021 Operating Budget will result in a surplus of \$500,000.

2021 Operating Budget Submission							
(In \$000s)	2018 Actual	2019 Actual	2020 Project Actual at August 31	2020 Approved Budget	2021 Submitted Budget	2021 Submitted vs. 2020 Budget Approved Changes	
Gross Expenditures	50,299.3	60,541.4	35,421.5	57,053.8	58,578.8	1,525.0	2.7%
Revenue & Cost Recoveries	52,520.8	62,785.7	17,615.9	57,553.8	59,078.8	1,525.0	2.6%
Total Net Expenditures before City fundings (Note *)	(2,221.4)	(2,244.3)	17,805.6	(500.0)	(500.0)	0.0	(0.0%)
Approved Positions	356.0	356.0	224.0	357.0	357.0	-	

Note *: The financial impact (net expenditures) for 2020 projected actual will result in an operating deficit will be fully covered by the City and included as revenue in the year end operating results.

The financial impact (net expenditures) for 2020 projected actual as of August 31, 2020 will result in an operating deficit will be fully covered by the City and included as revenue in the year end operating results.

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 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 July 28 and 29, 2020, City Council adopted the update on the City's Response to COVID-19 and Financial Impacts. The update provided an overview of the economic uncertainty and the City's response. Included were recommendations for 0% COLA for 2020 and 0% COLA and performance pay for 2021 that the Board has adopted.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.CC23.3>

At its meeting of June 24, 2020, the Board received an update on the impact of COVID-19 on our 2020 Operating Budget.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EP11.16>

COMMENTS

Next Steps for 2021

Helping the trade, consumer show, as well as, conferences and meetings business on the road to recover safely undoubtedly will be a priority. Staff are working with both the local City and provincial counterparts in developing return and recovery back to work plans, as well as, guidelines to safely open our doors to our industry business.

Given the volatility of the industry, staff will continue to monitor the situation in order to mitigate the risk of loss revenue by implementing our cost cutting measures if the pandemic continues. With risk and health being two key considerations for our industry, it is anticipated that a recovery for our industry likely represents smaller meeting sizes following evolving government health and safety guidelines. With fewer people meeting and a robust cleaning routine in place, the risk to attendees will be reduced.

2021 will create many opportunities for us to develop even stronger alliances with our venue partners within the industry. Specifically as relating to the meetings business at the Beanfield Centre, as we design a series of meeting formats, equipment packages,

and recommendations that address how to reduce risk, increase confidence, and promote health within the meeting space. Meeting design, room layout, traffic flow, technology considerations, and enhanced cleaning procedures are at the heart of this offering with the goal to make the meetings and events industry strong and healthier than ever.

Exhibition Place tenants are experiencing financial pressures from COVID-19. No doubt with students going back to school and flu season upon us the road to recovery has uncertainty which impacts all our tenants and their ability to generate revenue. If tenants are unable to successfully open this will impact the Boards ability to collect, as well as, the generation of ancillary revenues.

A. Prior Year's Results and 2021 Issues

Although there is great uncertainty surrounding COVID-19 and it's ultimate impact on the trade, consumer show & conferences industry, as in previous years, staff have prepared our preliminary 2021 operating budgets on a "budget-to-budget" basis, and not on 2020 "actual to budget" basis.

A status quo budget for 2021 budget has been created not to put pressure on the City property tax base as staff are optimistic that although the volatility of COVID-19 may not be completely gone business will return to some normalcy in a COVID-19 world, but are aware that measures may have to be taken again for 2021 and there may be a similar financial impact as we have seen in 2020. Exhibition Place will be able to mitigate the risk of loss business or increase in costs due to COVID-19 by delaying all non-essential costs and discretionary expenditures such as travel, training, etc. and continue to monitor cash flow weekly. COVID-19 costs include both ongoing day to day service costs, as well as, restart/recover/rebuild costs. The impact of COVID-19 on the Boards 2020 budget surplus of \$.500 million is unfavourable variance of \$18.300 million for a net deficit of \$17.800 million.

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 thirteen (13) year period from 2007 to 2019, the Board (including the CNEA Program prior to 2013) has paid over its operating surplus to the City totalling approximately \$26.533 millio.

In the development of the 2021 operating budget there were a number of major factors that were considered as set out below. The Cost of Living increases (COLA) are provided at 0% which is consistent with City directives. Merit increases (financial performance rewards) are also based on City directive at 0%. Other expenditures are provided for on the forecasted City budget economic factors and adjusted for anticipated volume changes.

B. 2021 Operating Budget by Program Area

The following section provides information on the proposed level for 2021 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 Shows. 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 2021 will be the 4th 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 2021 is the sixth (6) full year that Hotel X pays contractual base rent, it will be the third (3) 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.

Articles from Trade Show Executive (TSE) over the past few months discuss the uncertainty and impact of COVID-19 on our industry. Exhibition Place has developed a robust plan and is working with both Provincial and Federal Governments in an effort to resume business back to normal for 2021.

<https://www.tradeshowexecutive.com/tse-covid-19/tse-magazine-articles-regarding-covid-19/>

Exhibition Place / Enercare Centre is not only operating in a very competitive market in Toronto and the GTA, but also continues to strive to generate new business and to maximize profitability. The 2021 Exhibition Place and Enercare Centre operating budget for total direct and indirect (overhead) expenses of \$38.077M (2019 - \$37.236M) represents an increase from the 2020 budget of \$0.841M or 2.0%. The increase is primarily due to the following:

(1) Increase in departmental overhead of \$.988M which includes increase in the cost of utilities of \$.745M due to inflationary and City economic factors; offset by

(2) Decrease in salary and benefits due to lower pay rates for new hires and a freeze on rehiring from retirements that occurred in 2020, and likely to continue in 2021 if the pandemic continue and both a 0% increase for COLA and Performance Pay compared to the 2020 Budget. For clarity, we provided replacement dollars in 2021 budget although anticipated new hires cost is lower versus 2020 approved budget.

EXHIBITION PLACE & ENERCARE CENTRE		
BUDGET 2021 - MAJOR FINANCIAL PRESSURE		
		TOTAL POSITIVE (NEGATIVE)
1	PRESSURE FROM SHOWS	
1.01	SIAL TORONTO (BIENNAL 2019; 2021)	570,651
		-
1.02	NATIONAL BRIDAL SHOW (EVENT LEFT)	(97,937)
1.03	TORONTO INTERNATIONAL BICYCLE SHOW (EVENT LEFT)	(187,420)
1.04	GREAT NORTHERN CONCRETE TOBOGGAN RACE 2020 (ONE OFF)	(6,233)
1.05	OVA PROVINCIAL CHAMPIONSHIPS 2020 (ONE OFF)	(557,365)
1.06	TORONTO OPEN 2020 (FENCING) (BUDGET IN 2020, NOT IN 2021)	(29,340)
		-
1.07	SUBTOTAL - PRESSURE FROM SHOWS	(307,644)
	POSITIVE (NEGATIVE) PRESSURE	
2	SALARY AND BENEFITS - @ 0% COLA, 0% MERIT, SAVINGS FROM LOWER RATES	426,484
3	OTHER DEPARTMENTAL OVEHEAD EXPENSES	
3.01	UTILITIES - ECONOMIC FACTORS INCREASE, BUDGET ADJUSTMENTS	(744,949)
3.02	SAVING ON INTEREST EXPENSE - TPA LOAN (2021 VS 2020 BUDGET)	19,108
3.03	ADDITIONAL BENEFITS PREMIUM COST FOR RETIRES & LTD EMPLOYEES	(40,000)
3.04	EXTERNAL AUDIT FEE - NEW PROPOSAL BY CITY WITH KPMG	(25,000)
3.05	ANTICIPATED ADDITIONAL ANNUAL COST FOR ADP FEE	(55,000)
3.06	LEGISLATIVE FLUSH SPRINKLER PIPING - OPS	(20,000)
3.07	SALES & MARKETING - WAYFINDING MONITOR MAINTENANCE (FOURWINDS)	(15,000)
3.08	OTHERS - VARIOUS DEPARTMENTS	(117,746)
3.09	SUBTOTAL	(998,587)
4	ADDITIONAL REVENUE	
4.01	BILLBOARD ADVERTING (2021 VS 2020 BUDGET INTEREST EXPENSE)	1,929
4.02	DISTRICT ENERGY SYSTEM INCREMENTAL NET PROFIT	69,262
4.03	BMO MINIMUM PAYMENT (CPI INCREASE)	4,619
4.04	TENANTS LEASES RENEWAL WITH HIGHER ANNUAL BASIC RENT	406,355
4.05	CNE EVENT RENT INCREMENTAL RENT VS PREVIOUS YEAR BUDGET (3% INCREASE)	119,072
4.06	OFFICIAL SUPPLIER (2021 VS 2020 BUDGET)	81,000
4.07	SUBTOTAL - INCREMENTAL REVENUE	682,237
	TOTAL PRESSURE - (NEGATIVE) POSITIVE	(197,510)

Beanfield Centre Program

This program includes the service areas of Conventions, Conferences, and Meetings. The Conference Centre opened in October 2009 and the proforma 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 Elevated Bridge Project which will see the installation of 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 \$1.473M (\$1.447M – 2020) an increase of net revenue of \$0.026M or 2%.

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 \$9.004M, and to FCM in an amount of \$0.932M for a total reduction in principal of \$9.937M for a remaining balance owing of \$30.738M both to the City (\$29.671M) and FCM (\$1.067M).

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 \$27.426M to the City. The balance in the Conference Centre Reserve Fund at the end of 2020 is forecasted to be \$9.693M. 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 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 \$10,000 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 \$227,000;
- 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 \$416,000 and \$748,000 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 2020 Exhibition Place would have paid \$11.375M in interest and principal. The remaining interest and principal balances at the end of 2020 for the above energy projects is \$7.298M.

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 envelope 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 SOGR capital projects has been a vital part of maintaining the grounds. From the period of 1998 to 2021 (24 years inclusive), capital funding received from the City for SOGR is in the range of \$137.8M, without interest. The City generally funds its Capital Programs through long-term debentures of 20 to 30 years, and therefore this \$137.8M (plus interest) would still be outstanding and owed by the City.

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SIGNATURE

Don Boyle
Chief Executive Officer

ATTACHMENTS

Appendix A - 2021 Operating Budget