# REPORT FOR ACTION

# 2022 Operating Budget

**Date:** September 14, 2021
**To:** The Board of Governors of Exhibition Place
**From:** Don Boyle, Chief Executive Officer
**Wards:** All

## SUMMARY

On June 30, 2021, the Executive Director of City Financial Planning Division (FPD) provided the preliminary 2022 Budget Process, Directions, and Guidelines for all City Divisions and Agencies for 2022, which is still subject to change.

Throughout the budget process, staff have worked closely with industry insiders, followed industry and trade magazines, as well watched closely the re-opening of the trade, consumer show and conference centre business in the USA, and the continuing impact of COVID-19. Our 2022 budget considers all these factors as it relates to COVID-19. Staff are cautiously optimistic, but given the year-end 2021 forecasted results, understand that there is still volatility in our economy.

City Financial Planning directed ABC's to prepare a more realistic 2022 Operating Budget using a budget lens, taking into consideration both 2020 actual and 2021 projected operating results as a guide. As shown in Schedule A, the 2021 year-end forecasted impact of COVID-19 on the Boards 2021 budget is a deficit of ($7.577) million which is unfavourable variance of ($5.088) million for a net deficit of ($12.664) million.

Exhibition Place worked with the City Financial Planning staff and have developed an operating budget that meets the City directive. As reported in Schedule A, the operating budget for 2022 is a net deficit of ($3.400) million. The main assumption used in preparing the Operating Budget, is that although there will be volatility and additional costs due to health and safety precautions, our event booking will be back to normal, although there will be anticipated lower attendance impacting ancillary revenue.

With respect to the Exhibition Place Conference Centre Reserve Fund, the balance at the end of 2021 is forecasted to be $3.916 million. This reserve is a source of funding for both state of good repair, as well as, for the loan repayment of the Beanfield Centre. In 2021, the draw from the CCRF for City loan payments was $3.600 million; but given its forecasted balance staff will work towards funding these loan payments from operations.

## RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board approve the 2022 Operating Budget attached as Appendix A.

2. The Board direct the Chief Executive Officer to submit the 2022 Budget to the City Financial Planning Division as part of the 2022 Budget Process.

## FINANCIAL IMPACT

### Schedule A

The proposed 2022 Operating Budget will result in a deficit of ($3.400) million.

| 2022 Operating Budget Submission | | | | | | | |
|---|---|---|---|---|---|---|---|
| **(In $000s)** | **2020 Actual** | **2021 Approved Budget** | **2021 Projection at August 31** | **2022 Base Budget** | **2022 Requested Budget** | **Change v. 2021 Projection** | |
| Gross Expenditures | 37,851 | 43,386 | 32,147 | 60,360 | 60,360 | 28,213 | 87.8% |
| User Fee & Cost Recoveries Revenue | 37,988 | 35,809 | 19,482 | 56,960 | 56,960 | 37,477 | 192.4% |
| **Total Net Expenditures before City fundings (Not** | **(136.44)** | **7,576.79** | **12,664.34** | **3,400.00** | **3,400.00** | **(9,264.34)** | -73.2% |
| | | | | | | | |
| **Approved Positions** | **194** | **254** | **195** | **346** | **346** | **151** | 77.4% |
| Note *: The financial impact (net expenditures) for 2021 projected actual will result in an operating deficit that will be fully coverd by the City and included as revenue in the year end operating results. | | | | | | | |

The financial impact (net expenditures) for 2021 projected actual as of August 31, 2021 will result in an operating deficit that 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

## COMMENTS

Exhibition Place staff have worked closely with City FPD in preparing our 2022 Operating Budget. Our main assumptions used in preparing the 2022 Operating Budget are:

- Booking of events will be back to normal in 2022. There is still uncertainty about the future financial impacts and the extent of COVID-19 as there is limited information about the persistence of COVID-19, thus Exhibition Place is using the following assumptions to prepare the 2022 Operating Budget.
- Trade/consumer/meeting and convention events are fully booked in 2022.
- From January - September 2022, service revenue and food and beverage consumption for events will be at 75% of the normal volume. Overall parking revenue will be at 70% of the normal volume.
- Tenants' events and CNE fair's service revenue will be at 75% of the normal volume.
- There will be additional costs related to health and safety associated with delivery of service by Exhibition Place staff.
- Attendance will be lower than pre-pandemic levels. The USA market illustrates that attendees will be apprehensive about going to a trade, consumer show or conferences with COVID-19. With attendance being lower there will be lower ancillary revenue such as parking and show services.
- There will be additional costs and procedures associated with the delivery of food and beverage due to COVID-19, and as well due to the anticipated reduction of attendance, revenue and the associated commission the Board receives will be lower.

- COLA increase for unionized staff will be per collective agreements at approximately 1.25%; and as well for non-unionized staff includes a pay increase (1.25% COLA and 2.65% blended financial reward/merit). However, staff will work closely with City and will follow City directives regarding the actual pay increases in 2022.
- Tenants will experience the same trends as the Board, and as such the Board anticipates lower services revenue from tenants.
- There is still volatility associated with the economy and as such non-essential costs have been delayed/deferred, and discretionary expenditures such as travel, training, etc. has been reduced. COVID-19 costs include both ongoing day to day service costs, as well as, restart/recover/rebuild costs.

## Next Steps for 2022

Helping the trade, consumer show, conference 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 lower levels of attendance. With fewer people meeting and a robust cleaning routine in place, the risk to attendees will be reduced.

2022 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 business are closed and are experiencing financial pressures from COVID-19. We anticipate that tenants will be able to have events, although they will experience the same pressures as we do. If tenants are unable to successfully open this will impact the Boards ability to collect rent and additional rent, as well as, the generation of ancillary revenues.

### A. Prior Year’s Results and 2022 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 2022 Operating Budgets both on a “budget-to-budget” basis, and as well taking into consideration our 2022 assumptions coming out of the pandemic.

Exhibition Place will be able to mitigate the risk of loss business or increase in costs due to COVID-19 by reducing and where necessary delay 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 forecasted impact of COVID-19 on the Boards 2021 budget deficit of ($7.577) million is unfavourable variance of ($5.088) million for a net deficit of ($12.664) 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 million.

In the development of the 2022 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 1.25%. Merit increases (financial performance rewards/merit) is estimated at 2.65%. Other expenditures are provided for on the forecasted City budget economic factors and adjusted for anticipated volume changes.

B. 2022 Operating Budget by Program Area

The following section provides information on the proposed level for 2022 operating budget revenues and expenditures for each of the two Exhibition Place programs: Exhibition Place / Enercare Centre, 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 Carnival, 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 2022 will be the 7th 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 the Toronto Argonauts. While 2022 is the eight (8) full year that Hotel X pays contractual base rent, it will be the fifth (5) 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 continue to discuss the uncertainty and impact of COVID-19 on our industry. The theme of the most recent articles is the industry is ready but cautiously optimistic. 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 2022.
[https://www.tradeshowexecutive.com/tse-covid-19/tse-magazine-articles-regarding-covid-19/](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 2022 Exhibition Place, Enercare Centre Operating Budget for total net deficit of ($2.830) million (2021 - $9.748 million deficit) represents an increase net profit from the 2021 approved budget of $6.918M or 71%. The increase is primarily due to the following as summarized in the chart below:

(1) Increase $8.91million events net profit which consists of $9.556 million increase in volume compared to 2021 budget; offset by $0.646 million loss from events not returning in 2022.
(2) Increase $0.698 million salary and benefits cost from providing estimated COLA increase for unionized staff per collective agreements and progression pay increase (1.25% COLA and 2.65% financial reward/merit) for non-unionized staff for 2022 compared 0% increase in 2021 approved budget; increase in retirees and LTD benefits premium cost; and increase in net salary and benefits expense of $0.765 million due to filling all positions that were vacant and not rehired/refilled due to the pandemic in 2020/2021.
(3) Increase $3.065 million departmental overhead expenses (non-labour) which includes $0.409 million inflation increase for utilities and increase for marketing division’s advertising and promotion cost; and $2.656 million volume increase compared to 2021 approved budget from various departments.
(4) Increase $0.600 million net revenue from inflationary adjustment and increase participation rent from billboards and tenants in 2022.

(5) Increase in net parking revenue of $1.935 million due to volume increase in 2022.

| | | |
|---|---|---|
| **EXHIBITION PLACE & ENERCARE CENTRE** | | |
| **BUDGET 2022 - MAJOR FINANCIAL PRESSURE** | | |
| | | **TOTAL POSITIVE (NEGATIVE)** |
| **1** | **PRESSURE FROM SHOWS** | |
| 1.1 | SIAL TORONTO (BIENNAL 2021; 2023) | (378,327) |
| 1.2 | TORONTO FALL HOME SHOW (BUDGET IN 2021, NOT IN 2022) | (188,111) |
| 1.3 | SPRING FEST (EVENT NOT RETURNING) | (29,150) |
| 1.4 | SCREEMERS (EVENT NOT RETURNING) | (50,563) |
| | SUBTOTAL | **(646,150)** |
| 1.5 | INCREMENTAL REVENUE - VOLUME CHANGES 2022 VS 2021 - EXHIBITION PLACE | 1,045,575 |
| 1.6 | INCREMENTAL REVENUE - VOLUME CHANGES 2022 VS 2021 - ENERCARE CENTRE | 8,510,931 |
| | SUBTOTAL - 2022 VS 2021 BUDGET VOLUME CHANGE | **9,556,506** |
| | | - |
| **1** | **SUBTOTAL - PRESSURE FROM SHOWS** | **8,910,356** |
| | **POSITIVE (NEGATIVE) PRESSURE** | |
| **2** | **SALARY AND BENEFITS** | |
| 2.1 | SALARY AND BENEFITS - @ 1.25% COLA, 2.65% MERIT, RETIREES & LTD PREMIUM | **(697,954)** |
| 2.2 | STAFF GAPPING BUDGET - DELAYING HIRING IN 2021; FULL STAFFING BUDGET IN 2022 | **(764,563)** |
| **3** | **INCREMENTAL OTHER DEPARTMENTAL OVEHEAD EXPENSES** | |
| 3.1 | ECC MARKETING - ADVERTISING AND PROMOTION; UTILITIES -INFLATION ADJUSTMENTS | **(409,100)** |
| 3.2 | 2022 VS 2021 BUDGET VOLUME CHANGES - LEGAL FEE, WSIB, TMIF CONTRIBUTION, SPECIAL APPROPRIATION, CONTRIBUTIONS TO RESERVES, VARIOUS DEPARTMENTS | **(2,656,345)** |
| **4** | **INCREMENTAL REVENUE** | |
| 4.1 | CPI INCREASE, PARTICIPATION RENT (BILLBOARDS, TENANTS, CNE FAIR) | **599,975** |
| 4.2 | VOLUME CHANGE - PARKING REVENUE NET OF DIRECT WAGES | **1,935,421** |
| | **TOTAL PRESSURE - (NEGATIVE) POSITIVE** | **6,917,790** |

**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 annual Capital Budget has the Beanfield Centre Elevated Bridge Project which will see the installation of a connecting bridge between Beanfield Centre, and 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 2022 Operating Budget for Beanfield Centre before interest, amortization, and transfers is $0.82 million profit ($0.034 million deficit – 2021) an increase of net profit of $0.860 million or 2,504%.

Related to the construction of the Beanfield Centre, the Board has two (2) loans. There is an outstanding loan of $38.675 million 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 $2.0 million 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 $2.454 million. By the end of 2021, Exhibition Place would have paid loan principal to the City in an amount of $9.902 million, and to FCM in an amount of $1.034 million for a total reduction in principal of $10.936M for a remaining balance owing of $29.739 to both the City ($28.773 million) and FCM ($.996 million).

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 $27.426 million to the City. The balance in the Conference Centre Reserve Fund at the end of 2021 is forecasted to be $3.916 million. This reserve is a source of funding for both state of good repair, as well as, for the loan repayment of the Beanfield Centre.

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 $3.1million was not added to this Reserve but used by the City for general operating purposes;
- 2008 – the surplus of $2.4 million was allocated for Allstream Centre masonry restoration;
- 2009 – $1.4 million 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 $1.854 million (2012) and $1.320 million (2011) for a total of $3.174 million was transferred to the CNEA as part of the independence of the CNEA;
- 2014 – $.474 million as budgeted was withdrawn for the renovation of the Enercare Centre washrooms; and,
- In the years 2013 ($1.633 million), 2014 ($.621 million) and 2015 ($.345 million) amounts totaling $2.6 million were withdrawn to fund for the disposal of pre-existing contaminated soil on the hotel lands in accordance with the lease agreement.
- In 2020 $2.346 million were withdrawn to pay City loans due to cash flow constraints caused by the pandemic.
- As budgeted, in 2021 staff will withdraw $3.600 million to pay City loans due to cash flow constraints caused by the pandemic.

**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 $20,000;
- 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. It is budgeted this will generate capacity charge revenue of $423,000 and $865,600 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 2021 Exhibition Place would have paid $12.522M in interest and principal. The remaining interest and principal balances at the end of 2021 for the above energy projects is $6.435M.

**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 to 2019. 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 2022 (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 to the City.

## CONTACT

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## SIGNATURE

Don Boyle
Chief Executive Officer

## ATTACHMENTS

Appendix A - 2022 Operating Budget