REPORT FOR ACTION

2022 Operating Budget Financial Impact Update due to Covid-19

Date: May 26, 2022
To: The Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All

SUMMARY

This report provides a 2022 year-end forecast as at April 30, 2022 from the lingering impact of Covid-19 pandemic. At the time of our budget submission to the City in September 2021, certain assumptions were made with respects to the Board 2022 Operating Budget. Some of the key assumptions are:

- The pandemic phase of Covid-19 was ending in 2022. Booking of events will be back to normal.
- Attendance will be lower than pre-pandemic levels ta 75%.
- 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.
- 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 and rebuild costs.

Since our submission, due to the omicron variant the pandemic continued and there were additional cancellations / postponement of events through the period January to April 2022, which was not anticipated at the time of the budget. This impacted the Tenants operations as well.

Exhibition Place met with City Financial Planning Department and advised of the impact this would have on our 2022 Operating Budget, as well as the Boards cash shortfall requirements in late fall.

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 the start of the pandemic, given the rise in concern over Covid-19, staff have been monitoring its cash flow from operations daily and have put a hold on all non-essential costs and discretionary expenditures such as travel, training, etc.

The Board/City approved 2022 operating budget is a Budget Loss of ($3.300) million. The estimated impact from Covid-19 to the Boards operating budget as at April 30, 2022 is an additional pressure of ($1.600) million for an overall forecasted net loss of ($4.900) million before any City funding. The Boards approved 2022 Budget prepared in August 2021 included the assumption that events as well as tenants' operations would become normal and starting to reopen in January 1, 2022, which did not occur.

The additional pressure of ($1.600) million from lost business on the Boards operations and resultant cash flow is a continued 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.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board direct the Chief Executive Officer to submit another update to the 2021 operating budget impact due to Covid-19 at the November 2, 2022 Board meeting.

FINANCIAL IMPACT

The impact of Covid-19 to the Boards operating budget as at April 30, 2022 is an additional pressure of ($1.600) million from loss of rent, net show services, food and beverage, and net parking to a forecasted net loss of ($4.900) million before City funding.

DECISION HISTORY

The Exhibition Place 2017 – 2019 Strategic Plan had a Financial Goal to achieve positive financial performance across Exhibition Place and all its business 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 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 September 28, 2021, the Board adopted the 2022 Operating Budget without amendment reporting a net loss of ($3.300) million.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EP19.3

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 forecast for the year ending December 31, 2022 was prepared as at April 20, 2022 showing an increase in forecasted net loss due to Covid-19 of ($1.600) million for an overall forecasted net loss of ($4.900) million, see (Schedule A below).

SCHEDULE A		
2022 approved budget Net Profit (Loss)		**$(3,300,000)**
Additional savings (pressures) vs. 2022 approved budget as of April 30, 2022:		
1. Loss revenue from events (events that were previously budgeted Jan-Apr such as Toronto International Boat Show, Toronto Motorcycle Show; Rent Apr-Dec per actual booking. Forecast service ancillary revenue at 25% of approved budget for new events from April to December at Enercare Centre and meetings and conventions at Beanfield Centre; offset by incremental profit from various film shoots)	$(3,558,000)	
2. Tenant lease and event service (Apr-Dec forecast service revenue at 25% of approved budget)	(206,000)	
3. Lost net parking revenue (Apr-Dec forecast at 25% of approved budget)	(1,409,000)	
4. Micellaneous recoveries (admin mark up, ABM commission, % rent etc.)	(298,000)	
5. Utilities cost saving (hydro, gas, water)	1,623,000	
6. Operating cost savings (wages, benefits and non-essential expenditures)	2,248,000	
Total additional 2022 budget pressures		**(1,600,000)**
2022 total forecasted Net Profit (Loss) before City Funding		**$(4,900,000)**

Since 1999, the Board has never borrowed funds from the City except for 2020, 2021 and now the current year due to the Covid-19 pandemic. Contrary to our current cash flow position, since 1999 and excluding the years 2020 and 2021 the Board has established internal budgetary targets aimed at maximizing net surplus paid to the City, which has totalled approximately $27.5 Million.

Management continues to 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.

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

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SIGNATURE

Don Boyle
Chief Executive Officer