

2023 Operating Budget

Date: August 30, 2022
To: The Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All

SUMMARY

On July 26, 2022, the Executive Director of City Financial Planning Division (FPD) provided supplemental instructions to assist City Divisions and Agencies in the preparation of the 2023 Operating Budget Submissions with a firm submission deadline of September 16, 2022 and additional budget guidance and directions for all City Divisions and Agencies.

Throughout the budget process, Exhibition Place 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 businesses in North America and around the globe. Despite all the challenges from bouncing back after the pandemic, staff are cautiously optimistic projecting the recovery of our operation is progressing well, following same trends as other businesses in the same industry.

City Financial Planning Division (FPD) directed ABC's to prepare a realistic 2023 Operating Budget using a budget lens, taking into consideration, where possible, no additional financial pressures to the year over year net expenditures other than Covid-19 impacts. The Covid-19 impact will be treated as a separate item and the impacts will be reviewed in the context of expected Federal and Provincial funding support received by the City.

Exhibition Place worked with the City FPD staff and have developed an operating budget that meets the City directive. As shown in Schedule A, the operating budget for 2023 is a net deficit of (\$2.300) million which is a 30% or \$1.0 million reduction/improvement in the Boards deficit year over year.

The main assumptions used in preparing the 2023 Operating Budget are:

- Booking of events will be back to normal in 2023 although less attendance than pre-pandemic levels.
- It is estimated that attendance will increase over 2022; estimated to be at 85% of pre-pandemic levels. As such this will lead to lower ancillary revenue such as parking, food and beverage, and show services.

- Parking revenues are also being impacted negatively from the impact during recovery period, as well as, loss of parking spaces in Lot 851 due to the construction of Phase 2 Hotel and Venue Development.
- There will be additional Covid-19 costs related to health and safety associated with delivery of service.
- There will be additional costs and procedures associated with the delivery of food and beverage due to Covid-19 protocols, and 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 for non-union staff.
- Tenants will experience the same trends as the Board and as therefore 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.

As reported in Schedule A below, the 2022 year-end forecasted impact of Covid-19 on the Boards 2022 budget is a deficit of (\$3.300) million is an unfavourable variance of (\$0.600) million for a net forecasted deficit of (\$3.900) million. The unfavourable variance is due to the loss of events from January to April 2022.

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board approve the 2023 Operating Budget attached as Appendix A.
2. The Board direct the Chief Executive Officer to submit the 2023 Budget to the City Financial Planning Division as part of the 2023 Budget Process.

FINANCIAL IMPACT

Schedule A

The proposed 2023 Operating Budget will result in a deficit of (\$2.300) million.

2023 Operating Budget Submission						
(In \$000s)	2021 Actual	2022 Approved Budget	2022 Projection at July 31	2023 Requested Budget	Change v. 2022 Projection	
Gross Expenditures	33,842	59,885	58,295	63,110	4,815	8.3%
User Fee & Cost Recoveries Revenue	23,919	56,585	54,395	60,810	6,415	11.8%
Total Net Expenditures before City fundings	9,923	3,300	3,900	2,300	(1,600)	-41.0%
Approved Positions	254	346	337	361	24	7.1%

The financial impact (net expenditures) of \$3.900 million for 2022 projected actual as of July 31, 2022 will result in an operating deficit that will be fully covered by the City and included as revenue in the year end operating results.

As we move through our recovery Exhibition Place staff are budgeting a (\$2.300 million) loss as compared to our status quo budget of \$0.900 million surplus in our 2019 Budget. This is a reduction of \$3.200 million as compared to our status quo 2019 Operating Budget. The factors that contribute to this are Covid-19 related reduced service level reductions to 85%, incremental salary and benefits to deliver the Boards new Strategic Plan; as well as loss in parking revenue due to construction of Phase 2 Hotel and Venue. Year-over-year comparison of our Operating Budgets is an improvement of \$1.0 million as compared to our 2022 Budget of (\$3.3 million).

DECISION HISTORY

The Exhibition Place 2022-2026 Strategic Plan has a goal to Ensure Competitively Priced Services and Sustainable Operations, so we remain committed to ensure our operations are both efficient and effective, we deliver exceptional visitor experiences, and sustain the growth of our organization.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EP24.12>

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 Financial Planning Department and researched with industry benchmarking in preparing our 2023 Operating Budget. The latest findings from the Global Exhibition Barometer research conducted in June 2022 by UFI, the Global Association of the Exhibition Industry shows that Trade shows and exhibitions are bouncing back after the pandemic shutdown, with revenues for the first half of 2023 expected to reach 87% of comparable 2019 levels. This is welcome news for the industry, with 2019 the banner year to date.

Next Steps for 2023

Our new strategic plan will create many opportunities for us to develop even stronger alliances with our venue partners within the industry as we move towards activating the grounds 12 months of the year. As well, activating the grounds will strengthen our trade, consumer show, conferences and meetings business.

A. Prior Year's Results and 2023 Issues

Although the trade, consumer show, and conferences industry is heavily dependent on global and home economy and consumers spending behaviours is influenced by the pandemic, staff have confidence to follow the same trends of other businesses in the same industry in North America and the globe to estimate our 2023 event revenue. Staff prepared our 2023 operating budget submission both on a "budget-to-budget" basis so that it will not create additional financial pressure to the City tax base, and as well taking into consideration of initiatives from Exhibition Place's 2022-2026 Strategic Plan and assumptions of risks during the recovery from the pandemic.

Exhibition Place will continue to mitigate the risk of loss business or increase in costs due to Covid-19 by prioritizing and redirecting funding resources to most needed areas and where necessary delay all non-essential costs and discretionary expenditures and continue to monitor cash flow monthly. The forecasted impact of Covid-19 on the Boards 2022 budget deficit of (\$3.300) million is unfavourable variance of (\$0.600) million for a net deficit of (\$3.900) 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 prior to the pandemic 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 2023 operating budget there were a number of major factors that were considered as set out below.

- 1) The Cost-of-Living Adjustment 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.
- 2) Attendance is assumed to increase year over year but still lower than pre-pandemic levels at 85%.

B. 2023 Operating Budget by Program Area

The following section provides information on the proposed level for 2023 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, 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, artworks, 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 2023 will be the 8th 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 2023 is the nine (9) full year that Hotel X pays contractual base rent, it will be the six (6) full year that Hotel X is fully operational and paying percentage/participation 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.

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 2023 Exhibition Place, Enercare Centre operating budget for total net deficit of (\$2.345) million (2022 - \$2.762 million deficit) represents an increase net profit from the 2022 approved budget of \$0.417 million or 15%. The increase is primarily due to the following as summarized in the chart below:

(1) Increase \$1.326 million for events net profit which is primarily increase in volume compared to 2022 budget.

(2) Increase \$1.634 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; increase in retirees and LTD benefits premium cost; and increase in net salary and benefits expense due to filling all positions that were vacant and not rehired/refilled due to the pandemic in 2020-2022.

(3) Savings \$0.622 million departmental overhead expenses (non-labour) from anticipated lower electricity rates and cost reduction for legal fee, bad debt provision, WSIB, offset by \$0.456 million cost increase from various departments for maintenance service agreements for computer system security and reliability, electrical maintenance service, landscape upgrading and fuel cost.

(4) Increase \$0.282 million net revenue from inflationary adjustment and increase participation rent from billboards and tenants in 2023.

(5) Increase in net parking revenue of \$0.277 million due to volume increase in 2023.

EXHIBITION PLACE & ENERCARE CENTRE		
BUDGET 2023 - MAJOR FINANCIAL PRESSURE		
		TOTAL POSITIVE (NEGATIVE)
1	<u>PRESSURE FROM SHOWS</u>	
1.1	SIAL TORONTO (BIENNAL 2021; 2023)	507,339
1.2	TORONTO FALL HOME SHOW (BUDGET IN 2023, NOT IN 2022)	329,896
1.3	OVA PROVINCIAL CHAMPIONSHIPS 2023	624,139
1.4		-
	SUBTOTAL	1,461,374
1.5	INCREMENTAL REVENUE - VOLUME CHANGES 2023 VS 2022 - EXHIBITION PLACE	88,149
1.6	INCREMENTAL REVENUE - VOLUME CHANGES 2023 VS 2022 - ENERCARE CENTRE	(223,814)
		-
	SUBTOTAL - 2023 VS 2022 BUDGET VOLUME CHANGE	(135,665)
		-
1	SUBTOTAL - PRESSURE FROM SHOWS	1,325,709
	<u>POSITIVE (NEGATIVE) PRESSURE</u>	
2	SALARY AND BENEFITS	
2.1	SALARY AND BENEFITS - @ 1.25% COLA, 2.65% MERIT, VOLUME CHANGE, RETIREES & LTD PREMIUM	(1,634,490)
3	INCREMENTAL OTHER DEPARTMENTAL OVEHEAD EXPENSES	
3.1	2023 VS 2022 BUDGET VOLUME CHANGES - LEGAL FEE, WSIB, TMIF CONTRIBUTION, UTILITIES, EI STUDY, BAD DEBT PROVISION	622,124
3.2	2023 VS 2022 BUDGET VOLUME CHANGES -VARIOUS OVERHEAD	(455,513)
4	INCREMENTAL REVENUE	
4.1	CPI INCREASE, PARTICIPATION RENT (BILLBOARDS, TENANTS)	282,003
4.2	VOLUME CHANGE - 2023 VS 2022 BUDGET PARKING REVENUE NET OF DIRECT WAGES	277,167
	TOTAL PRESSURE - (NEGATIVE) POSITIVE	417,000

Beanfield Centre Program

This program includes the service areas of Conventions, Conferences, and Meetings. The Conference Centre opened in October 2009 and the financial 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 – 2019 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 after two years of being closed due to Covid-19.

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 2023 Operating Budget for Beanfield Centre before interest, amortization, and transfers is \$1.441 million profit (\$0.858 million in 2022) an increase of net profit of \$0.583 million or 68%.

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 2022, Exhibition Place would have paid loan principal to the City in an amount of \$10.844 million, and to FCM in an amount of \$1.138 million for a total reduction in principal of \$11.982 million for a remaining balance owing of \$28.693 million to both the City (\$27.831 million) and FCM (\$.862 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 2022 is forecasted to be \$3.895

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 \$3.1 million 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 \$2.0 million.
- 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 – \$0.474 million as budgeted was withdrawn for the renovation of the Enercare Centre washrooms; and,
- In the years 2013 (\$1.633 million), 2014 (\$0.621 million) and 2015 (\$0.345 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.
- In 2021 staff has withdrawn \$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 to ensure advanced sustainable and green practices are built into our infrastructure and processes to service the grounds in a responsible way, and continue to establish new commitments for sustainability target. 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 \$195,000.
- Press Building Geothermal project completed in 2008 provides an annual savings of \$15,000.

- 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 \$180,000.
- 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 \$4.5 million 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 \$418,000 and \$690,970 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 \$14.948 million. By the end of 2022 Exhibition Place would have paid \$13.602 million in interest and principal. The remaining interest and principal balances at the end of 2022 for the above energy projects is \$5.607 million.

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 \$3.14 million 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.

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.

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SIGNATURE

Don Boyle
Chief Executive Officer

ATTACHMENTS

Appendix A - 2023 Operating Budget