REPORT FOR ACTION

2024 Operating Budget

Date: October 13, 2023
To: The Board of Governors of Exhibition Place
From: Don Boyle, Chief Executive Officer
Wards: All

SUMMARY

Toronto, being North America's 4th largest City is home to Exhibition Place. Our site currently hosts 1,260 events with approximately 5.5 million visitors per year for exhibitions, conventions, events, and entertainment, and we are moving towards becoming a 365-day destination for an impressive range of activities.

The Exhibition Place vision is to become Canada's premier destination for conventions, exhibitions, events, and entertainment. We are a unique site in North America, and our goal is to transform Exhibition Place into an intimate space that facilitates unimpeded movement of people.

2024 Budget

On August 28, 2023, the City's Interim Chief Financial Officer & Treasurer provided supplementary instructions for all City Divisions and Agencies for 2024.

City Financial Planning directed ABC's to prepare a more realistic 2024 Operating Budget and to make every effort to eliminate or reduce 2024 incremental base budget pressures, and continue to provide viable offsets towards base budget increases through annual budget review activities. All sustained COVID-19 impacts should be phased out or costs absorbed into the 2024 Base Budget if required.

As shown in Schedule A below, the 2023 year-end forecasted is a deficit of ($0.800) million which is favourable by $1.400 million to the 2023 approved budget deficit of ($2.200) million.

With respects to the Exhibition Place Conference Centre Reserve Fund, the balance at the end of 2023 is forecasted to be $3.910 million. This reserve is a source of funding for both state of good repair, as well as, for the City loan repayment of the renovated Beanfield Centre in 2009.

2023 being the first full year of operations without interruptions after the pandemic, staff have worked closely with industry insiders in developing our 2023 Operating Budget.

Despite all the challenges from bouncing back after the pandemic, staff are cautiously optimistic projecting the recovery of our operation is progressing well towards pre-pandemic levels, following same trends as other businesses in the same industry.

The latest findings from the Global Exhibition Barometer research concluded in July 2023 by UFI, the Global Association of the Exhibition Industry, show that trade shows and exhibitions are remarkably bouncing back after the pandemic shut down, with companies from most global markets achieving revenues close to their 2019 pre-pandemic levels. The latest results also show that the impact of the COVID-19 pandemic on the business is now one of the least pressing issues. 2023 revenue for North American market is expected to reach 90 - 94% of comparable 2019 levels. The industry is evolving both on digital products and services and on sustainability. New technologies like generative artificial intelligence applications are being explored, while staffing and changing in customers expectation remains key concerns for most: https://www.ufi.org/wp-content/uploads/2023/07/31st_UFI_Global_Barometer_July_2023.pdf

RECOMMENDATIONS

The Chief Executive Officer recommends that:

1. The Board approve the 2024 Operating Budget attached as Appendix 'A'.

2. The Board direct the Chief Executive Officer to submit the 2024 Operating Budget to the City Financial Planning Division as part of the 2024 Budget Process.

FINANCIAL IMPACT

Schedule A

The proposed 2024 Operating Budget will result in a deficit of ($0.800) million.

Operating Budget								
	2022 Actual	**2023 Budget**	**2023 Projection***	**2024 Budget**	**Change from 2023 Budget**		**OUTLOOK**	
$ Thousands					$	%	**2025**	**2026**
Revenues	$57,363	$60,335	$62,395	$65,665	$5,331	8.8%	$68,680	$71,288
Gross Expenditures	$58,149	$62,535	$63,195	$66,465	$3,931	6.3%	$68,580	$70,788
Net Expenditures	$787	$2,200	$800	$800	($1,400)	-63.6%	($100)	($500)
Approved Positions**	319.0	361.0	361.0	356.0	(5.0)	-1.4%	356.0	356.0

*Projection based on 6 Month Variance
**YoY comparison based on approved positions
*** 2022 actual revenue excludes $4.9 millions funding supports from City due to COVID 19 pandemic

The 2024 Operating Budget submission for Exhibition Place is consistent with 2023 projected experience. The financial impact (net expenditures) for 2023 projection as of September 30, 2023, will result in an operating deficit of ($0.800) million that has been fully covered from the City and will be included as revenue in the year end operating results.

Based on year-to-date experience as of September 30, 2023, as well as considering all booked and anticipated future events, Exhibition Place is projecting a favourable net variance of $1.40 million at year-end as illustrated in the chart above.

Every effort has been made to eliminate or reduce 2024 incremental base budget pressures while maintaining the current services and service levels. This includes full application of expected revenues including fee increases and volume base adjustments.

DECISION HISTORY

The Exhibition Place 2022 – 2026 Strategic Plan has goals to ensure competitively priced services and sustainable operations, and to invest in our people and culture and strive to be recognized as an employer of choice, attracting top talent within the industry.

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 City 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 City capital loan to Exhibition Place for the conference centre, by an additional five years (from 25 to 30 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

At its meeting on September 14, 2022, the Board approved a revised salary range for implementation in the 2022 fiscal year for the Chief Executive Officer, Exhibition Place - Korn Ferry.
https://www.toronto.ca/legdocs/mmis/2022/ep/bgrd/backgroundfile-229305.pdf

At its meeting on April 4, 2023, the Board approved the executive staff, excluding CEO and the non-executive staff / non-union proposed 2023 compensation plan and salary range effective July 1, 2023, based on the concept of the results from the compensation study conducted by Korn Ferry in consultation with the City Manager's Office.
https://www.toronto.ca/legdocs/mmis/2023/ep/bgrd/backgroundfile-235168.pdf
https://www.toronto.ca/legdocs/mmis/2023/ep/bgrd/backgroundfile-235167.pdf

COMMENTS

Exhibition Place staff have worked closely with City Financial Planning Division and researched with industry benchmarking in preparing our 2024 Operating Budget.

The main assumptions used in preparing the 2024 Operating Budget are:

- Booking of events will be back to normal in 2024.
- As compared to 2019, although bookings are back to normal, the Board is realizing a “new normal” in terms of attendance being approximately 95% of 2019 levels, compared with 85% of pre-pandemic levels for 2023. As such this will lead to continued lower ancillary revenue such as parking, food and beverage, and show services. This is consistent with the industry in general.
- Parking revenues are also being impacted negatively from the level of attendance, as well, loss of parking spaces in Lot 851 due to the construction of Phase 2 Hotel and Performance Venue Development expected to commence in 2024.
- Customers spending behaviour and expectation have changed. There will be additional costs for the delivery of service by Exhibition Place staff to meet customers’ expectations and absorption of post pandemic costs for cleaning and sanitization.
- Tenants will experience the same trends as the Board, and therefore the Board anticipates lower services revenue from tenants.
- Major construction projects on and around the grounds create traffic congestion and further lost on already short supplied parking inventory thus lessen parking and rental revenue from use of the outdoor space.
- The results of the Korn Ferry 2023 compensation study/plan and salary range was effective July 1, 2023 for six months impact. In 2024 this will be a full year financial impact.
- COLA increase for unionized staff will be per collective bargaining agreements and is estimated at approximately 1.75% for budget purpose; pay increase for non-unionized staff is estimated at 1.75% COLA, 2.65% blended financial performance reward, and approximately 1.50% step increase for some staff progressing through their respective salary ranges (growth from minimum salary to maximum salary).

Next Steps for 2024

2024 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 hygiene measures are at the heart of this offering with the goal to make the meetings and events industry strong and healthier than ever.

A. Prior Year's Results and 2024 Issues

Although the trade, consumer show, and conferences industry are heavily dependent on global and home economy and consumers spending behaviours and expectation that had been changed after 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 2024 event revenue. Staff prepared the preliminary 2024 operating budgets on a "budget-to-budget" basis so that it will not create additional financial pressure to the taxbase of the City of Toronto. The future growth of the Convention and 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 by Trade Show Executive.

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 to meet budget expectations. For the thirteen (13) year period from 2007 to 2019, the Board has paid over its operating surplus to the City totalling approximately $26.533 million.

B. 2024 Operating Budget by Program Area

The following section provides information on the proposed level for 2024 operating budget revenues and expenditures for each of Exhibition Place Programs: Exhibition Place / Enercare Centre, and the Beanfield Centre Program. 2024 budget deficit is $(0.800) million which is an improvement of $1.400 million over 2023 approved budget deficit of $(2.200) million. The $1.400 million improvement in 2023 is primarily due to the following as summarized in the chart below:

1) Increase $2.330 million events net profit which is primarily increase in volume compared to 2023 budget
(2) Increase $1.687 million salary and benefits cost from providing estimated COLA and benefits increase for unionized staff per collective agreements and progression pay increase (1.75% COLA, 2.65% financial reward/merit, and 1.50% step increase) for non-unionized staff for 2024; 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 during the Covid recovery period in 2020-2022
(3) Increase $1.919 million departmental overhead expenses (non-labour) from volume increase, anticipated higher rates for electricity, natural gas, incremental costs for cloud database service subscriptions and maintenance service agreements for computer system security and reliability, electrical maintenance service, landscape upgrading, and for general base building upkeep
(4) Increase $2.126 million net revenue from inflationary adjustment and increase participation rent from outdoor billboards and tenants leases in 2023
(5) Increase $0.550 million net parking revenue due to volume increase in 2023 and parking rates increase.

2024 – Major Financial Presures

	EXHIBITION PLACE, ENERCARE CENTRE & BEANFIELD CENTRE		
	BUDGET 2024 - MAJOR FINANCIAL PRESSURES		
	DESCRIPTIONS	**TOTAL PRESSURE POSITIVE (NEGATIVE)**	**AMOUNT**
	2023 APPROVED BUDGET NET PROFIT (LOSS)		**(2,200,000)**
1	**PRESSURE FROM SHOWS**	**2,329,642**	
2	**SALARY AND BENEFITS**		
2.1	SALARY AND BENEFITS FOR NON-UNIONIZED STAFF - @ 1.75% COLA, 2.65% FINANCIAL REWARD, 1.50% STEP INCREASE, VOLUME CHANGE, SALARY INCREASE PER KORN FERRY'S RECOMMENDATIONS	**(2,152,704)**	
2.2	BASE SAVINGS FROM VOLUME REDUCTION, OFFSET BY WAGES INCREASE FOR UNIONIZED/CASUAL STAFF - COLA INCREASE	**465,660**	
3	**OTHER INCREMENTAL DEPARTMENTAL OVEHEAD EXPENSES**		
3.1	COMPUTER EQUIPMENTS, SOFTWARE/HARDWARES, MAINTENANCE AGREEMENTS FOR SYSTEM SECURITY AND RELIABILITY, SPECIAL PROJECTS APPROPRIATION, MAINTENANCE FEES PAID TO TORONTO PARKING AUTHORITY, SECURITY COST, UTILIITIES VOLUME/RATES INCREASE, ADP PAYROLL PROCESSING COST	**(1,918,999)**	
4	**INCREMENTAL REVENUE**		
4.1	CPI INCREASE, PARTICIPATION RENT, HOTEL X PHASE 2 RENT (BILLBOARDS, TENANTS)	**2,126,104**	
4.2	VOLUME CHANGE - 2024 VS 2023 BUDGET PARKING REVENUE NET OF DIRECT WAGES	**550,297**	
	TOTAL IMPROVEMENT (ADDITIONAL PRESSURES) COMPARED TO 2023 APPROVED BUDGET		**1,400,000**
	2024 REQUEST BUDGET NET PROFIT (LOSS)		**(800,000)**

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 Toronto and Toronto's Caribbean Carnival, CNE, Royal Agricultural Winter Fair, Toronto International Boat Show, National Home Show, and One-of-a-Kind Shows while preserving the architecturally and historically significant structures on the grounds. The Enercare Centre is the largest trade and consumer show facility in Canada, and the sixth (6^{th}) largest in North America with over 1.1 million square feet of contiguous space. 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 2024 will be the ninth (9^{th}) 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 2024 is the ten (10) full year that Hotel X pays contractual base rent, it will be the six (6) full year that Hotel X is fully operational.

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 2024 Exhibition Place and Enercare Centre operating budget is a total net deficit of ($1.400) million (2023 - $2.345 million deficit) represents an increase net profit from the 2023 approved budget of $0.945 million or 40% improvement.

Beanfield Centre Program

This program includes the service areas of Conventions, Conferences, and Meetings. The renovated 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 operating budgets, and then it is adjusted for specific revenue and expenditure items base from actual information from 2019 – 2023 performance 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. The operations were enhanced with the 404-room Hotel X being operational in March 2018, and the Beanfield Centre elevated bridge now connecting 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, since the opening of the hotel Exhibition Place has been able to bid for future self-contained conferences to our site.

The 2024 Operating Budget for Beanfield Centre before interest, amortization, and transfers is $1.996 million profit ($1.541 million in 2023) an increase of net profit of $0.455 million or 30% improvement.

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 2023, Exhibition Place would have paid loan principal to the City in an amount of $11.834, and to FCM in an amount of $1.244 million for a total reduction in principle of $13.078 million for a remaining balance owing of $27.598 to both the City ($26.842 million) and FCM ($.0.756 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 2023 is forecasted to be $3.910 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 – $.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
- 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 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 savings and incentives revenue are reported on 2024 operating budget:

- 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. The City loan was fully paid in 2018 and capitalized building improvement costs were fully amortized in 2023.
- 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;
- 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 loan was fully paid in 2022;
- 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 the Coca-Cola Coliseum. Hotel X opened in March of 2018. It is budgeted this will generate capacity charge revenue of $425,000 and $1,108,453 net profit before loan principal repayment in 2024.

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 2023 Exhibition Place would have paid $14.660 million in interest and principal. The remaining interest and principal balances at the end of 2023 for the above energy projects is $4.774 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 an operating surplus every year since 2007 to 2019. Since this date, any surplus over budget target has been directed by the City to the Conference Centre 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 which is the subject of a separate 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) were funded through a City loan with interest

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SIGNATURE

Don Boyle
Chief Executive Officer

ATTACHMENTS

Appendix A – 2024 Operating Budget
Appendix B – 2024 Operating Budget - Supplementary Information