



Exhibition Place

7

July 6, 2015

To: The Board of Governors of Exhibition Place

From: Finance & Audit Committee

ACTION REQUIRED

Subject: **Proposed 2016 Operating Budget**

Summary:

The 2016 budget directions from City Council / City Manager is for all City agencies, boards and departments is to find a 2% increase in net efficiencies in an effort to keep the residential budget tax increase at inflation. In lieu of using the Board's 2015 Operating Budget which exceeded normal City expectations due to TO2015 event, staff have used the 2014 Operating Budget as the base year in providing the 2% increase in efficiency. After taking into consideration the major factors affecting the Board's operations in 2016 the proposed 2016 Operating Budget will result in a net surplus of \$105,000 which exceeds the 2014 Operating Budget by 5%. This is above the City's target of 2%.

Recommendations:

It is recommended that the Board:

- 1) Approve of the 2016 Operating Budget; and**
- 2) Request that the City of Toronto transfer any consolidated surplus for 2016 to the "Exhibition Place Conference Centre Reserve Fund".**

Financial Impact:

The proposed 2016 Operating Budget for the Board will result in a surplus of \$105,000.

Decision History:

The Exhibition Place 2014 – 2016 Strategic Plan had a Financial Goal to *effectively monitor costs and revenues* and as a Strategy to support this Goal to *we will ensure operating budgets are met and show a positive surplus to budget*.

At its meeting of July 6, 2015, the Finance & Audit Committee reviewed subject report and recommended it to the Board for approval.

Conference Centre Reserve Fund

In accordance with the decision of City Council in December 2007, any operating surplus over budget target will be deposited in the Exhibition Place Conference Centre Reserve Fund (CCRF) to be held by the City of Toronto to provide a source of funding for any cash shortfalls with respect to Allstream Centre operations for the purpose of guaranteeing the loan of \$35.6M (\$38.675M with accrued interest on cash advances during construction) from the City of Toronto for the renovations of the Conference Centre which reopened in October 2009.

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 Allstream Centre loan repayments and also for maintaining Direct Energy Centre and Allstream Centre in a state of good repair.

At its meeting on September 9, 2013 City Council recommended that Exhibition Place use its funds from the CCRF to fund the cost for the disposal of pre-existing contaminated soil dating from the early 1900's which expenditures are in keeping with Board's obligation and the terms of the lease agreement between Exhibition Place and Princes Gates Hotel LLP. As well City Council recommended that Exhibition Place will arrange to replenish back the CCRF from any operating surplus.

At its meeting of March 7, 2014, the Board approved of the expansion and renovation of the stadium as proposed by Maple Leaf Sports and Entertainment (MLSE) which was subsequently approved by City Council on April 1, 2014. The financial implications of amendments to the Management Agreement is greater operating and financial autonomy of BMO Field commencing in 2014 but with the payment of a guaranteed amount to the Board/City.

Issue Background:

The proposed 2016 Operating Budget has been developed in accordance with preliminary consultations, directions and guidelines with the City of Toronto Financial Planning Department and also takes into account the special requirements and budget pressures that exist for the fiscal year 2016.

This report contains the proposed level of revenues and expenditures for 2016 and Appendix "A" which budget document also contains information on the 2012, 2013 and 2014 actual financial results; the current year 2015 projected results; the 2015 Budget and 2016 proposed budget amount for each financial account for both comparative and analytical purposes. Once approved by the Board, the Operating Budget is reviewed by the City Financial Planning Department, the Budget Committee, and City Council on February 18, 2016.

Comments:

A. Prior Year's Results and 2016 Issues

The City of Toronto Departments, Agencies and Boards are required to find a 2% increase in net efficiencies in Councils effort to keep the residential budget tax increase at inflation. The 2016 operating budgets have been prepared on a "budget-to-budget" basis, not on an "actual to budget" basis. The reason for this City direction is that any revenue decrease or expenditure increase from 2015 to 2016 will have a negative impact on the City property tax base and will allow the City to measure the net efficiencies increase.

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 for all staff 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 ten year period from 2005 to 2014 inclusive the Board (including the CNEA Program) has paid over its operating surplus to the City totalling approximately \$15.2M.

In the development of the 2016 budget there were a number of major factors that were considered as listed below in the chart. The Boards Cost of Living increases are provided at 2.25% which is 0% higher than 2015. These are subject to final City directives in early 2016. Merit increases (financial performance rewards) per City directives of up to 2.65% blended rate which will be based on employee performance.

EXHIBITION PLACE & DIRECT ENERGY CENTRE		
BUDGET 2016 - MAJOR FINANCIAL PRESSURE		
		TOTAL POSITIVE (NEGATIVE)
1	<u>PRESSURE FROM SHOWS</u>	
1.1	BEERFEST (NOT BUDGETED IN 2015)	103,453
1.2	SIAL TORONTO (BIENNAL 2013; 2015)	(464,977)
1.3	SPORTSMEN SHOW - EVENT LEFT in 2016	(409,431)
1.4	GREEN LIVING - BUDGETED IN 2015 AND EVENT LEFT	(269,941)
1.5	NATIONAL MOTORCYCLE & TATOO SHOW	(71,890)
1.6	CGA EXAMS - MERGED WITH CPA (3)	(165,425)
1.7	CHIN PICNIC - BUDGET IN 2015 NOT RETURNING IN 2016	(95,088)
1.8	ARTIST PROJECT - BUDGET IN 2015 NOT RETURNING.	(153,812)
1.9	DELICIOUS FOOD SHOW - BUDGET IN 2015 NOT RETURNING.	(234,948)
1.91	TO2015/NBA JAM FEST AND UNIDENTIFIED EVENTS	(36,007)
	SUBTOTAL - PRESSURE FROM SHOWS	(1,571,852)
	<u>POSITIVE (NEGATIVE) PRESSURE</u>	
2	SUBTOTAL - SALARY & BENEFITS CHANGES	(521,687)
3	TENANTS + ONTARIO PLACE PARKING INCREASE - NET OF DIRECT WAGES	220,416
3.1	CITY PARKS CONTRACT SERVICE - HIGHER CONTRIBUTION IN 2015 DUE TO TO2015.	200,000
3.2	SAVING FROM VARIOUS DEPARTMENTS (BUDGET RIGHT SIZE)	653,615
3.3	SUBTOTAL	1,074,031
	<u>ELECTRICAL /MECHANICAL OUTSOURCE</u>	
4	SUBTOTAL - ELECTRICAL OUTSOURCE in 2016	182,749
	<u>DISTRICT ENERGY SYSTEM</u>	
5	SUBTOTAL - DISTRICT ENERGY SYSTEM	117,487
	<u>BMO FIELD/RICOH/RAPTOR FACILITY</u>	
6	SUBTOTAL - BMO FIELD/RICOH (parking, new lease rate for RICOH, rent from Raptor training facility)	524,272
	TOTAL PRESSURE - (NEGATIVE) POSITIVE	(195,000)

B. 2015 Operating Budget by Program Area

The following section provides information on the proposed level for 2016 operating budget revenues and expenditures for each of the two Exhibition Place programs: the Exhibition Place / Direct Energy Centre program and the Allstream Centre program.

BMO Field is no longer included as a separate program area within the Exhibition Place Operating Budget. As noted in the Decision History above, the amended terms of the Management Agreement between MLSE, the Board and the City now provides one guaranteed

annual fee from MLSE to the Board / City rather than a share by the Board of 50% of any surplus over budget earned by BMO Field.

Exhibition Place and Direct Energy 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 Caribbean Festival while preserving the architecturally and historically significant structures on the ground. The Direct Energy 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 Direct Energy Centre are responsible for the event management and asset management for the state-of-the-art facility which has hosted events and shows such as the Royal Agricultural Winter Fair, Toronto International Boat Show, National Home Show/Canada Blooms and One of a Kind Craft Show. It is also a leader and a world class site for advanced “green” energy technology and recently was awarded LEED EBOM Gold designation. The Exhibition Place Program area carries most of the costs associated with the maintenance of the grounds as a “public park” and includes the following responsibilities:

- To maintain the grounds, parks, historic buildings, structures, roadways and physical services of Exhibition Place; and
- To provide parking services and various skilled trades to support the many shows and events on the grounds including Tenants, CNEA, Ricoh Coliseum and BMO Field.

The budgetary objective for this Program is to stabilize or decrease the net loss year-over-year through the redevelopment and rental of the underutilized buildings and other business opportunities and each year this objective is actively being pursued to make up the annual non-controllable budget pressures. The year 2016 will be the first full year that hotel will pay rent and the increased seating at BMO Field will have a positive effect on parking revenues. In addition, with the move of the executive offices to Direct Energy Centre, Exhibition Place will be seeking long-term tenants for the Queen Elizabeth Executive Office space.

For the trade and consumer show business, industry research is published in Trade Show Executive. The May 2015 issue discussed the 2015 outlook and trends into 2016. This issue noted that although economic recovery continued through 2014 it has begun to slow in Q2 of 2015 and researchers predict that although softening of corporate profits and spending in 2015 forecasted data is still ahead of previous expectations. The softening of corporate profits has not adversely affected business in 2015 but some sectors should feel the impact in 2016. Industry analysts advise “economic shifts will impact trade shows in new ways – some good and others not so much”. Some of the factors that are putting a damper on profits are predicted future interest rate increases, rising U.S. dollar, soft global markets and weakening manufacturing growth. The sectors that will be under pressure are home furnishings, government and transportation and others such as apparel, automotive and hospitality should continue to perform well. Although softening of corporate profits and lower corporate spending, in 2015 so far in general across all sectors attendance and exhibitor spending has been up from previous forecasts. Some analysts are optimistic that these increases can continue to carry through to 2016.

Trade Show Executive Trending & Spending 2015 Re-Forecasting				
Net Square Feet purchased by Exhibitors		Exhibitor Spending	Attendance	Revenue
3.2%		2.8%	3.4%	10.2%
<i>*positvie % indicates higher than previous expectations</i>				

Direct Energy Centre is operating in a very competitive market in Toronto and the GTA and continues to strive to generate new business and to maximize profitability. The 2016 Consolidated Exhibition Place operating budget for total direct and indirect expenses of \$36,565,904 represents a decrease from the 2015 budget of \$1,979,383 or 5.0%. The expenditure decrease is primarily due to the following:

- Inflationary adjustment directed by the City (salary, utilities and other) = \$.521M
- Reduction of direct costs associated with decrease in show revenues of \$1.572M
- Department efficiency savings = \$.679M
- Reduction of City Parks service = \$.200M

(i) Allstream Centre Program

This program area includes the service areas of Conventions, Conferences and Meetings

The new Conference Centre opened in October 2009 and the first and second full year budget for 2010/2011 was based on proforma financial information provided to the Board and City Council when the project was approved. The 2012 to 2016 budget followed the same trend and is based mainly on proforma financial information except to the extent it is adjusted for specific revenue and expenditures items where there is sufficient information from the 2010 - 2015 operations to provide for different amounts based on the 6-year history.

The Allstream Centre is a LEED Silver certified conference facility in the renovated historic Automotive Building re-opened for business in 2009. The facility complements the event activities at the Direct Energy Centre by attracting more international conferences, consumer and trade shows, exhibits, festivals and conventions to Toronto. It will be further enhanced with the opening of the new 400-room Hotel X next to it in April 2016.

Exhibition Place Finance staff met with Sales & Marketing staff to review confirmed bookings to the end of the year and it is expected that the 2015 Exhibition Place rental budget for Allstream Centre will be achieved. Corporate bookings continue to be short-term from 2 weeks to 3 months and are seldom booked, unlike trade shows, many months or years in advance.

The 2015 Operating Budget for Allstream Centre before payment of the outstanding loans is \$549,121 (\$438,178 – 2015) an increase of \$110,943 or 25%.

As relating to the Allstream Centre the Board has a loan of \$38.7M with the City at a 5% interest rate amortized over 25 years (including the interest on the advance payments during construction) on Allstream Centre. In addition to the City construction loan, as approved at the July 10, 2009 meeting of the Board, 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 to the Allstream Centre Operating Budget is \$2,798,479. By the end of 2015 Exhibition Place would have paid the City loan principal in an amount of \$4.785M and FCM in an amount of \$0.460M for a total of \$5.245M resulting in a remaining balance owing of \$35.455M.

C. Other Issues

(i) City Reserve Fund 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) to provide a backstop and source of funding for any shortfall by the Board in respect of the City loan payments for Allstream Centre as required under the loan agreement. Since the establishment of the CCRF in 2007 the Board has contributed a surplus of \$18.361M to the City. The forecasted balance in the Conference Centre Reserve Fund at the end of 2016 is expected to be \$1.540M. Some of the significant directions taken with respect to the annual consolidated surplus for Exhibition Place and contribution and / or withdrawals from the CCRF are as follows:

- 2007 - the 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 \$1.9M (2012) and \$1.4M (2011) for a total of \$3.3M was transferred to the CNEA as part of the independence of the CNEA; and
- In both 2013 (\$1.63M) and 2014 (\$.621M) amounts were withdrawn for the disposal of pre-existing contaminated soil on the hotel lands in accordance with the lease agreement.
- 2014 - \$.474M as budgeted was withdrawn for the renovation of the DEC washrooms.

(ii) 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:

- a) Direct Energy Centre lighting control system retrofit for Halls A, B, C, D and Heritage Court was completed in August 2006, and provides annual savings of \$290,000;
- b) Installation of the solar photovoltaic system at the Horse Palace which realizes annual electricity savings of \$8,000 to \$11,000 annually, in addition, to \$60,000 in rebates;
- c) The Tri-generation project located in Direct Energy Centre provides the opportunity for annual savings/incentive of \$115,000 for DR3; due to the restrictive nature of the Demand Response 3 (DR3) the savings could be lower for the proposed project. The DR3 incentive will be available until the commencement of the Hotel.
- d) 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 \$220,000.

- e) Coliseum Complex Mid Arch Steam Boilers project in Direct Energy Centre completed in 2008 provides an annual savings of \$150,000;
- f) Press Building Geothermal project completed in 2008 provides an annual savings of \$24,000;
- g) Lighting Control Retrofit for Direct Energy Centre underground parking was completed in 2008 and provides an annual savings of \$30,000;
- h) Back-pressure steam turbine project when operational will have an annual proposed savings of \$112,000;
- i) LED Pathway lighting project completed in 2011 with an annual savings of \$1,500;
- j) General Services Building lighting retrofit was completed in 2009;
- k) The East Annex PV Roofing (150Kwh), West Horse Palace PV Roofing (100Kwh), and other smaller energy projects were completed in 2011 with annual FIT incentives of \$225,000;
- l) The Better Living Centre PV will generate \$5,000 incentive annually from Toronto Hydro; and,
- m) District Energy System – City Council 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 the Hotel development which will be operational at the end of 2015.

The total loan advance received by the Board to date for all of the above energy projects is \$14,100,590. By the end of 2015 Exhibition Place would have paid \$2,828,025 in principal amount and \$2,962,093 in interest amount with the remaining interest and principal balance of \$11,272,565.

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