



Exhibition Place

Item No. 14

June 26, 2013

To: The Board of Governors of Exhibition Place

ACTION REQUIRED

From: Finance & Audit Committee

Subject: **2014 Operating Budget**

Summary:

This report recommends the adoption of the 2014 Operating Budget for the three program areas of the Board (Exhibition Place & Direct Energy Centre, BMO Field and Allstream Centre). The program areas within the Board Budget have met the 2014 budget directions from City Council / City Manager to show a 0% budget improvement over the 2013 Operating Budget, that is, to maintain net expenditures at the previous year level. The proposed budget results in a net surplus of \$100,000 which complies with the 2014 Operating Budget Directions and Guidelines. The construction of the Hotel in 2014 will result in a net loss of parking revenue of approximately \$175,000 and if not for this loss, the budget surplus will have been higher.

Recommendations:

It is recommended that the Board:

- 1. Approve the 2014 Operating Budget for Exhibition Place; and,**
- 2. Request that the City transfer any consolidated surplus for 2014 to the “Exhibition Place Conference Centre Reserve Fund” to provide a source of funding for any shortfall by the Board in respect of the loan payments required under the City Loan Agreement.**

Financial Impact:

The proposed 2014 Operating Budget for the Board and its programs will result in a surplus of \$100,000 which is equivalent to the 2013 Operating Budget, resulting in a 0% increase in net expenditures over 2013.

Decision History:

The Exhibition Place 2009 – 2012 Strategic Plan had a Financial Goal *to effectively monitor costs and revenues* and as a Strategy to support this Goal *we ensure operating budgets are met and show a positive surplus to budget.*

At its meeting of June 26, 2013, the Finance & Audit Committee reviewed subject report and recommended it to the Board for approval.

Issue Background:

The proposed 2014 Operating Budget and its three program areas 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 2014 for each of these three program areas.

Comments:

This report contains the proposed level of revenues and expenditures for 2014 for the Board's three program areas. The appended budget document also contains information on the 2011 and 2012 actual financial results; the current year 2013 projected results; and the 2014 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 in December 2013.

A. Prior Year's Results and 2014 Issues

The City of Toronto Departments, Agencies, Boards and Commissions are required to develop 2014 operating budgets 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 2013 to 2014 will have a negative impact on the City property tax base.

Since 1998, the Board established budgetary targets aimed at maximizing net income paid to the City of Toronto. 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 2003 to 2012 inclusive the Board (including the CNEA Program) has paid over its operating surplus to the City totalling approximately \$12.75M. Exhibition Place had a consolidated operating surplus each year during this period except for 2003, 2005, and 2006. The reasons for not making a surplus over budget in those years were as follows:

- 2003 - the blackout during the CNE period and SARS combined to cause a net operating loss;
- 2005 - an in-year expenditure increase of \$588,000 for insurance premiums was allocated to Exhibition Place under the City's comprehensive insurance downloading program; and
- 2006 - revenue shortfall from lower attendance at the CNE as a result of extremely unfavorable weather over the Labour Day weekend.

In the development of the budget this year a number of major factors were considered as listed below:

EXHIBITION PLACE & DIRECT ENERGY CENTRE		
BUDGET 2014 - MAJOR FINANCIAL PRESSURE		
		TOTAL POSITIVE (NEGATIVE)
1	PRINT ONTARIO (BI-ANNUAL EVENT)	245,575
2	TORONTO'S ULTIMATE TRAVEL SHOW (NEW IN 2014)	52,536
3	TORONTO MOTORCYCLE SHOW (NEW IN 2014)	279,257
4	HONDA INDY (GRANT/PMD DECREASE)	40,000
	SUBTOTAL	617,367
5	SKI SHOW (EVENT-LEFT IN 2013)	(265,073)
6	SIAL TORONTO (BI-ANNUAL EVENT)	(297,964)
		-
	SUBTOTAL	(563,037)
	<u>POSITIVE (NEGATIVE) PRESSURE</u>	
6	SALARY & BENEFITS CHANGES	(521,654)
	<u>POSITIVE PRESSURE</u>	
7	RICOH (East Annex expansion): Base rent increase effective July 1, 2014	178,090
8	SAVING - UTILITIES	169,413
	SUBTOTAL - POSITIVE PRESSURE	347,503
9	Other - Various	(131,000)
		(131,000)
	TOTAL PRESSURE - (NEGATIVE) POSITIVE	(250,821)

Cost of Living increases are provided at 1.75% which is similar to 2013 and subject to final City directives in early 2014. This increase approximates the mid-point range of 2014 increases for Exhibition Place unionized workforce. Merit increases (financial performance rewards) per City directives up to 3% which will be based on employee performance.

C. 2014 Operating Budget by Program Area

The following section provides information on the proposed level for 2014 operating budget revenues and expenditures for each of the three Exhibition Place programs.

(i) Exhibition Place and Direct Energy Centre Program

The 2014 Exhibition Place budget is forecasting total direct and indirect expenses of \$27,994,012 which represents a decrease from 2013 budget of (\$191,920) or (1.0%). The 2014 budget for total direct and overhead expenditures of \$28,428,585 are \$242,653 or 1.0% more than the 2013 budgeted expenditures. Generally, the Exhibition Place Program carries most of

the costs associated with the maintenance of the grounds as a “public park”. The major responsibilities of this Program are as follows:

- 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, 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.

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. Indication from industry research published in Trade Show Executive in the February 2013 forecasted subdued trade show growth, although a recession is not in the cards. Economists are hoping for trade show growth towards the end of 2013 leading into 2014. Industry specialists advise that there are a number of economic reports on home sales, unemployment, manufacturing that indicate economic recovery has started. Spending decisions on booth space and design tend to lag the economy by three to six months. In addition, European debt problems and China slowing growth are clouding the global recovery picture slightly and causing some uncertainty and indecision. The Trade Show Executive May 2013 issue provides a 2013 forecast with 1st quarter revenue growth of at least 6%; a 2.8% increase in Net Square Feet of exhibit space used; a 2.8% increase in number of Exhibition Organizations; and 2.0% increase in Professional Attendance.

(ii) National Soccer Stadium (BMO Field)

This program is budgeting for a profit of \$323,894 in 2014 after incentives and rebates, its seventh full year of operations. Average TFC game attendance in 2013 was budgeted at 17,794 and the actual to date for 2013 is averaging approximately 14,102 although 2013 TFC game attendance is forecasted to be flat to plan at 17,794. Average CONCACAF game attendance for 2013 is approximately 7,957 versus budget of 15,000. Revenues and expenditures for 2013 are forecasted at \$9,565,796 and \$9,261,178 respectively (including game recoverable expenses) which is in line with the 2013 Budget.

(iii) Allstream Centre

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 2014 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 - 2013 operations to provide for different amounts based on the 4-year history.

Finance staff met with Sales & Marketing staff to review confirmed bookings to the end of the year and it is expected that the 2013 budget for Allstream Centre will be achieved. However, 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.

(iv) Allstream Centre Loans with the City and FCM

The Board has a loan of \$35.6M with the City at a 5% interest rate amortized over 25 years (excluding any interest on advance payments during construction) on this building. Debt

payment made on the loan started after the first full year of operation, with the first loan payment made on November 1, 2010 and payable monthly thereafter for the term of the loan. Interest on advances made during the construction period and interest added to the loan until the first loan repayment date of November 1, 2010 was \$3,075,397 for a total principal loan outstanding of \$38,675,397. 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 with payment semi-annually with the first payment being in July 2010.

To May 31, 2013, the Board has repaid the City loan in an amount of \$2.325M and FCM in an amount of \$0.229M for a total of \$2.554M resulting in a remaining balance owing of \$38.121M.

(v) City Reserve Fund for the Benefit of Exhibition Place

The City and the Board through the City Loan Agreement for Allstream Centre agreed on the establishment of an obligatory interest-bearing reserve fund to be called the “Exhibition Place Conference Centre Reserve Fund” and payment by the Board of all revenues received under the naming rights agreement for Direct Energy Centre and Allstream Centre plus any surplus from Exhibition Place consolidated operations for 2007, 2008 and 2009 (and to reviewed annually thereafter). This Reserve Fund was established to provide a backstop and source of funding for any shortfall by the Board in respect of the City loan payments as required under the loan agreement. The forecasted balance in the Conference Centre Reserve Fund at the end of 2013 is expected to be \$4.004M.

In addition, on November 5, 2012, Executive Committee recommended to City Council a report, (EX24.19), from the Deputy City Manager and CFO "Administrative Amendments to Reserve Fund Accounts -2012" recommending:

- City Council change the purpose of the Exhibition Place Conference Centre Reserve Fund in Schedule #15 of Chapter 227 to: “provides a source of funding, in the first instance, for any shortfalls in the loan payments to the City from Exhibition Place for the new conference centre, and this being provided for, to support any cash shortfalls with respect to capital funding required to maintain Direct Energy Centre and Allstream Centre in a state of good repair”.

In 2007 the Exhibition Place consolidated surplus of \$3,143,838 was not added to this Reserve but used by the City for general operating purposes: in 2008 the surplus of \$2,419,324 was allocated by the City for Allstream Centre masonry restoration; and in 2009 \$1,400, 000 was allocated by the City to fund the Horse Palace roofing in addition to ISF Funding from the operating surplus of \$1,974,051.

At its meeting, with respect to the independence of the CNEA March 6, 2012, City Council approved the placement of any surplus over budget target of \$800,000 for the CNEA regarding the 2011 and 2012 operating years into the Stabilization Fund for the sole purpose of assisting the CNEA to become independent from the Board and the City in April 2013. The Board will transfer in 2012 \$1,854,663 (2011 - \$1,320M) as part of its \$4,618,810 (2011 - \$3.049M) surplus for 2012 into the Stabilization Reserve Fund for a total of \$3,171,925 for the benefit of the CNEA.

E. 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 \$145,000 for DR3; due to the restrictive nature of the Demand Response 3 (DR3) the savings could be lower for the proposed project.
- 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 \$63,000;
- 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 with 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 \$150,000; and
- l) The Better Living Centre PV will generate \$3,000 incentive annually from Toronto Hydro.

The total loan advance received by the Board to date for all of the above energy projects is \$9,665,572. By the end of 2013 Exhibition Place would have paid \$2,898,161 in principal amount and \$1,375,269 in interest amount with the remaining principal balance of \$6,767,411.

In 2010, Exhibition Place posted a consolidated surplus of \$1,262,762 but requested that the City not transfer these funds to the Conference Centre Reserve account but to apply this surplus to reduce City loans owed by Exhibition Place with respect to some of the environmental projects which attract a higher interest rate cost than the interest earned on the Reserve funds balance and would result in a \$60,000 savings to the Operating Budget. This request was not approved but will be considered in future years after an annual review of the balance in the Conference Reserve account. Staff will address this matter with the City Manager as part of the 2014 budget process review.

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Submitted by: