



# Exhibition Place

10

June 15, 2016

To: The Board of Governors of Exhibition Place

From: Dianne Young, Chief Executive Officer

Subject: **2017 Operating Budget**

**ACTION REQUIRED**

## Summary:

City Council met on July 12, 13 & 14, 2016 to establish guidelines, targets and a process schedule for the 2017 operating budget. However, prior to this approval, the City has directed that the Operating Budget submission with the City will have a two-phase approach:

- A base budget submission due June 20, 2016; and
- Base reductions and new request submissions due August 2, 2016, if any.

After City Council approval on July 12<sup>th</sup> and 13<sup>th</sup>, the City may direct an increase in the operating surplus through generating additional revenue or incorporating changes to its operations to generate efficiencies to reduce costs.

## Recommendations:

**It is recommended that the Finance & Audit Committee:**

- 1) Approve of the 2017 Consolidated Operating Budget; and**
- 2) Request that the City of Toronto transfer any consolidated surplus for 2017 to the “Exhibition Place Conference Centre Reserve Fund”.**

## Financial Impact:

The proposed 2017 Operating Budget for the Board will result in a surplus of \$158,000.

## 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 December 10, 11, 12, 13 and 14, 2007, City Council directed that 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.

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 Enercare Centre and Allstream Centre in a state of good repair.

The Finance & Audit Committee were scheduled to meet on Friday, June 24, 2016 to consider subject report, however, the meeting needed to be cancelled for lack of quorum. Given the

2017 Operating Budget for the Board was required to be submitted to City Finance Department on June 20, 2016, it is being submitted directly to the Board for approval.

Issue Background:

The proposed 2017 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 2017.

Appendix "A" to this report contains the proposed level of revenues and expenditures for 2017 and information on the 2013, 2014 and 2015 actual financial results; and the current year 2016 budgeted and forecasted results for each financial account. Once approved by the Board, the Operating Budget is reviewed by the City Financial Planning Department, the Budget Committee and City Council.

Comments:

A. Prior Year's Results and 2017 Issues

The preliminary 2017 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 2016 to 2017 will have a negative impact on the City property tax base and also this allows 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 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 (2006-2015), the Board (including the CNEA Program prior to 2013) has paid over its operating surplus to the City totalling approximately \$16.59M.

In the development of the 2017 operating budget there were a number of major factors that were considered as set out below. The Boards Cost of Living increases are provided at 1.25% which is consistent with City directives. Merit increases (financial performance rewards) also per City directives of up to 2.65% blended rate which will be based on employee performance. Other expenditures are provided for on the forecasted City budget economic factors.

B. 2017 Operating Budget by Program Area

The following section provides information on the proposed level for 2017 operating budget revenues and expenditures for each of the two Exhibition Place programs: the Exhibition Place / Eneercare Centre program and the Allstream Centre program.

Exhibition Place and Eneercare 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 Caribbean Festival while preserving the architecturally and historically significant structures on the ground. The Eneercare Centre is the largest trade and consumer show facility in Canada and the sixth (6<sup>th</sup>) largest in North America with over 1.1 million square feet of contiguous space. Exhibition Place and Eneercare Centre are responsible for the event management 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/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 192-acre grounds as a “public park” including:

- Maintaining the grounds, parks, historic buildings, structures, roadways and physical services of Exhibition Place; and
- Providing 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 2017 will be the second full year that the hotel will pay rent and the increased seating at BMO Field will have a positive effect on parking revenues.

For the trade and consumer show business, industry research on future directions is published in Trade Show Executive. The May 2016 issue discussed the 2016 outlook and 2017 trends and noted that although economic recovery continued through 2016 with moderate growth in most shows, there is still a lot of uncertainty affecting the international markets. Britain will vote in June whether to stay in the European Union; the US Presidential election in November may have an impact; and the economic future growth level for the China market is still uncertain. Although there is this uncertainty, the international interest in the North American shows continues to grow as companies look to expand their markets given the poor economies in their home countries. Industry specialists advise that three trends that will impact trade shows in the months and years ahead: (1) multiple convention centres will provide more choices and competition; (2) the presidential race in the USA will have an effect on the US economy and what direction the US will take; and (3) the millennials population is the largest work force in all industries. Overall, the Trade Show Executive’s industry forecasters are still optimistic for the remainder of the year with continued growth in most shows. However, they don’t rule out an economic slowdown this year that could have exhibitors and attendees cutting back.

Energicare 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 2017 Consolidated Exhibition Place operating budget for total direct and indirect expenses of \$31.182M represents an increase from the 2016 budget of \$.646M or 2.1%. The increase is primarily due to the following:

- Inflationary adjustment directed by the City (salary, utilities and other) = \$0.512M; and
- Portable equipment, this will be funded 100% by reserve fund but is an increase in indirect expense = \$0.200M.

<b>EXHIBITION PLACE &amp; ENERCARE CENTRE</b>		
<b>BUDGET 2017 - MAJOR FINANCIAL PRESSURE</b>		
		<b>TOTAL POSITIVE (NEGATIVE)</b>
<b>1.1</b>	<b><u>PRESSURE FROM SHOWS</u></b>	
1.11	NEIGHBOURHOOD PHARMACY 2017	80,314
1.12	SIAL TORONTO (BIENNAL 2015; 2017)	394,262
1.13	BECHEL HEART & STROKE RIDE FOR HEART (ADDL RENT IN 2017)	25,000
1.14	TORONTO MOTORCYCLE SHOW (ADDL RENT IN 2017)	50,508
	<b>SUBTOTAL</b>	<b>550,083</b>
<b>1.2</b>	<b>SPORTMEN SHOW - EVENT LEFT (\$250K RENT PER BOARD)</b>	<b>(250,000)</b>
1.21	NBA JAM SESSION - ONE OFF	(1,321,481)
		<b>(1,571,481)</b>
	<b>OTHERS:</b>	
1.3	TORONTO BRIDAL - SPRING ( NOT BUDGETED IN 2017)	(66,972)
1.31	Toronto Food & Drink Market ( NOT BUDGETED IN 2017)	(86,381)
1.32	CIBC Holiday Party (NOT BUDGETED IN 2017)	(91,165)
1.33	PARALEGAL EXAMINATIONS (NOT BUDGETED IN 2016)	62,098
1.34	PEOPLE IN MOTION (NOT BUDGETED IN 2016)	35,598
1.35	ARTIST PROJECT (NOT BUDGETED IN 2016)	160,116
1.36	INDOOR WINTER CARNIVAL AT THE EX (NOT BUDGETED IN 2016)	54,940
1.37	EVERYTHING TO DO WITH SEX (NOT BUDGETED IN 2016)	138,426
1.38	INCREMENTAL NEW UNIDENTIFIED+3% INCREASE- ECC/EP - 2017 VS 2016	1,090,964
	<b>SUBTOTAL</b>	<b>1,297,624</b>
	<b>SUBTOTAL - PRESSURE FROM SHOWS</b>	<b>276,225</b>
<b>2</b>	<b><u>POSITIVE (NEGATIVE) PRESSURE</u></b>	
2.1	SALARY & BENEFITS - PERMANENT @ 1.25% COLA, UP TO 2.65% MERIT PER CITY GUIDELINES	(766,113)
<b>3</b>	<b><u>EFFICIENCY SAVINGS</u></b>	
3.1	CLOSING SIGN SHOP - LABOUR & DIRECT CHARGES - COST AVOIDED	51,561
3.2	OUTSOURCE WELDING SERVICE - LABOUR & DIRECT CHARGES - COST AVOIDED	90,916
3.3	SIGN SUPPLIES - 2017 ONE YEAR COST ROLLED OUT TO FACILITY	(18,000)
3.4	WELDING SUPPLIES ROLLED TO GARAGE	(3,000)
3.5	OTHER	90,737
	<b>SUBTOTAL</b>	<b>212,214</b>
<b>5</b>	<b><u>BMO FIELD/RICOH</u></b>	
5.1	INCREMENTAL PARKING (ARGOS & OTHER, ADDITIONAL SEATS - NET OF DIRECT WAGES AND REBATE)	191,208
<b>6</b>	<b><u>CNEA DEPARTMENT - 50-600</u></b>	
6.1	SPACE RENT; ADMIN SERVICE (CPI INCREASE)	138,465
	<b>SUBTOTAL - CNEA</b>	<b>138,465</b>
	<b>TOTAL PRESSURE - (NEGATIVE) POSITIVE</b>	<b>52,000</b>

### Allstream Centre Program

This program includes the service areas of Conventions, Conferences and Meetings. The Conference Centre opened in October 2009 and the first and second full year budget for 2010/2011 was based on the original 2006 Horwath Study for which the proforma financial information was provided to the Board and City Council when the project was approved. The 2012 to 2016 budget followed the same trend and was based on the proforma financial

information except to the extent it is adjusted for specific revenue and expenditures items where there was sufficient information from the 2010 - 2015 operations to provide for different amounts based on the 6-year history.

While Allstream Centre met the proforma in 2010, since 2011 it has underperformed compared to the original 2006 Horwath proformas. Because of this, Horwath was retained to complete an updated Study. It is this updated 2015 proforma that has been used for the 2017 operating budget except to the extent it is adjusted for specific expenditure items from the 2010–2016 operations.

Allstream 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 with the opening of the new 400-room Hotel in 2016.

Exhibition Place staff have reviewed bookings to the end of the year and have forecasted that the 2016 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 2017 Operating Budget for Allstream Centre before interest, amortization and transfers is \$1.077M (\$0.549M – 2016) an increase of net revenue of \$0.528M or 96%.

Related to the construction of the Allstream Centre, the Board has an outstanding 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). 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 \$2.0M 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 \$2,797,580. By the end of 2016, Exhibition Place would have paid the City loan principal in an amount of \$5.823M and FCM in an amount of \$0.550M for a total of \$6.373M resulting in a remaining balance owing of \$34.348M.

## 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 \$18.857M to the City. The forecasted balance in the Conference Centre Reserve Fund at the end of 2016 is expected to be \$0.403M.

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 \$1.854M (2012) and \$1.320M (2011) for a total of \$3.174M was transferred to the CNEA as part of the independence of the CNEA;
- In the years 2013 (\$1.633M), 2014 (\$.621M) and 2015 (\$.345M) amounts totaling \$2.6M were withdrawn for the disposal of pre-existing contaminated soil on the hotel lands in accordance with the lease agreement; and
- 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:

- Enercare Centre LED lighting retrofit for Halls A, B, C, D and Heritage Court was completed in 2015, and provides annual savings of \$112,762;
- Installation of the solar photovoltaic system (100Kwh) at the east side of Horse Palace which realizes annual electricity savings of \$10,000 annually, in addition, to \$60,000 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 \$220,000;
- Coliseum Complex Mid Arch Steam Boilers project in Enercare Centre completed in 2008 provides an annual savings of \$80,000;
- Press Building Geothermal project completed in 2008 provides an annual savings of \$24,000;
- Underground Lighting Control Retrofit for Enercare Centre underground parking was completed in 2008 and provides an annual savings of \$30,000;
- Back-pressure steam turbine project when operational will have an annual proposed savings of \$112,000;
- LED Pathway lighting project completed in 2011 with an annual savings of \$1,800;
- General Services Building lighting retrofit was completed in 2009;
- 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 \$200,000;
- The PV - Better Living Centre will generate \$5,500 incentive annually from Toronto Hydro; and,
- 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 in late 2016. This will generate capacity charge revenue of \$423,707 annually.

The total loan advance received by the Board to-date for all of the above energy projects is \$14,947,572. By the end of 2016 Exhibition Place would have paid \$2,828,025 in principal amount and \$3,525,327 in interest amount with the remaining interest and principal balance of \$10,575,263.

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