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September 4, 2009

To: Board of Governors of Exhibition Place

From: Finance & Audit Committee

ACTION REQUIRED

Subject: **2010 Operating Budget**

Summary:

The Finance and Audit Committee met on September 4, 2009 to consider this report and recommends the Board approve the appended 2010 operating budget and forward to the City of Toronto Finance Department staff for their review and amalgamation within the City consolidated budget.

The proposed budget documents results in a net expenditure of $498,697 which is higher by $471,197 over the 2009 budget due to the loss of the Sportsman Show offset by additional revenue streams. The City has not formally communicated any budget directive this year due to the recent labor disruption. However, in discussions with the City Budget Division, it is expected that all Departments, Agencies, Boards and Commissions will maintain their 2009 Net Operating Budget. In Exhibition Place's case that would be a Net Expenditure of $27,500 which cannot be achieved due to the loss of a major event valued at almost $900,000 and over $1.6 million in new budget pressures due to the current economic situation. However, despite these negative pressures, Exhibition Place is only reducing its net budget over 2009 by $471,197 which makes up half of the loss of the Sportsman Show.

Recommendation:

It is recommended that the appended 2010 Operating Budget be approved by the Board and forwarded to the City of Toronto Finance Department staff for their review and amalgamation within the City of Toronto 2010 Operating Budget.

Financial Impact:

The proposed budget documents results in a net expenditure (loss) of $498,697 which is higher by $471,197 over the 2009 budget due to the loss of the Sportsman Show offset by additional revenue streams.

Decision History:

At its meeting of September 4, 2009, the Finance and Audit Committee approved of the 2010 Operating Budget as presented in this report.

This report contains the proposed level of revenues and expenditures for 2010 for the Board and its four program areas including the new Allstream Centre. The appended budget document also contains information on the 2007 and 2008 actual financial results; the current year 2009 projected results; and the 2010 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 Finance Department, Budget Committee and finally City Council in March 2010.

Issue Background:

The proposed 2010 Operating Budget has been developed in accordance with preliminary consultations with the City of Toronto Finance Department and also takes into account the special requirements and budget pressures that exist for the fiscal year 2010 for each of the four Exhibition Place programs.

Comments:

A. Prior Years Results and 2010 Issues

The City of Toronto Departments, Agencies, Boards and Commissions are required to develop 2010 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 2009 to 2010 will have a negative impact on the City property tax base. The City has not formally communicated any budget directive this year due to the recent labor disruption, however, in discussions with the financial planning department it is expected that all Departments, Agencies, Boards and Commissions will maintain their 2009 Net Operating Budget, in Exhibition Place's case that would be a Net Expenditure (loss) of $27,500; however due to the loss of a major event and over $1.6million in new budget pressures it is not possible to present an operating budget on a "budget-to-budget" basis. Exhibition Place is reducing its level of net expenditure to make up for more than half of the loss of the Sportsman Show.

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 cost containment, operational efficiencies and new business opportunities in order to meet budget expectations. For the ten year period from 2002 to 2008 inclusive the Board has paid over its operating surplus to the City totalling approximately $6.5 million. Exhibition Place had an operating surplus each year except for 2003, 2005 and 2006. In 2003, the blackout during the CNE period and SARS combined to cause a net operating loss; in 2005 an in-year expenditure increase of $588,000 for insurance premium was allocated to Exhibition Place under the City's comprehensive insurance downloading program; and in 2006 the year-end loss was due mainly to the revenues shortfall from lower attendance at the CNE as a result of extremely unfavorable weather over the Labour Day weekend.

For 2010, a budget of $498,697 in net expenditure is being proposed compared to $27,500 net expenditure in 2009. This budget meets the City's direction to limit to the extent possible any negative impact on the City's Operating Budget.

The 2010 budget achieves the Board Financial strategic plan to maintain a positive operating financial performance across Exhibition Place and all of its business.
In the development of the budget this year a number of factors were important to consider which are as follows:

Positive Financial Impact on Budget

o Savings from 09 COLA, budget at 2 %, paid at 0%	$ 177,000
o Additional advertising – Outdoor Billboard Signage	$ 760,000
o Increase net Parking revenues	$ 501,000

	$1,438,000
Negative Financial Impact on Budget	
o Decrease in rental and related ancillary – economic slowdown/loss of major show	$1,400,000
o Salary Increases + benefits – Permanent (Excl. Allstream)	$ 311,000
o Interest Income – lower current market rate	$ 100,000
o Biannual events held in DEC in 2009, will return in 2011	$ 639,000
	$2,450,000

B. 2010 Operating Budget by Program Area

The following section provides information on the proposed level for 2010 of operating budget revenues and expenditures for each of the four Exhibition Place programs.

(i) CNEA Program

The CNEA is budgeting for a profit of $800,152 for 2010. This amount is slightly higher by $2,351 when compared to the 2009 budget and is in keeping with the terms of the 2009 Memorandum of Understanding between the Board and the CNEA.

The CNEA is forecasting revenues of $24,612,373 which is an increase from the 2009 budget of $390,291 or 1.6 %. The 2010 budgeted expenditures of $23,812,221 are an increase from 2009 budgeted expenditures of $23,434,281 which is a change of 1.6 %. However, it should be noted that the requested budget for 2010 continues to represents an overall funding envelope for now pending the outcome of the 2009 CNE and specific expenditure items may be amended by way of budget transfers as programs and activities are finalized over the next few months through the CNEA Board of Directors. When future budget revisions are made, there may be changes to specific revenue and expenditure line items, but the net income or operating surplus of $800,152 will remain the same which is also consistent with the MOU.

The budget put forward follows the CNE Strategic Plan toward the goal of ensuring a better experience for the fairgoer and ongoing environmental initiatives

The proposed 2010 CNEA operating budget is built upon the assumptions set out below:

- The paid attendance in 2010 will increase by 2% over the 2009 level as a result of strong marketing and programming planned.
- Admission ticket pricing will remain at the 2009 level pending the imposition of the Harmonized Sales Tax (HST). The CNEA currently has a tax-inclusive pricing for admissions, which only includes the 5% GST as the CNEA admissions only is exempt from RST due to its Agricultural Fair status. The imposition of this single, value added tax with a combined rate of 13% in July 2010 will have a net negative effect of approximately $550,000. The increase from 5% GST to 13% HST would have an adverse effect to patrons if the CNEA decides to add applicable taxes to maintain its revenue base. On the other hand, if the CNE decides to hold its admission pricing at the same level as an all inclusive pricing and remit the 13% HST (previously 5% GST) then it must find the 8% from other sources
- The projection of a net 1% decrease in attendance revenues
- Programming similar to 2009 except new program in Allstream Centre, and subject to further information for 2010 from the Federal Government's Marquee Tourism Event Program (MTEP)
- Labour costs are assumed to be increasing by 2 to 3.0 % where it is deemed appropriate, other costs are increasing by a general inflation rate of 3.0%.
- Includes an Exhibition Place Site Preparation Cost of $1,373,021; an Administrative Support

Services cost of $2,366,204; and a payment of $246,488 to Direct Energy Centre Program for direct utility costs based on actual consumption; all of which have been calculated in accordance with the most recent MOU.

(ii) Exhibition Place and Direct Energy Centre Program

The 2010 Exhibition Place budget is forecasting total direct and indirect revenues of $25,777,865 which represents a decrease from 2009 budget of $461,241 or 1.8%. The total direct and overhead expenditures of $27,236,454 are $96,206 or 0.03% more than the 2009 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
- 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
- To host various events and festivals such as the Honda Indy, the CHIN Picnic, Caribana and many others
- To provide administrative support for the above activities and also for the CNEA.

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, for example, the new lease for the Queen Elizabeth Theatre in 2008 and Pods in the Music Building to Toronto Fashion Incubators (TFI).

The 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 August 2009 issue of "Trending and Spending" forecast, predicted a lingering economy and decline of at least 20% in revenue; a 17% decline in Net Square Feet of exhibit space; a 12% decline in number of Exhibition Organizations; and a 16% decline in Professional Attendance. Research from Trade Show Executive in its July 2009 issue of "2010 Annual Budget Guide" indicates that trade and consumer shows managers will hold the line on costs for hall rental and services; that late 2010 will see a slow recovery but the industry is healthy; and once the economy turns around, the trend for the next few years is positive. The projected increase in venue rates for 2010 across North America is 0%. The North American average occupancy for venues over 500,000 sq. ft. is 53% and the Direct Energy Centre continues to track slightly above industry occupancy levels at 55% which is at the high end of efficient occupancy.
Staff will continue to work with show organizers in creative ways and at the same time look at ways of reducing our own costs.

(iii) National Soccer Stadium (BMO Field)

This program is budgeting for a profit of $159,740 in 2010, its third full year of operations. Average game attendance in 2009 was budgeted at 18,000 and the actual to date is holding at this level; and in 2010 it is anticipated to also be at 18,000. The Canadian Soccer Association which has a contractual right to book at least six games for the national teams had only scheduled two of these games for 2008 and the 2009 budget reflects only two games. To mitigate the loss due to the CSA, management will book additional corporate events.

Revenues for 2010 are forecasted at $10,101,949 which is $432,726 higher than 2009 or 4.3%; while expenditures are forecasted at $9,742,469 which is $224,928 higher than 2009 or 2.4 %.

(iv) Allstream Centre

The new Conference Centre will be opening in October 2009 and it is assumed that the CNE would consider using the facility during its fair period for 2010. The 2009 budget was done on the assumption that the building becomes fully available in late September/October and the budget then assumes a three months operating period. The first full year budget for 2010 is based on proforma financial information provided to the Board and City Council when the project was approved since there is no prior history on the convention and conference business.

The Board has a loan of $35.6 million 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 on the loan starts after the first full year of operation, with the first loan payment expected in November 2010. In addition, as approved at the July Board meeting, the Federation of Canadian Municipalities (FCM) will be providing a $2.0M loan and a Grant of $300,000 for energy upgrades and LEED certification and there are sufficient funds to pay back both the City and FCM loan.

The City and the Board through the Loan Agreement 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 any naming rights agreement for the Direct Energy Centre and the Conference Centre (less any activation costs or commissions payable) plus any surplus from Exhibition Place consolidated operations for 2008, 2009 and 2010 (and to reviewed annually thereafter). This Reserve Fund will provide a backstop and source of funding for any shortfall by the Board in respect of the loan payments as required under the loan agreement.

C. <u>Greening and Energy Projects</u>

One of the Board’s strategic directives is the achievement of net energy self-sufficiency by the end of 2010 through several energy and environmental initiatives. In 2008, many of the energy retrofit projects that the Board has been working on have been completed, for example, the five building energy retrofit and the Press Building geothermal projects. The following energy initiatives projects have been completed or will be completed in 2009:

a) Direct Energy Centre lighting control system retrofit for Halls A, B, C, D and Heritage Court was completed in August 2006, provides annual savings of $245,000;
b) Installation of the solar photovoltaic system at the Horse Palace which realizes annual savings of $7,000 to $9,000 annually;
c) The Tri-generation project located in the Direct Energy Centre provides annual savings of $196,000;
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 $200,000 in 2009;

e) Coliseum Complex Mid Arch Steam Boilers project in the Direct Energy Centre completed in 2008 provide annual savings of $97,000;
f) Press Building Geothermal project completed in 2008 and provides annual savings of $16,000;
g) Lighting Control Retrofit for the Direct Energy Centre underground parking was completed in 2008 and provides annual savings of $25,000;
h) Back-pressure steam turbine project will be completed in 2010;
i) LED Pathway lighting project will be completed in 2010;
j) General Services lighting retrofit;
k) One megawatt solar project will be started in 2010; and,
l) Installation of additional wind turbines will be started in 2010.

The Board has agreements with the City, Toronto Atmospheric Fund and the Federation of Canadian Municipalities to repay loans used to fund these projects; accordingly, all savings generated from these environmental initiatives are set aside in a reserve to fund current and future debt payment.

D. <u>HST Impact on Operations for Exhibition Place and Direct Energy Centre</u>

Value-Added Tax Structure – The current RST applies to many purchases made by businesses in the course of providing goods and services for sale. As a result, the tax can become embedded in the price of the finished goods and services throughout the supply chain. This hidden RST is passed on to consumers. The new single sales tax of 13% would use a value-added tax structure, meaning that most businesses would be reimbursed for the tax they pay on their inputs.

Operating expenses currently paid with both RST and GST will result in cost savings on an annualized basis of approximately $148,000 due to the 100% rebate on the 8% tax component of the HST for Exhibition Place and Direct Energy Centre. As per City directive, these savings are not to be reflected in the 2010 budget pending the Province of Ontario and the Government of Canada approval of Bill 162.

Currently clients paying for building rentals and show services such as cleaning and labour are only charged 5% GST, under the proposed HST they will now be charged 13%, and however, as commercial businesses they would be able to claim100% input tax credit. Other show services such as equipment rentals, telecommunications, electrical, etc. are already charged out with both the RST and GST and this area should be seamless to customers.

A significant portion of the Board's expenses are its own payroll and related benefits, therefore there is no impact from the proposed legislation.

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