

May 12, 2009

To: The Board of Governors of Exhibition Place

ACTION REQUIRED

From: Dianne Young
CEO

Subject: **Agreement with Andretti Green LLC for Honda Indy**

Summary:

Beginning in 1986 as part of the Championship Auto Racing Teams ("CART") and sponsored by Molson Breweries, an international racing series was held at Exhibition Place every summer. In December 2003, CART declared bankruptcy and in January 2004, the assets of CART were sold to a private entity Open Wheel Racing Series LLC ("OWRS") which changed its name to Champ Car World Series LLC (Champ Car). Then in 2008, Camp Car merged and became part of the Indy Racing League (IRL). Because this merger happened in early 2008, there were too many combined race dates to run in the one IRL league in 2008 and therefore, the Toronto Race was cancelled. However, in March 2008, Andretti Green Promotions signed a letter of intent to purchase the former Grand Prix of Toronto, secured a major naming sponsorship with Honda and secured race dates for three years in July of 2009, 2010 and 2011 for the new Toronto Honda Indy international race.

While the Toronto Honda Indy is a significant event for Exhibition Place, more importantly is its economic impact on the City of Toronto generating \$42.0 million in economic activity in the GTA as a result of attendance and operating expenditures by the race of \$26.0 million; with 6.0% of spectators coming from outside Canada and 9.0% coming from outside Ontario; and \$5.1 million of spending on direct tourism in Toronto from outside of Ontario. The economic activity of the race supports the equivalent of 448 full-year jobs in the GTA.

Although an economic generator for the City and the Province, the Toronto race has, at least in the last six years of operation, experienced significant financial losses. While Andretti Green Promotions and the previous race owners view the Toronto Race as one of the marquee international racing events, all have indicated they cannot sustain these significant losses on a long-term basis. Accordingly, when Andretti Green Promotions signed the letter of intent in 2008, negotiations began with Exhibition Place, the City of Toronto, Toronto Tourism and the Province on how the Toronto race could be supported to allow it to become financially stable.

This report recommends a three-year agreement with Andretti Green Toronto ULC ("AGT") and the Board and provides the substantial terms and conditions related to the 2009, 2010 and 2011 races. This report also continues to provide financial support for the race in terms of reduced rent and cost of services. The terms and conditions also protect the Board's right to redevelopment of the Exhibition Place site.

Recommendations:

It is recommended that the Board:

- 1) **Approve of entering into a three-year agreement with AGT substantially on the terms and conditions contained in this report and the Confidential Attachment 1 to this report and such other terms and conditions satisfactory to the Board's Chief Executive Officer and the City Solicitor; and**
- 2) **Direct that the confidential information contained in Attachment 1 to this report not be released publicly in order to protection the competitive position and future economic interests of Exhibition Place and the City of Toronto.**

Financial Implications:

The proposed operating budget for 2009 approved by the Board included the financial return as set out in this report and the attached Confidential Appendix which for the Board is a total net profit of approximately \$660,000 over the three-year term.

Decision History:

At its meeting of October 2004, the Board approved of entering into an agreement with Molson Sports & Entertainment Inc. and Molson Breweries of Canada Limited and Molson Canada (collectively "Molson") related to the 2005, 2006 and 2007 Molson INDY races. At its meeting in November 2005, the Board approved of an assignment of the agreement to Grand Prix Association of Toronto (GPAT) and Champ Car World Series LLC (as indemnifier) which agreement expired after the 2007 race. At its meeting of July 2007, the Board approved of financial terms respecting the 2008, 2009 and 2010 GPAT which agreement was never finalized given the merger of Champ Car with the Indy Race League.

Issue Background:

Andretti Green Promotions LLC (AGT) has been operating since 2004 when it announced it would stage the Indy Racing League's first non-oval event at St. Petersburg, Florida. Former racing star, Michael Andretti, along with Kevin Savoree, are co-owners of Andretti Green Promotions and Andretti Green Racing, with both companies based in Indianapolis.

While AGT viewed the Toronto race as one of the marquee racing events, the co-owners indicated as soon as they signed the letter of intent to purchase the race, that they would not be able to sustain the substantial losses that had been experienced by former race owners. The Toronto race is one of the most expensive venues in the entire racing circuit. Major factors that had resulted in the high costs for the Toronto race include the lack of any permanent seating; the high cost of unionized labour that must be used to erect all the suites and bleachers on site; and the lack of financial support from governments to offset the race costs. Other races in the circuit receive substantial cash or in-kind support from local and state governments to attract the race to its city because of the very positive economic impact of the race.

Comments:

Because of the significance of this event to the City, Exhibition Place was asked to be part of the City team to secure this event and the financial terms of the proposed agreement reflect the concessions provided by the City and Exhibition Place. In addition, Andretti Green Promotions were able to secure financial assistance from both Toronto Tourism and the Province.

One consideration during the negotiations with Andretti Green Promotions was the impact of the construction of the conference centre and the hotel. Because of the construction of the conference centre in 2009, access will be restricted to the lawn south of the Automotive Building which has been used in the past as a profitable viewing area/beer garden. In addition, the hotel construction will affect future years and likely require seating and suites to be relocated and/or reduced. However, Exhibition Place has ensured the ability for the race to have pedestrian access in 2009 through the tunnel and the Automotive Building even though construction will be in progress subject of course to any orders under the *Occupational Health & Safety Act*.

With these factors in mind, staff are recommending a three-year agreement with AGT on the terms and conditions set out in Appendix "A" and the Confidential Attachment.

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Submitted by:

Dianne Young
Chief Executive Officer

Appendix "A"

- (a) Term – Three (3) years commencing January 1, 2009.
- (b) Race Days: The automobile race shall be run over four (4) consecutive days commencing on a Thursday and ending on the Sunday which falls on July 9, 10, 11 and 12, 2009 and, subject to the approval of the Sanctioning Body (IRL), on July 8, 9, 10 and 11, 2010 and on July 7, 8, 9 and 10, 2011, provided that AGT shall, by November 1st of the year preceding the race, give notice of any adjustment to these proposed dates for the race in 2010 or 2011 as may be required by the Sanctioning Body (IRL) and propose alternate dates for the approval of the Board. If the featured final race cannot be run on the Sunday because the Sanctioning Body (IRL) rules the Track unsafe for any reason, the featured final race may be run on the Monday immediately following provided that AGT shall be responsible for all additional Board's Costs, net of Recoverable Taxes, incurred by the Board by reason of the delay.
- (c) Occupation of the Site: For the race days of the Honda Indy, AGT shall be entitled to occupy the grounds of Exhibition Place, except for the buildings on the Site, bounded by the Gardiner Expressway, Strachan Avenue, Lake Shore Boulevard and the fence-line running from Dufferin Gate to Lake Shore Boulevard. The Site and the buildings on the Site shall continue to be accessible to the Board and its employees to perform essential services and the tenanted buildings within these boundaries shall continue to be accessible to the employees to perform essential services. AGT acknowledges that the proposed hotel will be operational during the race days and be accessible to guests and employees through the DEC entrance.
- (d) Use of Buildings: AGT may, with the prior approval of the Board, such approval not to be unreasonably withheld or delayed, be permitted to use other buildings on the Site (save and except for BMO Field, the Conference Centre and hotel facilities and any building leased to a third party during the term of this Agreement) during the period of the Race Days solely for the purposes of the Event at no additional building rental charge to AGT (with the exception of the payment of Utilities), provided that AGT has first entered into the Board's standard licence agreement with respect to the use of such buildings.
- (e) Parking – The base rental fee includes the right of AGT to 2000 parking spaces on the grounds with a right to resell 1750 spaces to ticket holders. If any of these spaces are not sold or remain vacant on a race day, the Board has a right to resell such spaces to the general public and retain all revenues from such sales. Furthermore, the Board has the right to operate certain parking lots immediately following the last race of each day to facilitate the patrons of its other tenants such as Medieval Times, Liberty Grand, Muzik Club, Gossip Restaurant and Ricoh Coliseum. AGT acknowledges that during the race days, guests of the hotel will be provided with parking in the DEC garage.
- (f) Utilities – AGT will reimburse the Board the full cost of utilities used in the DEC or other buildings occupied by AGT.
- (g) Equipment – The Board will provide, if available, rental equipment to AGT at no cost provided that AGT is responsible for repairing any damage caused to such equipment.
- (h) Sponsorship – AGT shall have the exclusive right to automobile and motor oil sponsorship within the Direct Energy Centre for the days of its race, but shall not have the right to remove or cover any third party advertisements on the ViaCom (formerly MediaCom), Omni or BMO Field signs, the Carillon Tower, the Lake Shore Entrance signs, the Ricoh Coliseum video boards or elsewhere on the grounds, or to cover any signs related to the naming of a building.
- (i) Direct Energy Centre – AGT shall have the right to use the DEC (excluding the West Annex and the Ricoh Coliseum) from the Monday preceding the race on the terms and conditions of the standard licence and the Board shall provide, if available, office space to AGT by the first day of move-in prior to the race provided AGT pays all costs associated with such space.

- (j) Automotive Building Construction – The Board shall make commercially reasonable best efforts to provide AGT with pedestrian access during the Event from the Direct Energy Centre underground garage through the ground floor level of the Conference Centre subject to any Applicable Law pertaining to the occupation and use of the premises in 2009 as a construction site and subject to AGT, at its sole expense, taking all measures as may be required by the CEO to allow for the set-up and take-down of such secured access and to ensure that the interior of the Conference Centre is not damaged in any way as a result of allowing AGT access to the facility and, in the event that the interior of the Conference Centre is damaged, AGT shall be responsible for the cost of repairing such damage. AGT further specifically acknowledges and agrees that it may during the period of construction of the Conference Centre, not have the use of the Automotive Building and its immediate surrounding areas for the purposes of the Event, and that the Board shall not be responsible for any additional costs or expenses which may be incurred by AGT as a result.
- (k) Conference Centre – AGT may, with the prior approval of the Board, such approval not to be unreasonably withheld or delayed, be permitted to use the Conference Centre in 2010 and 2011 for a period of five (5) days for the purposes of a trade and consumer event at no additional building rental charge to the AGT provided that the Board's exclusive caterer has the right to provide food services and provided that the AGT enter into a standard licence agreement with respect to the use of the Conference Centre and pays for all costs of utilities and services provided.
- (l) Conference Centre Landscape Area: Commencing at 7 pm on the Wednesday before the Event in 2010 and 2011, AGT shall be entitled to enter and use the landscaped area to the south of the Conference Centre included as part of the proposed Conference Centre provided that AGT shall utilize the Board's exclusive food and beverage supplier for all catering within this area.
- (m) BMO Field - AGT may, with the prior approval of the Board, such approval not to be unreasonably withheld or delayed, be permitted to use BMO Field for a period of five (5) days at no additional building rental charge to the AGT provided that the Board's exclusive caterer has the right to provide food services and provided that the AGT enter into a standard licence agreement with Maple Leaf Sports & Entertainment ("MLSEL") with respect to the use of the BMO Field and pays for all costs of utilities and services provided and for the cost of any MLSEL staff required to be present during use by the AGT.
- (n) BMO Field - The Board agrees that the use of the BMO Field for holding of CSA Soccer Games or Team Soccer Games on one or more of the Race Days may occur only with the prior written approval of AGT, acting reasonably.
- (o) Storage - The Board will provide at no cost year-round storage for flatbed trailers, van trailers and various material and equipment owned by AGT at a location to be determined by the Board subject to AGT entering into a standard licence agreement with the Board for such storage.
- (p) Set-up/Take-Down – The parties shall agree on a chronological schedule for the set-up and take-down of all structures, seats, etc., necessary for the race and AGT shall abide by such schedule provided the move-in schedule will be no longer than 6 weeks prior to the first race day and the move-out is no longer than 19 days following the last race day.
- (q) Concessions – AGT shall be solely responsible for arranging concessions and sponsorships and shall be entitled to all revenues derived therefrom save and except for the hotel caterer which will continue to provide catering services in the hotel and the restaurants located in the hotel which will continue to provide food services.
- (r) Track – AGT shall, at its sole cost, be responsible for erecting and removing all fencing and barriers and all stands and seating and removing and reinstalling all movable trees and shrubs.

- (s) Approvals – AGT shall be responsible for obtaining the consent of the City of Toronto to hold the race and close Lake Shore Boulevard West and for complying with the terms of those approvals.
- (t) Collective Agreements – AGT shall abide by all collective agreements between the Board and its unions and the City and its unions.
- (u) Insurance/Indemnities – AGT will obtain insurance of not less than \$20 million U.S. per occurrence and will provide indemnities as required by the City Solicitor.
- (v) Redevelopment - AGT hereby acknowledges and agrees that it has received notice that the Harbourfront LRT Extension west, hotel and Conference Centre projects (the “Contemplated Projects”) may be proceeding and that, if any or all of the Contemplated Projects proceed, the project(s) will have a significant impact on the Event and the Site and on access to the Site, including the possibility that the Event must be cancelled or rescheduled or that the course of the Track must be adjusted at AGT’s expense, and AGT agrees that it will not be entitled to any compensation whatsoever from the Board or the City of Toronto, including but not limited to any reduction or abatement of license fees or fees for services provided by the Board, as a result of such impact. Notwithstanding the above, the Board shall provide AGT with notice that a Contemplated Project will proceed by October 1st of the year prior to the year of the affected Event and as part of said notice will provide AGT with as many particulars as available to the Board about such Contemplated Projects and will provide AGT with the opportunity to participate in the planning process for the implementation of the Contemplated Project to the extent and in a manner consistent with the rights and obligations of the parties herein, provided that nothing in this paragraph shall limit the Board’s discretion in respect of implementation.
- (w) Suite: AGT shall provide to the Board fifty (50) tickets for a suite along with fifty (50) pit and fifty (50) parking passes as typically provided pursuant to previous agreements.
- (x) Termination – If AGT decides to cancel the Event it must give the Board notice of such cancellation no later than January 31st for the Event to be held in that year and no Licence Fee will be owing or payable and in addition, AGT may decide in its sole discretion to cancel the Event in any particular year of the Term, provided that it is otherwise in compliance with the terms of this Agreement and provided notice of cancellation is given as follows:
- Prior to January 31, for convenience without payment of the License Fee or Board Costs, with the exception of Board Costs which have been authorized by AGT and incurred by the Board prior to January 31st.
 - After January 31st and before April 16th of the then current year with respect to the Event to be held that year, along with a payment by certified cheque to the Board of one half (1/2) of the Licence Fee owing with respect to the cancelled Event and the Board’s Cost (without deduction of the Board’s Grant) or other expenses incurred by the Board with respect to the cancelled Event up to the date that the notice of cancellation is received by the Board; or
 - After April 15th of the then current year with respect to the Event to be held that year, along with a payment by certified cheque to the Board of the entire Licence Fee owing and the Board’s Cost (without deduction of the Board’s Grant) or other expenses incurred by the Board with respect to the cancelled Event up to the date that the notice of cancellation is received by the Board.