

August 27, 2010

11

To: Board of Governors of Exhibition Place

**ACTION REQUIRED**

From: Finance Committee

Subject: **2011 Operating Budget**

Summary:

The proposed budget documents results in a net expenditure of \$24,600 which is an improvement or net budget reduction of 5.4% over the 2010 budget as directed by the City as part of the cost savings strategies to mitigate the City annual operating shortfall.

**Recommendations:**

**It is recommended:**

- 1) That the appended 2011 Operating Budget be approved by the Board and forwarded to the City of Toronto Financial Planning Department staff for their review and amalgamation within the City of Toronto 2011 Operating Budget, and**
- 2) That any consolidated surplus for 2010, 2011 and 2012 continued to be transferred 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 with the Board and be reviewed annually thereafter .**

Financial Impact:

The proposed budget documents results in a net expenditure of \$24,600 which is an improvement or net budget reduction of \$1,410 or 5.4% over the 2010 budget

Decision History:

A formal meeting of the Finance Committee was scheduled for August 20, 2010, however due to Member commitments, a quorum was not present. A briefing was conducted with those members in attendance, namely, the Chair of the Board, an ex-officio member to the Finance Committee, the Chair of the Finance Committee, John Weatherup, and Committee member Jasmine Jackman, who were all in agreement with the recommendations outlined in this report. As well, Camilla Mackenzie, a Committee member, communicated her agreement with the recommendations outlined in this report to the Corporate Secretary, Fatima Scagnol.

This report contains the proposed level of revenues and expenditures for 2011 for the Board and its four program areas including the Allstream Centre. The appended budget document also contains information on the 2008 and 2009 actual financial results; the current year 2010 projected results; and the 2011 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 finally City Council in March 2011.

### Issue Background:

The proposed 2011 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 2011 for each of the four Exhibition Place programs.

### Comments:

#### A. Prior Years Results and 2011 Issues

The City of Toronto Departments, Agencies, Boards and Commissions are required to develop 2011 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 2010 to 2011 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 process, 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 2009 inclusive the Board has paid over its operating surplus to the City totalling approximately \$6.0 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 2011, a budget of \$24,600 in net expenditure is being proposed compared to \$26,010 net expenditure in 2010 which is an improvement of 5.4%. This budget meets the City’s Council direction to limit to the extent possible any negative impact on the City’s Operating Budget. The City request for net expenditure reduction in 2011 for Exhibition Place is 5.0% and this budget is slightly better than requested by the City

The 2011 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 the major as follows:

#### Positive Financial Impact on Budget

○ Canada Sports Hall of Fame – no grant, moving to Calgary Alberta	\$ 53,200
○ 2009 biannual events returning in 2011	\$ 619,000
○ Increase in Billboard Signage – Dufferin –converted to Digital	\$ 55,000
○ Increase in Parking revenues net of variable labor	<u>\$ 63,000</u>
	<u>\$ 790,200</u>

#### Negative Financial Impact on Budget

○ Decrease in Food & Beverage (new Contract) + Year 2 make up of Sportsman Show	\$, 419,000
○ Salary Increases + benefits – Permanent (Excl. Allstream) **	\$ 454,000
○ Decrease in Billboard Outdoor Signage – Strachan – revised agreement	\$ 120,000
○ Interest Income – lower current market rate	\$ 155,000
○ Not-For-Profit Festivals – financial relief approved by the Board ***	\$ 67,000

○ Biannual events held in DEC in 2010, will return in 2012	
+ reduction of space of some major recurring events	<u>\$ 520,000</u>
	<u>\$1,735,000</u>

\*\* Cost of Living increase provided at 2% which approximates the mid-point range of increases for 2011 for the Exhibition Place unionized workforce.

\*\*\* At its April 23, 2010 meeting the Board approved changes to the current “Not-for-Profit Booking Guidelines” which represents the protocol followed for Not-for-Profit Groups and City of Toronto meetings and events that use the facilities/grounds. The approved recommendation provide financial relief to the Not-for-Profit Festivals to encourage growth of these events on the grounds and it will also provide some relief with respect to the mark-up on IATSE costs for Not-for-Profit Community and Charitable Events.

## B. 2010 Operating Budget by Program Area

The following section provides information on the proposed level for 2011 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 \$800,000 for 2011. This amount is consistent with the 2010 budget and is in keeping with the terms of the current Memorandum of Understanding (2008 to 2010) between the Board and the CNEA. This is the last year for the MOU and a new MOU will be negotiated for 2011 to 2013 inclusive.

The budget is built taking into account the 2009 results and other experience and trend analysis from previous years. The CNEA is forecasting revenues of \$24,687,863 which is an increase from the 2010 budget of \$66,277. The 2011 budgeted expenditures of \$23,887,864 are an increase from 2010 budgeted expenditures of \$23,821,586 which is a change of \$66,277.

However, it should be noted that the requested budget for 2011, as in previous years, continues to represent an overall funding envelope for now pending the outcome of the 2010 CNE. Specific revenue and 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 revenue and expenditure line items, but the net income or operating surplus of \$800,000 will remain the same which is also consistent with the MOU.

The budget put forward follows the CNE Strategic Plan toward the goals of ensuring a better experience for the fairgoer, increased attendance and ongoing environmental initiatives.

The proposed 2011 CNEA operating budget is built upon the assumptions set out below:

- The paid attendance in 2011 will hold at the 2010 level as a result of strong marketing and programming planned.
- Admission ticket pricing in 2010 in most categories were increased to cover for the budget pressure due to the imposition of the HST and will remain at the 2010 level unless supported by new research
- Programming similar to 2010 except possible new program in Allstream Centre.
- 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%.
- Utilities - based on City directives, hydro increasing at 5%, gas at 0% and water at 9%.
- Includes an Exhibition Place Site Preparation Cost of \$1,414,212; an Administrative Support

Services cost of \$2,416,063; and a payment of \$258,812 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.

- New revenue sharing agreement with Ontario Place
- Increases of 2% proposed to exhibitor agreements for inflationary increases
- Contractual increases for Food Building licences

(ii) Exhibition Place and Direct Energy Centre Program

The 2011 Exhibition Place budget is forecasting total direct and indirect revenues of \$26,637,360 which represents an increase from 2010 budget of \$341,940 or 1.30%. The total direct and overhead expenditures of \$26,855,944 are \$370,711 or 1.40% more than the 2010 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; the lease in the Music Building to Toronto Fashion Incubators (TFI); and the new lease for the Fountain Dining room in 2010.

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 July 2010 issue of “Trending and Spending” forecast, predicted a lingering economy and decline of at least 15-18% in revenue; a 13-15% decline in Net Square Feet of exhibit space; a 7-9% decline in number of Exhibition Organizations; and the 16% decline in Professional Attendance experienced in 2009 has now moderated significantly. Research from Trade Show Executive in its July 2010 issue of “2011 Annual Budget Guide” indicates that trade and consumer shows managers will move from holding the line on costs for hall rental and services to increased spending; that early 2011 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 and that trade shows are now on steadier grounds than the economy. The projected increase in venue rates for 2011 across North America is 0 - 1%. 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 \$216,469 in 2011 after incentives and rebates, its fourth full year of operations. Average game attendance in 2010 was budgeted at 17,500 and the actual to date is averaging approximately 16,500 (due primarily to two poorly attended games including one held during the G20); and in 2011, attendance is anticipated to be at 18,320. The Canadian Soccer Association which has a contractual obligation from its Letter of Intent (LOI) to book at least six games for the national teams had only scheduled two of these games for 2008 and 2009 and has one game booked for 2010. The 2011 budget reflects the six games.

Revenues for 2011 are forecasted at \$9,900,569 (including game recoverable expenses) which is \$201,380 or 2% lower than 2010 budget mainly due to the loss of six Major League Lacrosse games; while expenditures are forecasted at \$9,457,631 which is \$284,838 or 2.92% lower than 2010 budget.

## (iv) Allstream Centre

The new Conference Centre opened in October 2009 and the 2009 budget was done on the assumption that the building becomes fully available in late September/October 2009 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. The second full year of operations in 2011 follow the same trend and is also 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 operations to provide for different amounts based on the limited history.

Finance staff has met with marketing staff to review confirmed bookings to the end of the year and it is expected that the 2010 budget for the Allstream program will be exceeded in the first year of operation. However, corporate bookings for Allstream continue to be short-term from 2 weeks to 3 months and are seldom booked, like trade shows, many months or years in advance.

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 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 is estimated at \$3,075,396 for a total principal outstanding of \$38,675,396. In addition, as approved at the July 2009 Board meeting, the Federation of Canadian Municipalities (FCM) provided 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 FCM loan is at a 2.375% interest rate amortized over 20 years with payment semi annually with the first payment being in July 2010.

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

The City and the Board through the City 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 2007, 2008 and 2009 (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 City loan payments as required under the loan agreement. The balance in the Reserve Fund at the end of 2010 is

expected to be \$2.2M based on previous years contribution plus any surplus earned from 2010 will add to this amount.

The 2007 Exhibition Place consolidated surplus of \$3,143,838 was set aside and used by the City for general operating purpose and was not transferred into the City Reserve Fund as per Council original directive; accordingly, staff will work with City Finance and City Financial Planning for 2010 and 2011 and 2012 to ensure transfer of any consolidated surplus and to request the continuation of the same arrangement we had in place for 2007 to 2009. This contribution policy for the Reserve Fund is already provided for in the loan agreement with the City under Section 2(b).

#### C. Greening and Energy Projects

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. The following energy initiatives projects have been completed or will be completed in 2010:

- 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 \$260,000;
- 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/incentive of \$140,000; due to the restrictive nature of the Demand Response 3 (DR3) the savings are lower than originally proposed for the 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 \$200,000.
- e) Coliseum Complex Mid Arch Steam Boilers project in the Direct Energy Centre completed in 2008 provide annual savings of \$63,000;
- 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 \$22,000;
- h) Back-pressure steam turbine project will be completed in 2010;
- i) LED Pathway lighting project will be completed in 2010;
- j) General Services Building lighting retrofit was completed in 2009;
- k) The East Annex Roofing and Thin Film Photovoltaic Project will be completed in 2010. The annual projected savings is \$88,000.

The Board has agreements with the City of Toronto, Toronto Atmospheric Fund (TAF) and the Federation of Canadian Municipalities (FCM) to repay loans used to fund these projects; accordingly, all savings/incentives generated from these environmental initiatives are used to fund current and future debt payment.

The total loan advance received by the Board to date for all of the above energy projects is \$8,775,572. By the end of 2011 Exhibition Place would have paid \$1,433,848 in principal amount and \$1,556,331 in interest amount with the remaining principal balance of \$7,341,724. To date the Board has complied with all loan agreement obligations and has met all required contractual payments under the terms.

#### D. HST Impact on Operations for Exhibition Place and Direct Energy Centre

Value-Added Tax Structure – The previous RST applied to many purchases made by businesses in the course of providing goods and services for sale. As a result, the tax became embedded in the price of the finished goods and services throughout the supply chain and passed onto

consumers. The new single sales tax of 13% uses a value-added tax structure, meaning that most businesses would be reimbursed for the tax they pay on their inputs.

Operating expenses previously paid with both RST and GST will now 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. These savings are reflected in the 2011 budget.

Clients paying for building rentals and show services such as cleaning and labour were only charged 5% GST but under the proposed HST they will now be charged 13%, however, as commercial businesses they would be able to claim 100% input tax credits. Other show services such as equipment rentals, telecommunications, electrical, etc. were already being charged 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 introduction of the new HST in this area.

### Contact

Hardat Persaud, Chief Financial Officer

Telephone: 416 263-3031

Fax: 416 263-3690

E-mail: [HPersaud@explace.on.ca](mailto:HPersaud@explace.on.ca)