Exhibition Place

Item No. 29

June 10, 2011

ACTION REQUIRED

To: The Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **2012 Operating Budget**

Summary:

This report recommends the adoption of a 2012 Operating Budget for all program areas at Exhibition Place but excluding the CNEA Program. Except for the CNEA Program, all other program areas within the Exhibition Place Operating Budget have met the 2012 budget directions from City Council / City Manager for the City of Toronto, to show a 10% budget improvement over the 2011 Operating Budget. While the CNEA Board of Directors and the CNEA General Manager have been informed of the City directive, they have suggested that the autonomy of the CNEA organization allows them to set an Operating Budget that does not meet City Council's directive.

The proposed budget for the three program areas excluding the CNEA Program (Exhibition Place, BMO Field and Allstream Centre) results in net expenditures of $794,720 which is an improvement of $52,054 or a net budget reduction of 111% over the 2011 budget which is significantly better than directed by the City as part of the cost savings strategies to mitigate the City annual operating shortfall.

The recommendations proposed by the CEO were amended and adopted by the Finance & Audit Committee as follows:

A. Delete Recommendation No. 2 of the report by the CEO as noted below; and

B. Add the following Recommendations:

(a) Increase the CNEA Program 2012 Operating Budget Net Income by $200,000 which, as a result, will increase the Exhibition Place consolidated 2012 Operating Budget Net Income by the same amount and direct the Exhibition Place CEO to work with the CNEA General Manager and the CNEA Board of Directors to identify specific line items in the CNEA Program budget to adjust to meet this increased Net Income; and

(b) Commence negotiations between the Board and the CNEA Board of Directors on the terms and conditions of a transition process for the CNEA to become financial and programmatically separate and independent of the Board and the City as requested by CNEA Board of Directors.

Recommendations:

It is recommended that the Board:

1. **Approve of the 2012 Operating Budget for the Exhibition Place Program including Direct Energy Centre, Allstream Centre Program and National Soccer Stadium (BMO Field) Program which meet the directions set by City Council and City Financial Planning Department;**

2. **Request that Exhibition Place staff forward the 2012 Operating Budget for the CNEA Program, as approved by the CNEA Board of Directors and attached as Appendix "A" to this report, without recommendations to the City Financial Planning Department and request that the City Financial Planning Department consult directly with the CNEA on the 2012 Operating Budget for the CNEA Program and report to City Council on this Program area as a separate category within the Exhibition Place budget, and;**

3. **Direct that the confidential report contained in Attachment 1 to this report not be released publicly in order to protect the competitive position and future economic interests of the Board.**

<u>Financial Impact:</u>

If the budget for the CNEA Program is included as part of the consolidated budget with the other three program areas, then there will be a negative impact of $200,000 to both the 2012 Operating Budget for the Board of Governors of Exhibition Place and also for the City of Toronto tax base.

<u>Decision History:</u>

At its meeting of June 10, 2011, the Finance & Audit Committee reviewed subject report and recommended the following amendment for approval by Board of Governors.

C. Delete Recommendation No. 2 above; and

D. Add the following Recommendations:

   (c) Increase the CNEA Program 2012 Operating Budget Net Income by $200,000 which, as a result, will increase the Exhibition Place consolidated 2012 Operating Budget Net Income by the same amount and direct the Exhibition Place CEO to work with the CNEA General Manager and the CNEA Board of Directors to identify specific line items in the CNEA Program budget to adjust to meet this increased Net Income; and

   (d) Commence negotiations between the Board and the CNEA Board of Directors on the terms and conditions of a transition process for the CNEA to become financial and programmatically separate and independent of the Board and the City as requested by CNEA Board of Directors.

At the meeting of June 10, 2011, a member of the Finance & Audit Committee requested information from the CEO on how the 2012 Operating and Capital Budgets reflect the Exhibition Place Strategic Plan.

With respect to the CNEA Program, at its meeting of December 2004, the Board approved of a 2005 Memorandum of Understanding (MOU) with the CNEA Board of Directors which provided in Section 3.6 the following obligation for 2005, 2006 and 2007:

The budgeted net operating surplus for the 2007 CNE will be set at $785,000 plus CPI.

At its meeting of June 20, 2008, the Board approved of a 2008 MOU with the CNEA Board of Directors which provided in Section 3.10 the following obligation for 2008, 2009 and 2010:

The budgeted net operating surplus for the CNE for the term of this MOU will not be less that the budgeted net operating surplus in 2008 which was $797,802.

At its meeting of November 25, 2010, the Board approved of a request from the CNEA to extend the 2008 MOU on a month-to-month basis until a new MOU could be negotiated. The Board approved the extension subject to the obligations of the 2008 MOU which included the requirement to have a net operating surplus of $797,802.

At its meeting of May 12, 2011, the CNEA Board of Directors approved of a preliminary 2012 Operating Budget attached to this report as Appendix "A". As indicated by Mr. Bednar, GM, CNEA, in this report, because of the expedited timeframe for the 2012 Operating Budget, the CNEA Board of Directors and the Board have not been able to negotiate the terms and conditions of a new MOU agreement in advance of developing this budget.

Issue Background:

The proposed 2012 Operating Budget for the Exhibition Place, Allstream Centre and BMO Field 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 2012 for each of these three program areas. The 2012 Operating Budget approved by the CNEA Board of Directors does not meet the directions of City Council.

Comments:

A. CNEA Program

As noted in the Decision History, the existing contractual agreement between the CNEA Board of Directors and the Board is the 2008 MOU which is operating on a month-to-month basis. While the obligation in this 2008 MOU is for the CNEA to provide a budgeted operating surplus of at least $797,802, the CNEA Board of Directors has indicated an intent to renegotiate this term of the MOU. Accordingly, the 2012 Operating Budget for the CNEA Program approved by the CNEA Board of Directors has a net operating surplus of $600,000.00 which is $200,000 less than the budgeted surplus in 2011.

In 2009 and 2010, City Council directed that there be a 5% improvement to Operating Budgets but rather than increase the net operating surplus for the CNEA Program, Exhibition Place made up this required CNEA target improvement of $82,000 within the Exhibition Place Program. In addition to this, the 2012 Operating Budget for Exhibition Place also includes an additional $82,000 of revenues to reflect the requirement for every program area (including the CNEA Program) to increase its surplus by 10% as directed by City Council. Exhibition Place has absorbed the financial consequences of all City directives within the Exhibition Place Program and has not required the CNEA Program to find these funds. However, the outstanding issue, which the Exhibition Place Program cannot accommodate / absorb in its budget, is the direction by the CNEA Board of Directors to lower the net operating surplus of the CNEA from $800,000 ($797,802 rounded) to $600,000 in the 2012 CNEA Operating Budget. The cumulative increase for Exhibition Place to make up is detailed in the chart below and including the 2012 CNEA budget as approved by the CNEA Board would be $370,200.

CNEA Budget Impact to Exhibition Place		
	Surplus	Cumulative Impact
2009 Budget	800,000	
2010 City 5% Target Improvement	40,000	40,000
	840,000	
2011 City 5% Target Improvement	42,000	82,000
	882,000	
2012 City 10% Target Improvement	88,200	170,200
	970,200	
2012 CNEA Proposed	600,000	370,200

While the CNEA Program is budgeting for a surplus of $600,000, it intends to work as hard as possible to achieve more than budgeted and in recent years (2007, 2008 2009) it has successfully done this as outlined in the chart below (ie in 2008 the surplus over budget for the CNEA Program was $1,315,482). In 2006 and in 2010 the CNEA did not achieve its budget due to extremely bad weather from hurricane Kathrina and Hurricane Earl over the long Labour Day weekend which accounts for approximately 35% of its revenue.

CNEA Operating Surplus	
2009	$ 878,003
2008	2,113,284
2007	1,559,738

However, from the City's standpoint, budgeting a lesser net surplus than in previous years has a detrimental effect because the City must still increase property taxes to make up this shortfall; in planning the directions for 2012, the City cannot wait to see if the CNE event is successful and overachieves its budget in August / September 2012.

When reviewing the proposed 2012 budget approved by the CNEA Board of Directors, it would appear that there is some room in some areas to reflect increased revenues and thus achieve a net operating surplus of $800,000 as highlighted in the Confidential Attachment 1. In addition, in the 2011 Capital Budget, funded 100% by the City/ City taxpayers, Exhibition Place has provided an amount of $400,000 (2011) to build the in-ground infrastructure for the Sky Ride which should bring in additional revenues for the CNEA Program in 2012.

There seems to be a general feeling by the CNEA Board that as an agricultural fair, the CNEA is contributing too much to the overall consolidated budget for Exhibition Place. The CNEA Program does pay a Site Fee to Exhibition Place of $2,416,063 (2011) and budgeted for $2,459,553 (2012) and then is required to provide for a net operating profit of $800,000, which also benefits the City / City taxpayer. While it is difficult to do an "apples to apples" comparative analysis to other agricultural fairs across Canada, if the CNEA is compared to the level of support from the City / Board given to the Royal Agricultural Winter Fair (RAWF), it would appear that the CNEA has greater City / Board support as shown in Appendix "B" attached to the Confidential Attachment which presents the comparison of the CNEA to the RAWF.

Finally, the CNEA suggests that reduction of the required Operating Surplus would allow it to program and market the Fair with the additional funds which in turn would drive more attendees and increased revenues. This suggestion is explored more fully in the Confidential Attachment I to this report.

B. Prior Years Results and 2012 Issues

The City of Toronto Departments, Agencies, Boards and Commissions are required to develop 2012 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 2011 to 2012 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 2001 to 2010 inclusive the Board has paid over its operating surplus to the City totalling approximately $8.485M which surplus includes the CNEA Program surplus. Exhibition Place had an operating surplus each year during this period except for 2003, 2005, and 2006. The reasons for not making a surplus over budget 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 premium was allocated to Exhibition Place under the City's comprehensive insurance downloading program;
- 2006 the year-end loss due mainly to revenues shortfall from lower attendance at the CNE as a result of extremely unfavorable weather over the Labour Day weekend; and,

For 2012, a budget of $794,720 for all programs (excluding the CNEA) in net expenditure is being proposed compared to $846,773 net expenditure in 2011 which is an improvement of 111%. 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 2012 for Exhibition Place is 10.0% and this budget is significantly more than requested by the City

The 2012 budget also 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 of which the major are as follows:

<u>Positive Financial Impact on Budget</u>

○ 2010 biannual events returning in 2012	$ 297,000
○ Utilities – Gas savings from lower rates	$ 165,000
○ Increase in F&B and net show services	$ 188,000
○ Economic Impact Study provided for in 2011; removed in 2012	$ 75,000
○ Increase in Billboard Signage – Dufferin and Strachan	$ 95,000

o Increase in Parking revenues net of variable labour	$ 280,000
	$1,100,000
Negative Financial Impact on Budget	
o Year 3 make up of Sportsman Show	$ 200,000
o Salary Increases + benefits – Permanent (Excl. Allstream) **	$ 462,000
o Reduction in CNEA's sharing of Administrative Expenses	$ 181,000
o Various Departmental Overheads	$ 250,000
o Biannual events held in DEC in 2011, will return in 2013 + Co-location of Home Show/Canada Blooms and major show PPPC not returning	$ 1,031,000
	$2,124,000

** Cost of Living increase provided at 2.25% which is similar in 2011 and approximates the mid-point range of increases for 2012 for the Exhibition Place unionized workforce.

C. 2012 Operating Budget by Program Area

The following section provides information on the proposed level for 2012 of operating budget revenues and expenditures for each of the four Exhibition Place programs.

(i) Exhibition Place and Direct Energy Centre Program

The 2012 Exhibition Place budget is forecasting total direct and indirect revenues of $26,009,725 which represents an increase from 2011 budget of $538,725 or 2.11%. The total direct and overhead expenditures of $26,231,940 are $519,823 or 2% more than the 2011 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 provide administrative support for the above activities and also for the CNEA which are paid for by the CNEA as an annual Administrative Fee.

The total annual overhead costs for operating the grounds / buildings (excluding Allstream Centre, BMO Field and CNEA costs) is $22.242M.

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 full make up of approximately $1.0M for the loss of the Sportsman Show due to the City gun policy has now been met with the booking of new shows / events. Also, the new lease for the Queen Elizabeth Fountain Dining Room in 2011 will remove this underutilized area from Exhibition Place Program costs and will also produce additional revenues for the Board and property taxes for the City.

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 2012 across North America is 0 – 1.5%. 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 56% (2010) which is at the high end of efficient occupancy.

(ii) National Soccer Stadium (BMO Field)

This program is budgeting for a profit of $250,335 in 2012 after incentives and rebates, its fifth full year of operations. Average game attendance in 2011 was budgeted at 18,320 and the actual to date is averaging approximately 15,220 (due primarily to cold and rainy weather); and in 2012, attendance is anticipated to be at 16,900. 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 booked 2 of these games in 2008, 1 in 2009 and 2 in 2010. For 2012, 3 games are budgeted to reflect current history and MLSE is currently working with CSA on finalizing a new arrangement for future years. The 2011 budget reflects the six games, however, only one game in June is confirmed

Revenues for 2012 are forecasted at $9,599,324 (including game recoverable expenses) which is $301,245 or 3% lower than the 2011 budget; while expenditures are forecasted at $9,110,410 which is $347,221 or 4% lower than the 2011 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 third full year of operations in 2012 follow 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 2010/2011 operations to provide for different amounts based on the 2-year history.

Finance Department staff met with Sales & Marketing Division to review confirmed bookings to the end of the year and it is expected that the 2011 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, like trade shows, many months or years in advance.

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 starts after the first full year of operation, with the first loan payment done 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 $3,075,397 for a total principal loan outstanding of $38,675,397. 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.

(iv) 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 any 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 balance in the Reserve Fund at the end of 2011 is expected to be $2.2M.

The 2007 Exhibition Place consolidated surplus of $3,143,838 was not added to this Reserve but used by the City for general operating purpose; in 2008 the surplus of $2,419,324 was allocated by City for the 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. 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 which attract a higher interest rate cost than the interest earned on the Reserve funds balance which would result in a $60,000 savings to the 2012 Operating Budget and annually thereafter.

D. 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 2011:

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 $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 RESOP rebates;
c) The Tri-generation project located in the Direct Energy Centre provides annual savings/incentive of $115,000; 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 $220,000.
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 $24,000;
g) Lighting Control Retrofit for the Direct Energy Centre underground parking was completed in 2008 and provides annual savings of $30,000;
h) Back-pressure steam turbine project will be completed in 2011 with annual savings of $112,000 (1,234,536 Kwh);
i) LED Pathway lighting project will be completed in 2011 with annual savings of $1,500;

j) General Services Building lighting retrofit was completed in 2009;
k) The East Annex PV Roofing, and Horse Palace PV Roofing and other smaller energy projects will be completed in 2011. The annual projected savings is $90,000. (1,000,000 kwh)

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 $9,665,572. By the end of 2011 Exhibition Place would have paid $1,795,159 in principal amount and $902,520 in interest amount with the remaining principal balance of $7,870,413. To date the Board has complied with all loan agreement obligations and has met all required contractual payments under the terms.

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Finance & Audit Committee