



Exhibition Place

Item No. 26

June 10, 2011

ACTION REQUIRED

To: Board of Governors of Exhibition Place

From: Finance & Audit Committee

Subject: **National Soccer Stadium (BMO Field) 2012 Capital Budget**

Summary:

This report provides information on the 2012 recommended level of the Capital Expenditures Budget for the National Soccer Stadium (BMO Field). The recommendation in this report will result in the outlay of approximately \$625,000 for service improvements. All items requested have a direct and positive relationship to revenues earned and fan experience. The cost is fully funded from gross revenues earned at BMO Field and in accordance with the terms of the Management Agreement between the Board and Maple Leaf Sports & Entertainment Ltd. (MLSEL), it is included as an expense within the 2012 Operating Budget of the National Soccer Stadium as a payment into a Capital Reserve Fund to be held by the City of Toronto. Therefore, there are no incremental financial implications to the Board or the City for these capital expenditures.

Recommendation:

It is recommended that the Board approve the proposed 2012 Capital Budget in the amount of \$625,000 for the National Soccer Stadium (BMO Field).

Financial Impact:

As noted within the summary, the recommendation in this report will result in the outlay of approximately \$625,000 for service improvements. There are no incremental financial implications resulting from the adoption of the recommendation as the cost is fully funded from gross revenues and is included as an expense within the 2012 Operating Budget of the National Soccer Stadium as a payment into a Capital Reserve Fund to be held by the City of Toronto. There will be sufficient funds from the annual \$400,000 required contribution and yearly interest earned in the Capital Reserve to pay for the expenditures.

Decision History:

At its meeting of June 10, 2011, the Finance & Audit Committee reviewed subject report and recommended it to the Board for approval.

At its meeting of October 21, 2005, the Board approved of entering into an Agreement with Maple Leaf Sports and Entertainment Limited as the Manager of the National Soccer Stadium as Agent for the Board to provide management services including operations, maintenance and marketing services for twenty years effective January 1, 2007 and expiring on December 31, 2027. A term of this agreement requires the transfer of \$400,000 from the annual Operating

Budget to a Capital Reserve Budget to be held by the City for the sole benefit of the National Soccer Stadium.

Issue Background:

A comprehensive review of capital requirements is completed annually in conjunction with the commencement of the operating budget process. At its meeting of July 23, 2010, the Board approved the Manager (MLSEL) spending \$316,633 for capital expenditures in 2011 for service improvements, all of which is expected to be spent.

Comments:

The 2011 fiscal year is the fifth year of operations and the contractual requirement to set aside funding and the expected December 31, 2011 year end Capital Reserve balance is estimated to be at \$605,000. In 2012 there will be the additional required yearly contributions of \$400,000 plus any interest earned in the Reserve Fund.

MLSEL have recommended only three (3) major capital projects for 2012:

Project	Cost
Equipment Upgrades	92,000
Building Repairs/Upgrades	473,000
Portable Kiosks	60,000
Total	625,000

All items requested have a direct and positive relationship to revenues earned as follows:

- Equipment Upgrades (Audio visual video editor and playback for broadcasting, audio visual speaker system, Electrical service upgrades). AV upgrade will help to improve fan experience, reduce downtime, improved communications, upgrade to broadcast presentation and service improvements. It is estimated that the financial payback is four years.
- Building Repair/Upgrades is to assist with positive fan experience with the replacement of the natural grass field (\$300,000) which is at the end of its lifecycle. Natural grass field in MLS can have a life expectancy from 1 – 6 years depending on usage. The field will have to be replaced to maintain a professional quality pitch due to organic build up that is slowing down the field drainage system. Heavy usage in the first year that the natural grass field was installed lead to an aggressive maintenance program that saw heavy top dressing and over seeding with perennial rye grass. It is anticipated that the field will need to be replaced in 2015 from the heavy usage during the Pan Am Games; however, these costs will be covered by the client. Replacement for the grass field has also been budgeted for the years 2018 and 2021 or every three years. The 2009 BMO Field Capital budget includes \$1.2 M to replace the artificial turf in 2017, which usually has a useful life of 10 years; however, because of the excessive usage in the first two years the surface received a failing grade in the FIFA rating system and would need to be replaced only after five years; so in effect, it is probably the same financial outlay required for grass field versus artificial turf over time but with the added benefits from the grass. Outdoor speakers need to be replaced with outdoor quality speakers; upgrades to security cameras and security card readers for improved service and security.
- Portable Kiosks (bar draught units, condiment carts POS and Data System, hand wash sinks for safety) are required for service improvements due to growth and to add additional food outlets and additional revenues from F&B services.

The requirements to fund capital expenditures of the Stadium are addressed and identified within the Management Agreement and the main terms and conditions are as outlined below:

1. The Board shall cause a segregated interest bearing Capital Reserve Account to be established to fund Stadium Capital Expenditures.
2. For the first five (5) years during the Term, the Manager shall appropriate from gross revenues an amount to the Capital Reserve Account equal to \$400,000 per year and increasing for each fiscal year commencing on the sixth fiscal year by application of the CPI Index Ratio.
3. The Capital Contribution shall be subject to equitable pro-ration for partial year starting with the first fiscal year (\$300,000 contributed in first year).
4. The Manager shall include a Facility User Fee surcharge on all tickets to the Stadium in varying amounts determined by the Manager and the Board for the purposes of Capital Repairs and Improvements all of which shall be included in gross revenues.
5. All Capital Expenditures shall be set out in the Annual Capital Budget and agreed to by the Board and the Manager as being required to maintain and operate the Stadium in accordance with a Tier II level sports and entertainment facility of similar age, size, condition, design and volume and nature of use.
6. All Capital Repairs and Improvements contemplated by the Manager shall be carried out by the Manager as Agent for the Board, in consultation with the Board and in accordance with the capital tendering procurement process of the Board, a copy of which was provided to the Manager prior to the commencement of the Term.
7. The Board and the Manager shall be equally responsible, on a dollar for dollar basis, for making any contributions to Capital Expenditures in addition to the amount then held in the Capital Reserve Account in the event that approved capital expenditures in any fiscal year during the term are in excess of the amounts then held in the Capital Reserve Account. However, contributions to Capital Expenditures by the Manager and the Board as provided shall be repaid (reimburse) thirdly from excess cash flow in each fiscal year after first paying the Manager's Supplementary Fee and the Manager's Incremental Fee.
8. The Board will retain all funds within the Capital Reserve Account at the expiration of the term
9. Capital Repairs and Improvements means any and all repairs, maintenance, additions, alterations, renovations, restorations, replacements and improvements to the Stadium that in accordance with Generally Accepted Accounting Principles are capital in nature and include equipment and systems.

Contact

Hardat Persaud, Chief Financial Officer

Tel: 416-263-3031

Fax: 416-263-3690

Email: HPersaud@explace.on.ca

Finance & Audit Committee