



# Exhibition Place

## Item No. 17

August 15, 2014

To: Board of Governors of Exhibition Place

**ACTION REQUIRED**

From: Finance & Audit Committee

Subject: **2015 Operating Budget**

### Summary:

The 2015 budget directions from City Council / City Manager for all City agencies, boards and departments is to show a 0% budget improvement over the 2014 Operating Budget, that is, the direction is to maintain net expenditures at the previous year level. After taking into consideration the major factors affecting the Board's operations in 2015, the proposed 2015 Operating Budget will result in a net surplus of \$500,000 primarily due to the TO2015 event which exceeds the 2015 Operating Budget Directions and Guidelines by \$400,000 or an improvement of 400% over the 2014 Budget. The continued construction of the Hotel in 2015 will result in a net loss of parking revenue of approximately \$175,000 because in 2015 an existing parking area will be removed from use and be built out for the Stanley Barracks public park and if not for this loss, the budget surplus would have been higher.

### **Recommendations:**

**It is recommended that the Finance & Audit Committee:**

- 1) Approve of the 2015 Operating Budget; and**
- 2) Request that the City of Toronto transfer any consolidated surplus for 2015 to the "Exhibition Place Conference Centre Reserve Fund".**

### Financial Impact:

The proposed 2015 Operating Budget for the Board will result in a surplus of \$500,000.

### Decision History:

The Exhibition Place 2014 – 2016 Strategic Plan had a Financial Goal to *effectively monitor costs and revenues* and as a Strategy to support this Goal to *we will ensure operating budgets are met and show a positive surplus to budget.*

At its meeting of August 14, 2014, the Finance & Audit Committee reviewed subject report and recommended it to the Board for approval.

### Conference Centre Reserve Fund

At its meeting of December 2007, City Council approved of a recommendation to deposit any annual surplus over budget into the Exhibition Place Conference Centre Reserve Account to

provide a source of funding for any cash shortfalls with respect to the Allstream Centre loan repayment. At its meeting of November 5, 2012, City Council approved of a recommendation to expand the purpose of the Exhibition Place Conference Centre Reserve Fund to provide a source of funding for both Allstream Centre loan repayments and also for maintaining Direct Energy Centre and Allstream Centre in a state of good repair.

Soccer Stadium - BMO Field

At its meeting of October 26, 27, 28 and 31, 2005, City Council approved the contribution of land at Exhibition Place, together with a financial contribution of \$9.8 million, for the creation of the professional soccer stadium which is now known as BMO Field. At its meeting of March 7, 2014, the Board approved of the expansion and renovation of the stadium as proposed by Maple Leaf Sports and Entertainment (MLSE) which was subsequently approved by City Council on April 1, 2014. The financial implications of amendments to the Management Agreement is greater operating and financial autonomy of BMO Field commencing in 2014 but with the payment of a guaranteed amount to the Board/City.

#### Issue Background:

The proposed 2015 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 2015.

This report contains the proposed level of revenues and expenditures for 2015 and the appended budget document also contains information on the 2011, 2012 and 2013 actual financial results; the current year 2014 projected results; the 2014 Budget and 2015 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 City Council in March 2015.

#### Comments:

##### A. Prior Year's Results and 2015 Issues

The City of Toronto Departments, Agencies and Boards are required to develop 2015 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 2014 to 2015 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. 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 2004 to 2013 inclusive the Board (including the CNEA Program) has paid over its operating surplus to the City totalling approximately \$15.3M.

In the development of the 2015 budget there were a number of major factors that were considered as listed below in the chart. Per City 2015 Budget directions the Cost of Living increases are provided at 2.25% which is 0.50% higher than 2014 but subject to final City

directives in early 2015. Merit increases (financial performance rewards) per City directives of up to 2.65% which will be based on employee performance.

<b>EXHIBITION PLACE &amp; DIRECT ENERGY CENTRE</b>		
<b>BUDGET 2015 - MAJOR FINANCIAL PRESSURE</b>		
		<b>TOTAL POSITIVE (NEGATIVE)</b>
		<b>\$</b>
<b>1</b>	<b>INCREMENTAL REVENUE - NET</b>	<b>2,126,936</b>
<b>2</b>	PRINT ONTARIO (BIENNAL 2014; 2016)	<b>(245,575)</b>
<b>2.1</b>	IIDEX/NEOCON CANADA - EVENT LEFT	<b>(271,366)</b>
<b>2.2</b>	BEERFEST	<b>(92,313)</b>
<b>2.3</b>	SIAL TORONTO (2013; 2015)	<b>433,977</b>
	<b>SUBTOTAL - PRESSURE FROM SHOWS/EVENTS</b>	<b>(175,277)</b>
<b>3</b>	<b>SUBTOTAL - SALARY &amp; BENEFITS CHANGES</b>	<b>(727,984)</b>
<b>4</b>	<b><u>NEGATIVE PRESSURE</u></b>	
<b>4.1</b>	INCREASE LEGAL FEE	(200,000)
<b>4.2</b>	UTILITIES - ECONOMIC FACTOR/PAN A M CONSUMPTION	(376,809)
<b>4.3</b>	CONTRIBUTION TO NEW EQUIPMENT RESERVE	(200,000)
<b>4.4</b>	VARIOUS DEPARTMENTAL OVERHEAD	(46,867)
	<b>SUBTOTAL</b>	<b>(823,676)</b>
	<b>TOTAL PRESSURE - (NEGATIVE) POSITIVE</b>	<b>400,000</b>

#### B. 2015 Operating Budget by Program Area

The following section provides information on the proposed level for 2015 operating budget revenues and expenditures for each of the two Exhibition Place programs: the Exhibition Place / Direct Energy Centre program and the Allstream Centre program.

BMO Field is no longer included as a separate program area within the Exhibition Place Operating Budget. As noted in the Decision History above, the amended terms of the Management Agreement between MLSE, the Board and the City that was approved by the Board and City Council now provides one guaranteed annual fee from MLSE to the Board / City rather than a share by the Board of 50% of any surplus over budget earned by BMO Field. Because of this autonomy/guarantee, it was agreed with the City Director of Financial Services that (i) BMO Field actual results commencing 2014 would not be consolidated with the Board's operations; and (ii) BMO Field operations (expenditures / revenues) would be removed in its entirety from the 2015 Operating Budget Submission. This direction is in accordance with the Public Sector Accounting Board Standards (PSAS). Instead, the minimum annual guarantee to be paid by

MLSE would be sufficient to cover the loan from the City to MLSE and also to make the Board's operating budget whole after removing the operation of BMO Field. It was agreed with the City that MLSE would pay the guaranteed amount on a quarterly basis. The Board's 2015 Operating Budget will be kept whole with the minimum annual guarantee of \$116,092 and incremental parking revenue commencing April 2015 of approximately \$180,000. Recognition of these payments are found in the Board's detail budget on Pages 3 and 5 respectively.

(i) Exhibition Place and Direct Energy Centre Program

This program includes the service areas of Exhibition and Events, Asset Management and Parking Access. The Exhibition Place Program area carries most of the costs associated with the maintenance of the grounds as a "public park" and includes the following responsibilities:

- To maintain the grounds, parks, historic buildings, structures, roadways and physical services of Exhibition Place; and
- To provide parking services and various skilled trades to support the many shows and events on the grounds including Tenants, CNEA, Ricoh Coliseum and BMO Field.

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. In 2015, the hotel will start to pay rent and the increased seating at BMO Field is expected to have a positive effect on parking revenues. In addition, with the move of the executive offices to Direct Energy Centre, Exhibition Place will be seeking long-term tenants for the Queen Elizabeth Executive Office space although rental revenue will likely not materialize until the 2016 Operating Budget.

For the trade and consumer show business, industry research published in Trade Show Executive in the February 2014 has indicated that because of the favorable economy in February they see this as further confirmation that the underlying momentum in the economy remains favorable and economists expect retail sales to accelerate in the spring. This bounce back by consumers should give a boost to the 2014 economy moving into 2015. When corporate profits increase this usually leads to an increase in trade show participation as indicated by Trade Show Executive. Industry specialists advise that Leading Economic Index increases helps predict the future direction of the economy. This index increased by 0.5% in June 2014 which is positive. Trade Show Executive suggests that there is some clouding of global economic recovery slightly as the dispute with Russia over its seizure of Crimea has led to U.S. and Europe announcing some sanctions that will affect the world economy and there is continued slowing of the economic growth in China.

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. While the TO2015 event results in huge benefits to Direct Energy Centre and the site, it has blacked-out the period from May 2015 for any new trade show events. Still, the 2015 Operating Budget for trade and consumer show revenues is stable with TO2015 revenue taking up the majority of the annual envelop of unidentified new business to be booked in-year 2015.

The Exhibition Place site will be the largest venue for the TO2015 event which will broadcast images of the site to the world. The 2015 Operating Budget reflects both the revenues from this

event and also the expenses related to the servicing of this major event which will take over most of the Exhibition Place site for almost 8 weeks.

The 2015 Exhibition Place budget for total direct and indirect expenses of \$33,136,426 represents an increase from the 2014 budget of \$3,452,113 or 11.6%. The expenditure increase is primarily due to the following:

- Inflationary adjustment directed by the City (salary, utilities and other) = \$1.1M
- Incremental costs associated with increase in revenues & preparations for TO2015 = \$1.0M
- Legal Fees reflecting actuals over the last 3 years = \$0.2M
- Contribution to the new equipment reserve (see section C(ii) below) = \$0.2M

#### (ii) Allstream Centre Program

This program area includes the service areas of Conventions, Conferences and Meetings

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 2012 to 2015 budget followed 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 - 2014 operations to provide for different amounts based on the 5-year history.

Exhibition Place Finance staff met with Sales & Marketing staff to review confirmed bookings to the end of the year and it is expected that the 2014 rental 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, unlike trade shows, many months or years in advance.

The 2015 Operating Budget for Allstream Centre before payment of the outstanding loans is \$438,178.

The Board has a loan of \$38.7M with the City at a 5% interest rate amortized over 25 years (including the interest on the advance payments during construction) on Allstream Centre. In addition to the City construction loan, as approved at the July 10, 2009 meeting of the Board, the Federation of Canadian Municipalities (FCM) provided a \$2.0M loan for energy upgrades and LEED certification at a 2.375% interest rate amortized over 20 years. Annually, the cost of these loans to the Allstream Centre Operating Budget is \$2,798,479. By the end of 2014 Exhibition Place would have paid the City loan principal in an amount of \$3.79M and FCM in an amount of \$0.372M for a total of \$4.168M resulting in a remaining balance owing of \$36.508M.

### C. Other Issues

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

The City and the Board agreed on the establishment of an obligatory interest-bearing reserve fund to be called the "Exhibition Place Conference Centre Reserve Fund" (CCRF) and payment by the Board of all revenues received under the 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 be 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 for Allstream Centre as required under the loan agreement. Subsequently, on November 5, 2012, City Council changed the purpose of the CCRF to: “provides a source of funding, in the first instance, for any shortfalls in the loan payments to the City from Exhibition Place for the new conference centre, and this being provided for, to support any cash shortfalls with respect to capital funding required to maintain Direct Energy Centre and Allstream Centre in a state of good repair”.

Since the establishment of the CCRF in 2007 the Board has contributed a surplus of \$18.267M to the City. The forecasted balance in the Conference Centre Reserve Fund at the end of 2015 is expected to be \$2.111M. Some of the significant directions taken with respect to the annual consolidated surplus for Exhibition Place and contribution and / or withdrawals from the CCRF are as follows:

- 2007 - the surplus of \$3.1M was not added to this Reserve but used by the City for general operating purposes;
- 2008 - the surplus of \$2.4M was allocated for Allstream Centre masonry restoration;
- 2009 – \$1.4M of the CCRF was allocated to fund the Horse Palace roofing in addition to ISF Funding from the operating surplus of \$2.0M;
- 2011 / 2012 – the surplus of \$1.9M (2012) and \$1.3M (2011) for a total of \$3.1M was transferred to the CNEA as part of the independence of the CNEA; and
- 2013 - \$1.63M was allocated to the disposal of pre-existing contaminated soil on the hotel lands in accordance with the lease agreement.

#### (ii) Equipment Replacement Plan

As part of the 2014 Capital budget review, City Financial Planning requested that Exhibition Place no longer include items in the capital budget that are non-capital in nature based on the City definition of capital expenditures. These items includes equipment that is essential to carrying on our business including items such as tables, chairs, stages, stage lighting and other portable equipment. Generally, these items must be provided as part of the room rental paid by the licensee or are rented on a per item basis to shows and events. To be competitive, Exhibition Place must have these items in its inventory and in a good state-of-repair.

In order to comply with the City's capital budget rules regarding the definition and funding of capital items, Exhibition Place has had to change the elements of its capital budget and change how non-motorized equipment replacements are financed. It has been determined with the City that the best approach to garnering funds for replacement of this equipment is to make annual budgeted contributions to an equipment replacement reserve (“Vehicle Reserve – Ex Non-motorized” XQ-1702) and to fund such replacements from this reserve. Council will be considering a report at its meeting of August 26, 2014 establishing this purpose. In the 2015 budget the Board has provided for an initial contribution of \$0.2M to the reserve. Withdrawals from the reserve will be reported in future years as part of the Operating Budget approval.

#### (iii) Greening and Energy Projects

One of the Board’s strategic directives is the achievement of net energy self-sufficiency through several energy and environmental initiatives. To fund these environmental projects the Board has agreements with the City of Toronto, Toronto Atmospheric Fund (TAF) and the Federation of

Canadian Municipalities (FCM) for repayable loans and accordingly, all savings/incentives generated from these environmental initiatives are used to fund current and future debt payment. The following energy initiatives projects have been completed up to the current year:

- a) Direct Energy Centre lighting control system retrofit for Halls A, B, C, D and Heritage Court was completed in August 2006, and 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 rebates;
- c) The Tri-generation project located in Direct Energy Centre provides the opportunity for annual savings/incentive of \$115,000 for DR3; due to the restrictive nature of the Demand Response 3 (DR3) the savings could be lower for the proposed project. The DR3 incentive will be available until the commencement of the Hotel.
- 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 Direct Energy Centre completed in 2008 provides an annual savings of \$150,000;
- f) Press Building Geothermal project completed in 2008 provides an annual savings of \$24,000;
- g) Lighting Control Retrofit for Direct Energy Centre underground parking was completed in 2008 and provides an annual savings of \$30,000;
- h) Back-pressure steam turbine project when operational will have an annual proposed savings of \$112,000;
- i) LED Pathway lighting project completed in 2011 with an annual savings of \$1,500;
- j) General Services Building lighting retrofit was completed in 2009;
- k) The East Annex PV Roofing (150Kwh), West Horse Palace PV Roofing (100Kwh), and other smaller energy projects were completed in 2011 with annual FIT incentives of \$225,000;
- l) The Better Living Centre PV will generate \$5,000 incentive annually from Toronto Hydro; and,
- m) District Energy System – City Council a \$4.5M capital expenditure from recoverable debt to redesign and connect existing energy generation assets at Exhibition Place to supply heating, cooling and water heating to the Hotel development which will be operational at the end of 2015.

The total loan advance received by the Board to date for all of the above energy projects is \$9,949,572 and in 2014-15 the Board will receive \$4.5M for the District Energy System from the City. By the end of 2014 Exhibition Place would have paid \$3,338,054 in principal amount and \$1,684,376 in interest amount with the remaining principal balance of \$6,561,518.

After repayment of all outstanding loans for the energy initiatives listed above there is the potential of a positive contribution of \$1.150M net to the Operating budget made up of additional revenues and decreased expenses.

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