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## EXHIBITION PLACE

**ACTION REQUIRED**

January 14, 2008

To: The Board of Governors of Exhibition Place

From: Dianne Young  
General Manager & CEO

Subject: Agreement for Toronto Grand Prix

### Summary:

The Toronto Grand Prix is an international event that has been held on the grounds of Exhibition Place since 1986 as part of the Championship Auto Racing Teams ("CART") and sponsored by Molson Breweries. Until the late 1990s CART was a privately held organization owned by the teams competing in the series. In the late 1990s CART was taken public and for a variety of reasons CART lost much of its market share and declared bankruptcy in December 2003. In January 2004, the assets of CART were sold to a private entity Open Wheel Racing Series LLC ("OWRS"). OWRS which changed its name to Champ Car World Series LLC (Champ Car) is a professional open-wheel racing series which traces its roots back to 1904. The modern era of Champ Car began in 1979 and is privately-owned.

While the Grand Prix is a significant event for Exhibition Place, more important is its economic impact on the City of Toronto generating \$42.0 million economic activity in the GTA as a result of attendance and operating expenditures by GPAT 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. However, while a economic generator, the Grand Prix has experienced significant losses over the last few years. While Champ Car views the Toronto Race as one of the marquee events on the Champ Car schedule, the owners have indicated they cannot sustain this level of loss on a long-term basis.

This report recommends a further three-year agreement with Grand Prix Association of Toronto and Champ Car World Series LLC (collectively "GPAT") and the Board and provides the substantial terms and conditions related to the 2008, 2009 and 2010 Grand Prix races which financial terms will result in a net profit to the Board of approximately \$370,000. 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:**

THE BOARD OF GOVERNORS OF EXHIBITION PLACE



- 1) **Approve of entering into a three-year agreement with GPAT 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 2008 included the financial return as set out in this report and the attached Confidential Appendix which for the Board totals a net profit of approximately \$370,000 from this event.

#### 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 and Champ Car World Series LLC (as indemnifier). The term of the existing agreement with GPAT expired after the 2007 race. At its meeting of July 2007, the Board approved of some financial terms with respect to the 2008, 2009 and 2010 Grand Prix which are reflected in the Confidential Attachment.

#### Issue Background:

Champ Car is an elite professional open-wheel racing series which traces its roots back to 1904. The modern era of Champ Car began in 1979, when CART was formed. Until the late 1990s CART was a privately held organization owned by the teams competing in the series. In the late 1990s CART was taken public and for a variety of reasons, including an economic downturn, CART lost much of its market share and was forced into bankruptcy in December 2003. In late January 2004, the assets of CART were sold to a newly formed private entity known as Open Wheel Racing Series LLC ("OWRS"). OWRS, which changed its name to Champ Car, is owned by successful entrepreneurs and racing enthusiasts, Kevin Kalkhoven, Jerry Forsythe and Paul Gentilozzi who purchased the CART assets with the goal of ensuring that the long history of CART remained intact while at the same time, seeking to realign the business model to reflect the realities of the current marketplace.

While Champ Car views the Toronto Race as one of the marquee events on the Champ Car schedule, the owners have indicated they cannot sustain this level of loss on a long-term basis. The Toronto race is one of the most expensive venues in the entire circuit of 17 cities. Two of the major factors that drive the Toronto costs are 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 Champ Car costs. According to GPAT, 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:

For the information of the current Board, in 2005, the licence fee charged to the then Molson Indy was reduced by \$200,000 from \$528,000 (2004) to \$328,000 (2005). The basis for the approval of this decrease by the Board was the confidential financial statement submitted by Molson at that time. This reduced licence fee continued for the 2006 and for the 2007 races and in the attached terms and conditions for this three-year agreement starting in 2008.

In addition, because of the significance of this event to the City, discussions between GPAT representatives and the offices of the Mayor, Deputy Mayor, City Manager and City CFO proposed additional financial relief for the years of 2008, 2009 and 2010 which were approved by the Board at its meeting of July 2007 and detailed in the Confidential Attachment.

An economic impact study done by GPAT in 2004 calculated the economic impact of the Toronto race as follows:

- \$42.0 million economic activity in the GTA as a result of attendance and operating expenditures by GPAT
- These expenditures translated specifically into an estimate of \$26.0 million share of the GDP of Ontario for the GTA
- 6.0% of spectators came from outside Canada and 9.0% came from outside Ontario
- \$5.1 million of spending was attributed to direct tourism spending in Toronto from outside of Ontario
- Economic activity of the race supported the equivalent of 448 full-year jobs in the GTA

A major consideration during these negotiations with GPAT is the impact that the construction of the conference centre and the hotel will have on the Grand Prix. Because of the construction of the conference centre in 2008, it will be unlikely that GPAT will be able to have pedestrian access through the Automotive Building which will be designated as a "construction site" under the *Occupational Health & Safety Act*. In addition, access will be restricted to the lawn south of the Automotive Building which has been used by GPAT in the past as a beer garden. The hotel construction will affect future years and likely require GPAT to either move or reduce prime seating and some suites.

In addition to this major consideration, discussions were also held between GPAT, Exhibition Place and the City of Toronto. Unfortunately for reasons beyond the control of GPAT and outside the substantial marketing effort undertaken by GPAT in the last three years, the profitability of the race has decreased to the extent that there is a significant deficit every year putting the continuation of the race in jeopardy. Because of this, GPAT has requested some relief in the short-term to allow it to put the race back into a profitable position and the reduced rent proposed in this agreement reflects the financial reality of the race.

With these factors in mind, staff met with GPAT to come to an agreement on new terms and are recommending that the Board enter an agreement for three years on the terms and conditions set out in Appendix "A" and the Confidential Attachment.

Contact:

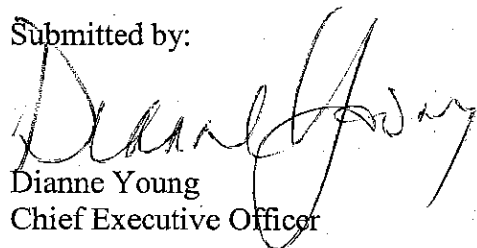
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Submitted by:



Dianne Young  
Chief Executive Officer

## Appendix "A"

- (a) Term – Three (3) years commencing January 1, 2008.
- (b) Rent - \$355,000 for 2008 and subject to the profitability of the Race held the previous year the Rent for 2009 and 2010 will be at least \$355,000 increased by CPI or such greater amount negotiated by the parties if the previous years Race was profitable.
- (c) Occupation of the Site: For the race days of the Grand Prix, GPAT 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. GPAT acknowledges that the proposed hotel will be operational during the race days and be accessible to guests and employees through the DEC entrance.
- (d) Parking – The base rental fee includes the right of GPAT 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. GPAT acknowledges that during the race days, guests of the hotel will be provided with parking in the DEC garage.
- (e) Utilities – GPAT will reimburse the Board the full cost of utilities used in the DEC or other buildings occupied by GPAT.
- (f) Equipment – The Board will provide, if available, rental equipment to GPAT at no cost provided that GPAT is responsible for repairing any damage caused to such equipment.
- (g) Sponsorship – GPAT shall have the exclusive right to automobile and motor oil sponsorship within the DEC 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.
- (h) Direct Energy Centre – GPAT 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 GPAT six weeks in advance of the race provided GPAT pays all costs associated with such space.
- (i) Conference Centre – GPAT may use the Conference Centre (and the south lawn) during the period of the Race Days for the purposes of a trade and consumer event within the building and a social viewing area on the south lawn at no additional rental charge to GPAT provided that the Board's exclusive caterer has the right to provide food services and provided that GPAT 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.
- (j) Automotive Building Construction – The Board shall make commercially reasonable best efforts to provide GPAT with pedestrian access during the Event from the DEC 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 2008 as a construction site and subject to GPAT, 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 GPAT access to the facility and, in the event that the interior of the Conference Centre is damaged, GPAT shall be responsible for the cost of repairing such damage.

- (k) National Soccer Stadium - The Board agrees that the use of the National Soccer Stadium 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 Grand Prix, acting reasonably.
- (l) Storage - The Board will provide at no cost year-round storage for flatbed trailers, van trailers and various material and equipment owned by GPAT at a location to be determined by the Board subject to GPAT entering into a standard licence agreement with the Board for such storage.
- (m) 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 GPAT 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.
- (n) Concessions – GPAT 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.
- (o) Track – GPAT 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.
- (p) Approvals – GPAT 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.
- (q) Collective Agreements – GPAT shall abide by all collective agreements between the Board and its unions and the City and its unions.
- (r) Insurance – GPAT will obtain insurance of not less than \$20 million U.S. per occurrence.
- (s) Redevelopment: GPAT shall acknowledge and agree that its right to hold the race is subject to the rights of the Board and the City to approve major redevelopment or construction on Exhibition Place or vicinity as part of the City's Waterfront initiative, hotel development, Front Street Extension development or the Waterfront LRT extension or otherwise which may require that the race be rescheduled or cancelled or the race track, grandstands, paddock or any other facility to be provided for the Grand Prix to be removed or adjusted by GPAT at its sole cost and expense. The Board will provide GPAT with written notice of proposed redevelopments by November 1<sup>st</sup> of the then current year with respect to the Event in the next year.
- (t) Termination – If GPAT decides to cancel the race because of notice received from the Board pursuant to its right to redevelop (as noted above) GPAT must give the Board notice of such cancellation no later than December 1<sup>st</sup> of the then current year with respect to the Event in the next year and no Licence Fee will be owing or payable and in addition, GPAT may, in its sole discretion, 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:
  - By December 1<sup>st</sup> of the then current year with respect to the Event in the next year, along with a payment by certified cheque to the Board of one half (1/2) of the Reduced Licence Fee owing; or

- At least ninety (90) days prior to the commencement of the Event, along with a payment by certified cheque to the Board of the Full Licence Fee owing with respect to the cancelled Event and the Board's Cost (without deduction) 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.
- (u) Board's Suite – GPAT shall provide to the Board fifty (50) tickets for a suite (in a location equivalent to the suite occupied by the Board in 2007) along with fifty (50) pit and parking passes.

