



July 15, 2003

## EXHIBITION PLACE

To: The Board of Governors of Exhibition Place

From: Dianne Young  
General Manager & CEO

Subject: **Reserve Fund**

### **Recommendation(s):**

**It is recommended that the Board receive this report for its information and forward it to the CNEA Board of Directors for their information.**

### **Background:**

At its meeting of November 28, 1997, the Board approved of entering into a 2001 Memorandum of Understanding with the CNE and as one term agreed, subject to the approval of City Council, of setting up a CNEA Stabilization Reserve Fund. At its meeting of November 26, 1999, the Board adopted a report requesting the City establish a capital reserve fund especially to fund future major capital expenditures for the National Trade Centre to ensure that it is maintained as a Class A venue.

### **Discussion:**

Exhibition Place staff have been discussing the matter of a reserve fund with City staff for over a year and finally, at its meeting of June 24, 25 & 26, 2003, City Council approved of Clause No. 6 of Report No. 5 of The Policy and Finance Committee (attached) which established an Exhibition Place Capital Improvement Reserve Fund and an Exhibition Place Stabilization Fund and continued the CNEA Prize Fund. While the Exhibition Place Capital Fund is not limited solely to the NTC and the stabilization fund is not limited solely to the CNEA, these funds can be used for both NTC capital expenditures and CNEA deficits. The report discusses in detail why the City Finance Department staff were recommending this direction rather than the one proposed by Exhibition Place/CNEA. The CNEA Prize Fund continues except that its purpose has been expanded slightly so that it can be used for all prizes and not just agricultural prizes.

The positive result of Council's direction is that all surpluses earned by the three program areas of the Board will not go into general revenues at the City but will now be transferred to either the Stabilization account or the Capital account to then be used solely for the purposes of funding future Exhibition Place deficits or the assets at Exhibition Place.

Given the final decision of City Council, the MOU with the CNEA may need to be amended accordingly to reflect this.

Conclusion:

This report is for the information of the Board and sets out the decision of City Council with respect to the requests from the Board and the CNEA about the establishment of a reserve fund.

Contact:

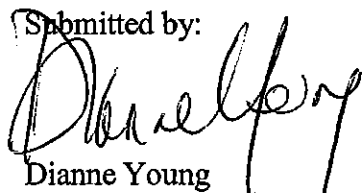
Paul Egli, Director of Finance

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Submitted by:

A handwritten signature in black ink, appearing to read 'Dianne Young', is written over the printed name.

Dianne Young  
General Manager & CEO



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**In reply please quote:  
REF.: 03-PF#5(6)**

July 7, 2003

Ms. Dianne Young  
General Manager and Chief Executive Officer  
Exhibition Place  
Toronto, Ontario M6K 3C3

Dear Ms. Young:

I am enclosing for your information and any attention deemed necessary, Clause No. 6 contained in Report No. 5 of The Policy and Finance Committee, headed "Exhibition Place Reserve Funds Realignment", which was adopted, as amended, by the Council of the City of Toronto at its meeting held on June 24, 25 and 26, 2003.

May I draw your attention to the amendment by Council found at the beginning of the Clause.

Yours truly,

for City Clerk

M. Toft/sb

Encl.

Clause sent to: Chief Financial Officer and Treasurer  
General Manager and Chief Executive Officer, Exhibition Place

c. Administrator, Budget Advisory Committee

Clause embodied in Report No. 5 of the Policy and Finance Committee, as adopted by the Council of the City of Toronto at its meeting held on June 24, 25 and 26, 2003.

**6**

**Exhibition Place Reserve Funds Realignment**

*(City Council on June 24, 25 and 26, 2003, amended this Clause, by adding thereto the following:*

*"It is further recommended that Council adopt the supplementary report dated June 23, 2003, from the Chief Financial Officer and Treasurer, entitled 'Exhibition Place Reserve Funds Realignment - Revisited', embodying the following recommendation:*

*'It is recommended that the issue of the level and use of the Exhibition Place Capital Improvement Reserve Fund be considered as part of the 2004 Capital Budget process.' ")*

**The Policy and Finance Committee recommends the adoption of the report (May 5, 2003) from the Chief Financial Officer and Treasurer.**

The Policy and Finance Committee reports, for the information of Council, having requested the Chief Financial Officer and Treasurer to meet with the General Manager of Exhibition Place in order to address the issue of the Capital Reserve Fund and report thereon to Council for its meeting scheduled to be held on June 24, 2003.

**The Policy and Finance Committee submits the following report (May 5, 2003) from the Chief Financial Officer and Treasurer:**

**Purpose:**

The purpose of this report is to realign the reserve funds associated with Exhibition Place and its tenants.

**Financial Implications and Impact Statement:**

In the event that Exhibition Place generates net income over and above that anticipated in the Council approved budget for any given year, the surplus would be contributed toward reserve funds on behalf of Exhibition Place to fund an Operating Stabilization Reserve Fund and a Capital Improvement Reserve Fund. The Stabilization Reserve Fund would be utilized for payment of an operating deficit in any given year before applying property tax dollars and would be replenished first to maintain its target balance of \$2.0 million. The Capital Improvement Reserve Fund would be utilized in any given year before requesting debt issuance on Capital projects at Exhibition Place for maintaining all existing buildings in a state of good repair. Since

amalgamation, Exhibition Place surpluses have been held in a stabilization reserve fund on behalf of Exhibition Place.

Recommendations:

It is recommended that:

- (1) Council establish a discretionary reserve fund called the "Exhibition Place Stabilization Reserve Fund", the purpose of which is to provide funding to stabilize Exhibition Place operations, and Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by adding the "Exhibition Place Stabilization Reserve Fund" to Schedule 'B' - discretionary reserve funds;
- (2) Municipal Code Chapter 227 (Reserves and Reserve Funds) be amended by changing the purpose of the CNEA Vested Reserve Fund (CNEA Prize Guarantee Reserve Fund) from providing annual prizes to individuals for agricultural and horse events at the exhibition to providing funds for annual prizes;
- (3) any surplus generated by Exhibition Place above the budgeted net income for any given year be contributed toward reserve funds on behalf of Exhibition Place:
  - (a) to bring the Exhibition Place Stabilization Reserve Fund to a target of \$2.0 million; and
  - (b) second to fund the Exhibition Place Capital Improvement Reserve Fund;
- (4) withdrawals from the Exhibition Place Capital Improvement Reserve Fund be approved as part of the Capital Budget for maintaining all existing buildings in a state of good repair; and,
- (5) the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto, and that leave be granted for the introduction of any necessary bills in Council to give effect thereto.

Background:

At its meeting of January 28, 2002, the Budget Advisory Committee, in conjunction with the review of Exhibition Place's 2002 Operating and Capital Budget, had before it correspondence (January 22, 2002) from the Chair of the Board of Governors of Exhibition Place requesting that:

"annual contributions to the NTC Capital Reserve Fund be capped in the range of \$200,000 or a percentage of the Exhibition Place operating surplus for the year (excluding the income or loss of the Canadian National Exhibition) provided that such contribution does not put the bottom-line of the consolidated Exhibition Place operating budget into a deficit".

Council, at its meeting of March 4, 2002, recommended that the Chief Financial Officer and Treasurer (CFO) report back to the Budget Advisory Committee on the results of establishing and rationalizing reserves for Exhibition Place and on the above noted request.

During the 2001 Budget Process, City Council approved an annual contribution to the NTC Capital Reserve Fund of 1 percent of net operating income of Exhibition Place based on the previous year's audited statements, commencing in the budget year 2002. The 2001 audited statements indicate a net income of \$776,000.00. Using the 2001 net income for the 1 percent contribution calculation, the 2002 contribution would be \$8,000.00. Basing the contribution on the current calculation provides an insignificant amount of funding to the Reserve.

Within its 2002 Operating Budget Submission, Exhibition Place included a budgeted contribution of \$216,000.00 to the NTC Reserve based on a contribution of 1 percent of the gross revenue of Exhibition Place Operations and National Trade Centre which was subsequently deleted from the request as part of the budget review process. The National Trade Centre represents about 60 percent of the rental space on the site and in the period from 1997 to 2002 generated about 85 percent of the income of Exhibition Place (see Table No. 1 below).

As well, as part of its three-year agreement with Canadian National Exhibition Association (CNEA), Exhibition Place has committed to requesting that "City Council establish a CNEA Stabilization Reserve Fund for the purpose of funding unplanned CNEA budget deficiencies".

#### Comments:

#### (A) Background on Exhibition Place Finances:

Table 1 indicates Exhibition Place's actual total financial operating performance excluding capital financing costs since amalgamation as well as the performance of its component operations. In its own books, Exhibition Place has had positive net income for the past three years and has budgeted to repeat this in 2002.

Table 1  
(\$,000's)

	1997	1998	1999	2000	2001	2002 *	2003 Budget
Actuals							
CNEA	331.6	(2,179.5)	(370.8)	54.9	241.1	1,447.7	145.3
Exhibition Place Operations	(3,019.0)	(760.1)	(1,319.7)	(1,211.3)	(1,277.4)	(850.7)	(1,779.1)
National Trade Centre	NA	1,006.9	1,851.6	2,209.8	1,811.9	2,379.7	1,883.40
Net Income (Loss)	(2,687.4)	(1,932.7)	161.2	1,053.4	775.6	2,976.7	
Budget Net Income	(1,514.0)	150.0	955.3	629.2	773.3	111.6	249.6

\* Unaudited Year-end Results

It is important to note that, while Exhibition Place generally provides a net income from operations, on a 'bottom line' basis, there is a total net cost to the City including debt services costs. There is outstanding debt of approximately \$71.5 million as at December 31, 2002 (of which \$60.7 million is related to the funding of the National Trade Centre in 1994 – 1997) and there are debt service costs of approximately \$8.3 million in 2002 (of which \$6.5 million is related to the funding of the National Trade Centre in 1994 – 1997) which are paid for on the tax base outside of the Exhibition Place statement of operations.

(B) Existing Reserves:

The City currently has three reserve funds for Exhibition Place purposes:

- (1) CNEA Vested Reserve Fund (CNEA Prize Guarantee Reserve Fund)  
(bal. \$158,154):

This account was created in 1950 by consolidating the reserve for the completion of approaches to the Electrical and Engineering Buildings, the suspense fund reserve and the prize guarantee fund reserve. The purpose of the Fund is to provide annual prizes to individuals for agricultural and horse events at the exhibition. The Municipality of Metropolitan Toronto Act, Sect. 231(2b) stated that 'the following assets that constitute the reserves of the Association are vested in the Metropolitan Corporation'. Accordingly, this reserve fund now vests with the City. It had been previously considered that the fund be collapsed and the balance be given over to CNEA as revenue, but this proposal was never acted upon. This report is recommending that the purpose of the prizes be expanded so that the funds could be used to provide any type of prize, not just for agricultural and horse events.

- (2) Exhibition Place Capital Improvement Reserve Fund (bal. \$813,200  
-December 31, 2002):

This reserve fund was seeded from the collapse of the CNE Stadium Capital Improvement Reserve Fund. The Stadium Fund was funded from a surcharge on tickets at the stadium. With the stadium being demolished, the remaining funds were transferred to start a capital maintenance fund for all Exhibition Place buildings. Funds from this account have been used since amalgamation to fund capital maintenance at the Food Building.

- (3) CNE Stabilization Reserve Fund (bal. \$1,403,069 – Dec. 31, 2002):

Notwithstanding that the surpluses generated from Exhibition Place operations since amalgamation have been deposited into this account, Municipal Code 227, which created all of the reserve/reserve funds for the amalgamated city, does not include this account. As noted below, it is being recommended that the Municipal Code be amended to create this reserve fund with a slightly different name.

(C) The Need for Capital Maintenance Reserves:

The basis for the original request from Exhibition Place was to build a capital maintenance reserve fund to protect its most profitable asset – namely the National Trade Centre. The Trade Centre, however, is also the newest building. The financial pressure on the Exhibition Place capital budget is such that, given the ageing and deterioration of its other buildings, inadequate funding is available to maintain the Trade Centre in a state of repair to maximize its return. Establishing such a fund from surpluses generated from the Trade Centre, would create a mechanism to provide funding for expenditures at the Trade Centre which have not been approved in the past but for which Exhibition Place feels are required to maintain the building. The establishment of such a reserve fund for maintaining a profit centre would be in keeping with industry practices.

From the City's stand point, this strategy would entail building up a reserve on the one hand for one new (5 year old) building, albeit an important one, while on the other hand debenturing in order to maintain the rest of the old buildings on the site that are in need of significant repairs (approval of which is dependant on the level of sustainable funding by the City). As well, any contribution to a maintenance reserve contributed as part of the operating budget, would be an additional expense to Exhibition Place and could increase the possibility of an Exhibition Place operating budget deficit. These funds would ultimately be contributed from tax revenues.

Options to fund capital maintenance:

The following options are not necessarily mutually exclusive:

- (1) Create a National Trade Centre Capital Maintenance Reserve Fund:
  - (a) fund as a regular operating expense or
  - (b) fund from operating surplus once the year-end results are known based on a formula which does not put Exhibition Place into a deficit, or
  - (c) do not create a National Trade Centre Maintenance Reserve Fund, and continue the Exhibition Place Capital Improvement Reserve Fund as a general source of funding to be applied to Exhibition Place's capital priorities in any given year.
- (2) Continue the Exhibition Place Capital Improvement Reserve Fund:
  - (a) fund as the only capital maintenance account or
  - (b) fund as a segregated account with one component being for the Trade Centre and another for other buildings
  - (c) fund in conjunction with a Trade Centre reserve fund or
  - (d) fund various capital maintenance initiatives at Exhibition Place buildings and the NTC.



It is being recommended that:

- (1) any year-end (post audit) surpluses above the budgeted net income should be transferred to the Exhibition Place Capital Improvement Reserve Fund provided that the Exhibition Place Stabilization Reserve Fund is maintained at \$2.0 million (see below);
- (2) any withdrawals from the Exhibition Place Capital Improvement Reserve Fund would be approved as part of the Capital Budget and these funds would continue to be directed toward the use of maintaining all buildings in a state of good repair under the direct and indirect control of the Exhibition Place Board of Governors; and
- (3) therefore, a dedicated reserve fund for the exclusive purpose of only maintaining the National Trade Centre not be established.

(D) Stabilization of Operating Accounts:

In requesting a specific operating stabilization reserve for the CNEA, Exhibition Place is asking that the City be directly responsible for funding any deficit of CNEA. By comparison, the City currently only funds the deficit if a CNEA deficit puts the total Exhibition Place operating budget into a deficit.

The City's agent for the exhibition site is The Board of Governors of Exhibition Place, a local board of the City pursuant to the *City of Toronto Act*. As required by the *City of Toronto Act*, the CNEA holds an annual fair at the site pursuant to an agreement between the Board of Governors and the CNEA. The annual operating budget for the Board of Governors must be approved by Council and includes the annual budget for the CNEA along with the budget for the National Trade Centre and the Exhibition Place Operations. All budget surpluses or deficits are paid to or covered by the City whether these surpluses and/or deficits are the result of CNEA, National Trade Centre or the Exhibition Place Operations service areas. It would be highly unusual in regards to the City's other programs to set aside funds to stabilize what is in effect a tenant. A further consideration in this case is the consequences of setting aside funds in the name of CNEA which could flow directly to it in the event of some sort of separation (an option discussed previously by Metro) or which could flow under other circumstances to resolve some CNEA financial issue outside of supporting the deficit proposition under which the City currently works.

Options for stabilization:

Create Stabilization Reserve Fund(s):

- (1) One Exhibition Place stabilization fund; or
- (2) One CNEA stabilization fund; or
- (3) Two stabilization funds.

Because the City does not have a direct business relationship with CNEA, it is recommended that an Exhibition Place Stabilization Reserve Fund be created by renaming the CNE Stabilization Reserve Fund which fund would have a maximum limit of \$2.0 million which would only be funded in the year(s) subsequent to a year of a deficit in the fund. The first priority funding from any surplus subsequent to the year of a deficit should be to replenish the stabilization account to its target of \$2.0 million.

It is recommended that a new Exhibition Place Stabilization Reserve Fund be established by Council with the following properties:

- (a) Statement of Purpose - to provide funding to stabilize Exhibition Place operations;
- (b) Designation of the service area 'owner', or beneficiary program - The beneficial owner of this account is Exhibition Place.
- (c) Appropriate level (target) to be maintained in the account - Based on recent experience, it would seem appropriate for this account to maintain a balance of \$2.0 million.
- (d) Initial contribution - The initial contribution would be the surpluses to date, to a maximum of \$2.0 million, deposited in the CNE Stabilization Reserve Fund.
- (e) Contribution policy - Funds would be contributed from Exhibition Place surplus from operations in years in which the account was below its targeted amount - \$2.0 million - as a first claim on the surplus.
- (f) Withdrawal policy - Funds would be withdrawn only to cover an unanticipated deficit in Exhibition Place entire operations.
- (g) Review cycle - The account criteria would be reviewed in five years given the high degree of variability of operating results in the past or sooner if there is a major draw on the reserve fund.

#### Conclusion:

In order to protect the interests of the City, both in terms of any liabilities arising from the operations of Exhibition Place as well as ensuring that buildings are maintained in a state of good repair, it is being recommended that two reserve funds be held by the City for the benefit of Exhibition Place - a capital maintenance reserve fund and a stabilization reserve fund. The stabilization reserve fund would be funded from prior year Exhibition Place operating surpluses and replenished first after any deficit year with surplus funds realized over and above the budgeted surplus to an amount of \$2.0 million. Funding for the maintenance reserve fund would be provided from any additional surplus generated over and above the budgeted net income after the stabilization reserve fund is at its recommended maximum of \$2.0 million. As well, it is being recommended that purpose of the CNEA Vested Reserve Fund (CNEA Prize Guarantee Reserve Fund) be expanded to allow for any type of annual prize.

Contacts:

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Councillor Mario Silva, Davenport, appeared before the Policy and Finance Committee in connection with the foregoing matter.

*(City Council at its meeting on June 24, 25 and 26, 2003, had before it, during consideration of the foregoing Clause, the following report (June 23, 2003) from the Chief Financial Officer and Treasurer:*

Purpose:

*The purpose of this report is to respond to the Policy and Finance Committee request for the Chief Financial Officer & Treasurer to meet with the General Manager of Exhibition Place in order to address the issue of the level and use of the Exhibition Place Capital Improvement Reserve Fund.*

Financial Implications and Impact Statement:

*There are no immediate financial implications to this report; however, the recommended action may have subsequent financial implications depending on how the issue is finally resolved.*

Recommendations:

*It is recommended that the issue of the level and use of the Exhibition Place Capital Improvement Reserve Fund be considered as part of the 2004 Capital Budget process.*

Background:

*At its meeting of June 12, 2003, the Policy and Finance Committee had before it the report (May 5, 2003) from the Chief Financial Officer & Treasurer entitled "Exhibition Place Reserve Funds Realignment". The Committee recommended the adoption of the report to Council, and reports for the information of Council, having requested the Chief Financial Officer and Treasurer to meet with the General Manager of Exhibition Place in order to address the issue of the Capital Reserve Fund and report thereon to Council for its meeting scheduled to be held on June 24, 2003.*

Comments:

*Staff of Exhibition Place is concerned that its major income generating asset – namely the National Trade Centre – be protected in terms of capital maintenance to ensure its ongoing viability. To this end, it suggests that funds should accumulate in the Capital Improvement Reserve Fund to be used for future major maintenance expenses of the Trade Centre.*

*The Chief Financial Officer & Treasurer met with the General Manager of Exhibition Place on this matter following consideration of the May 5, 2003 report by Policy and Finance Committee. It was decided that the issue of the level and use of the reserve fund should be further reviewed as part of the 2004 Capital Budget process. At that time, options and strategies for future funding of capital maintenance for the Trade Centre and for the balance of Exhibition Place capital facilities will be examined. This review will consider aspects such as debt financing of major maintenance items, building up reserves for future maintenance and impacts on the operating budget of capital financing options.*

Conclusions:

*It is recommended that the issue of the level and use of the Capital Improvement Reserve Fund be considered as part of the 2004 Capital Budget Process.*

Contact:

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*(Councillor Dominelli, at the meeting of Council held on June 24, 25 and 26, 2003, declared an interest in the foregoing Clause, in that he owns land in the immediate vicinity.)*