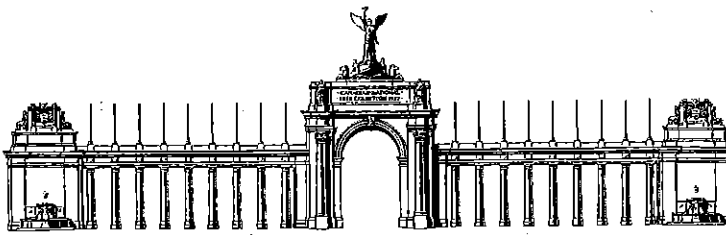


March 10, 1999



EXHIBITION PLACE

TO: The Board of Governors of Exhibition Place

FROM: Robert Hicks
Director of Finance

SUBJECT: Direct Allocation of CNEA/Exhibition Place Overhead Costs

Recommendations:

It is recommended that:

1. The allocation of direct costs amounting to \$3,200,000.00 (\$370,000.00 utilities, \$1,930,000.00 site preparation costs, and \$900,000.00 administrative support services) outlined in this report be approved;
2. The approved allocation of costs be forwarded to City of Toronto Finance Department staff for consideration within the City of Toronto 1999 Operating Budget;
3. The General Managers of Exhibition Place and the CNEA develop a schedule of services and service levels supported within the recommended cost allocation; and
4. The appropriate officials be authorized and directed to take the necessary action to give effect thereto.

Background:

The Memorandum of Understanding (MOU) between the Board of Governors of Exhibition Place (the "Board") and the Canadian National Exhibition Association ("CNEA") approved by the former Metropolitan Toronto Council on December 10 and 18, 1997 established the framework to move the CNEA toward financial and operational independence by the year 2000.

Section 6f of the MOU provided that "fees for services or site cost reimbursements will, over the two-year period, replace allocation of overhead and the fees and reimbursements will be set at a level to recover costs rather than earn a profit".

Further, the 1999 Operating Budget approved by the Board on December 4, 1998, directed a report be forwarded to the Board, outlining the proposed direct allocation of current overhead costs from Exhibition Place to the CNEA.

Discussion:

In May 24, 1996, the Board requested the Metro Chief Administrative Officer to prepare Terms

of Reference for a study of Exhibition Place. This process was finalized in discussion with the Board and Chief General Manager on August 1, 1996. One of the many issues to be addressed was the need to move away from allocation of overhead to direct cost allocation. It was noted in the report that the Metro Auditor in his annual management letter had commented that the allocation of overhead was not unreasonable, but should be refined. This direction was included in the MOU as noted above which document was negotiated and drafted with the assistance of the Metro CAO.

The process of moving from allocation of overhead to direct costing for service provision is critical to the CNEA if it is to be able to accurately assess costs, profitability, efficiency and/or effectiveness of specific program areas. It is also essential for Exhibition Place to establish a business approach to the provision of services to the CNEA. Exhibition Place must clearly identify and communicate to the CNEA what services and levels of service are being provided and at what cost. This clear identification is necessary in order to facilitate future modifications and/or alternate service delivery considerations. The allocation of overhead will also be of assistance to Exhibition Place as it is only when service delivery costs are allocated to the CNEA will Exhibition Place understand its in-house administrative costs.

Given these directions, staff of Exhibition Place and the CNEA have worked diligently to improve the accuracy of the overhead allocation by moving accounts to direct expenses within the CNEA budget where it is clear that funds are used exclusively by the CNEA program. Where the costs cannot be exclusively assigned to any one program, staff have worked at refining the formula for each expenditure item/category to more accurately reflect percentage use by either CNEA or Exhibition Place.

(a) Exclusive Costs

Attachment 1 outlines expenditure/revenue accounts that have been removed from the overhead allocation and assigned directly to the CNEA budget during 1998 and 1999. As a result of these allocations the value of residual overhead allocated to the 1999 CNEA budget has been reduced from the initial amount of \$4,690,000.00 to \$3,537,000.00. The only further direct allocation of costs which is achievable is for utilities in the amount of \$370,000.00. Subsequent to the allocation of utilities the remaining overhead value would be \$3,167,000.00.

(b) Non-exclusive Costs

The remaining overhead of \$3,167,000.00 can be segregated into two distinct service elements: (i) Site Preparation Costs and (ii) Administrative Support Services. In order to allocate the appropriate costs to either the CNEA or Exhibition Place, staff have met with officials of the City of Toronto Chief Administrative Officer's Department and the CNEA to review the cost allocation scenarios for the aforementioned service elements. It must be noted that reductions to the overhead allocation identified in previous years within the MOU were predicated on simple mathematical calculations and did not reflect recent efficiencies experienced within the Exhibition Place budget.

(i) Site Preparation Costs

Attachment 2 identifies the buildings/grounds utilization by the CNEA during the 1998 CNE period. The table indicates the number of days that the CNEA assumes

responsibility for costs, total number of days available for use by Exhibition Place and a weighted average of space usage in square feet during 1998. In the absence of a true market value appraisal for the Exhibition Place grounds, it is recommended that this approach be endorsed by the Board as the most appropriate costing methodology.

Attachment 3 summarizes the current grounds management activities assigned to the overhead portion of the Exhibition Place budget. The total funding request for these activities in 1999 amounts to \$7,522,660.00 and when factored with the ratio of space utilization of 35%, as calculated above, results in a site preparation cost of \$1,930,336.00 (rounded to \$1,930,000.00).

(ii) Administrative Support Services

Attachment 4 summarizes the administrative support activities assigned to the overhead portion of the Exhibition Place budget. Exhibition Place staff have undertaken a thorough analysis of quantitative data (vouchers, payroll, invoices, work orders, purchase requisitions, etc.) to substantiate the percentage of weighting assigned to each activity.

The total funding request for these activities in 1999 amounts to \$2,766,689.00 and when factored with individual percentage weightings the result is in an administrative support cost \$899,161.00 (rounded to \$900,000.00).

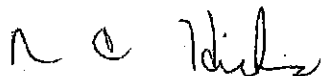
Based on the assessment above for the Site Preparation Costs and the Administrative Support Services, the recommended direct allocation of costs to the CNEA amounts to \$2,830,000.00 which is \$337,000.00 lower than the adjusted overhead allocation within the 1999 Operating Budget. This reduction is attributable to more precise costing of service values and sharing of recent efficiencies experienced within the operations of Exhibition Place.

This process has been reviewed with the C.A.O. during recent budget deliberations with the City of Toronto and he has concurred with the recommendations for the allocation of overhead direct cost accounting between the CNEA and the Board. However, further discussions with the CAO will be required following the 1999 CNE and knowing the financial position at the time. As the Board is aware, the overall 1999 Operating Budget for Exhibition Place provides for a surplus to the City of Toronto of \$955,000. The benefit of the reallocation of overhead in this report must be examined in 1999 with a requirement to maintain the 1999 Operating established target.

Conclusion:

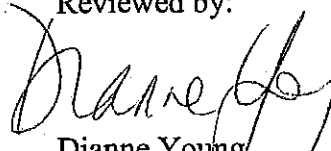
This report recommends the direct allocation of overhead costs to the CNEA within the 1999 Operating Budget. Mr. David Bednar, General Manager, CNEA has been consulted and is in concurrence with respect to all matters and recommendations within this report.

Submitted by:



Robert Hicks
Director of Finance

Reviewed by:



Dianne Young
Interim General Manager

The foregoing report was reviewed by the Executive Committee at its meeting held on March 31, 1999 and is recommended to the Board of Governors for APPROVAL.

ATTACHMENT 1

**THE BOARD OF GOVERNORS OF EXHIBITION PLACE
ADJUSTMENTS TO SHARE OF OVERHEAD EXPENSES**

Share of Overhead Expenses	\$4,690,000
As per MOU	

Adjustments within the 1998 Budget

• Employee Benefits & Audit Fees	\$209,000	
• General Manager – CNEA	\$348,000	
• Marketing Expenses	\$290,000	
• Share of Indirect Revenues	(\$238,000)	\$609,000

Presented As:

• NTC Costs – CNE Period	\$432,000	
• Share of Overhead – Exhibition Place	\$3,649,000	\$4,081,000

Adjustments within the 1999 Budget

• Corporate Secretary – Temp Salaries	\$8,000
• Human Resources – Supplies/Printing	\$6,000
• Long Distance Telephone Charges	\$74,000
• Postage	\$21,000

Sub-Total \$3,972,000

Presented As:

• NTC Costs – CNE Period	\$435,000
• Share of Overhead – Exhibition Place	\$3,537,000

ATTACHMENT 2

**EXHIBITION PLACE BUILDING USAGE AND ALLOCATION OF COST
ACTUAL 1998**

Building	Sq. Feet		Exhibition Place		Time Responsible For			
					CNE		NTC	
			Days	%	Days	%	Days	%
	N/A		Available					
Bandshell		180	148	79%	39	21%	0	0%
Better Living	210000	141	141	76%	39	21%	0	0%
Horse Palace			328	89%	39	11%	0	0%
QE Hall	63000		304	83%	39	11%	22	6%
QE Theatre	1613seats		321	88%	44	12%	0	0%
Horticulture	30000	180	146	79%	39	21%	0	0%
Music	na	365	na	na	na	0%	0	0%
Ontario Government	43000	180	146	79%	39	21%	0	0%
Grounds		90	236	86%	39	14%	0	0%
Stadium	164000							
Food	150000	0	0	0%	365	100%	0	0%
Arts and Craft	46000		365	100%	39	0%	0	0%
Press Building	14180		0	0%	365	100%	0	0%
QE. Administration	17900		190	52%	175	48%	0	0%
General Services bld	9068		365	100%	0	0%	0	0%
Non NTC Average				65.50%		34.50%		0%

ATTACHMENT 3**DIRECT COST ALLOCATION
PER 1999 BUDGET
SITE PREPARATION**

DEPARTMENT	TOTAL	CNE %	CNE SHARE	BOG SHARE
EXPENSES				
MAINTENANCE ADMINISTRATIOIN	216,273	0.35	74,722	141,551
GROUNDNS MAINTENANCE	375,000	0.35	129,563	245,438
HEALTH & SAFETY	41,655	0.35	14,392	27,263
MISCELLANEOUS ACCOUNTS	84,750	0.35	29,281	55,469
UTILITIES	1,680,000	0.22	370,000	1,310,000
CLEANING SERVICES	541,343	0.35	187,034	354,309
SPECIAL APPROPRIATIONS	321,000	0.35	110,906	210,095
BENEFITS - PERMANENT SALARIES	239,859	0.35	82,780	157,079
LABOUR	492,587	0.35	170,189	322,398
PLANT MAINTENANCE	1,029,135	0.35	355,566	673,569
ELECT. & MECHANICAL MAINTENANCE	1,581,551	0.35	546,426	1,035,125
ENGINEERING	257,638	0.35	89,014	168,624
RENTAL / TECHNICAL SERVICES	187,154	0.35	64,662	122,492
SECURITY SERVICES	474,715	0.35	164,014	310,701
TOTAL EXPENSE	7,522,660	0.32	2,388,548	5,134,112
ALLOCATION EXCLUDING UTILITIES			2,018,548	
REVENUE / RECOVERIES				
UTILITIES	1,080,168	0.08	88,212	991,956
TOTAL REVENUE / RECOVERIES	1,080,168	0.08	88,212	991,956
NET COST	6,442,492	0.36	2,300,336	4,142,156
NET COST EXCLUDING UTILITIES			1,930,336	

ATTACHMENT 4**DIRECT COST ALLOCATION****PER 1999 BUDGET****ADMINISTRATIVE SUPPORT SERVICES**

DEPARTMENT	TOTAL	CNE %	CNE SHARE	BOG SHARE
EXPENSES				
CHIEF GM	282,235	0.15	42,335	239,900
BOARD OF GOVERNORS	73,000	0.25	18,250	54,750
CORPORATE SECRETARY	134,000	0.60	80,400	53,600
ARCHIVES & RECORDS	108,529	0.40	43,412	65,117
FINANCE & ADMIN. - SALARIES	105,946	0.59	62,084	43,862
FINANCE & ADMIN. - LEGAL,AUDIT ETC.	117,300	0.00	0	117,300
FINANCE & ADMIN. - BENEFITS	472,219	0.28	132,916	339,303
PURCHASING & STORES	193,334	0.25	48,334	145,001
HUMAN RESOURCES	129,135	0.50	64,568	64,568
TELEPHONE SERVICES	128,925	0.21	27,074	101,851
MAIL ROOM	95,087	0.32	30,428	64,659
ACCOUNTING	773,938	0.32	250,340	523,598
SYSTEMS	153,041	0.50	76,521	76,521
TOTAL EXPENSE	2,766,689	0.32	876,661	1,890,028
REVENUE / RECOVERIES				
MARK UPS	527,948	0.00	0	527,948
PROPERTY TAX	273,612	0.00	0	273,612
ACCOUNTING	25,000	-0.90	(22,500)	47,500
TOTAL REVENUE / RECOVERIES	826,560	-0.03	(22,500)	849,060
NET COST	1,940,129	0.46	899,161	1,040,968

