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EXHIBITION PLACE

November 10, 1999

TO: The Board of Governors of Exhibition Place

FROM: Dianne Young
Interim General Manager
The Board of Governors of Exhibition Place

Ernest Vincent
General Manager
The National Trade Centre

SUBJECT: Establishment of NTC Capital Reserve Fund

Recommendation:

It is recommended that:

1. The Board approve of the establishment of the NTC Capital Reserve Fund with contributions commencing in 2000;
2. Direction be given to Exhibition Place staff to finalize, in consultation with staff of the City of Toronto Finance and Corporate Services Departments, a business plan for the establishment of an NTC Capital Reserve Fund;
3. A report be submitted to the Board not later than its meeting of September 2000 to ensure integration within the 2001 operating budget process;
4. The Board approve of an amendment and renaming of the Exhibition Place Capital Reserve Fund to the NTC Capital Reserve Fund in 2000 for the purpose of supporting future capital remediations requirements of the NTC; and
5. The Interim General Manager be directed to communicate these recommendations of the Board to the City of Toronto Finance Department to ensure residual funding within the Exhibition Place Capital Reserve Fund will not be exhausted for projects requested within the 2000-2004 Capital Works Program.

Background:

At its meeting of December 4, 1998, the Board adopted a recommendation to have staff report back to it on the establishment of a capital reserve fund in respect to the National Trade Centre Complex.

Discussion:

At its meeting of March 8, 9, & 10, 1994, the former Metropolitan Toronto Council considered Clause No. 1 of Report No. 9 of The Management Committee that recommended the funding of projects under the Federal/Provincial/Municipal Program, one of which was the National Trade Centre Complex.

As explained in that report, the comprehensive business case for the development of new trade facilities at Exhibition Place was first developed in 1983 and called for the construction of a international class exhibition complex with at least 1.3 million square feet of space at a cost of approximately \$3.8 million. However, as Metro was unable to obtain commitments from the Federal or Provincial governments for the sharing of this level of funding, a revised building program was developed which was subsequently funded under the FPM Program. This revised plan provided for a new exhibit hall (701,500 square feet) to be added to the Coliseum Complex which would yield 526,000 square feet of Class A exhibit space. Approximately 297,000 square feet of space would remain in the Coliseum and 163,000 square feet in the Automotive Building and although renovated this would not be up to Class A standards.

It was the intent of the plan as stated in the report that subsequent phases of the National Trade Centre project would see portions of the Coliseum Complex replaced with Class A exhibit space. Indeed the same report outlined in its financial projections the establishment of both a sinking fund to fund the replacement of major building systems and other large capital replacements and a facilities upgrade allowance to provide funding for bringing existing space in the Coliseum Complex and Automotive Building up to a competitive standard. In 1994, the recommended levels for these two items were as follows:

Year	Sinking Fund	Facilities Upgrade	Total Reserve Fund
1997	433	1,082	1,515
1998	442	1,104	1,546
1999	450	1,126	1,576
2000	459	1,149	1,608
2001	469	1,172	1,641
2002	478	1,195	1,673
2003	488	1,219	1,707
2004	497	1,243	1,740
2005	507	1,268	1,775
2006	517	1,294	1,811
TOTAL	4,740	11,852	16,592

Given the experience of the last two years with the NTC opened for business, staff have revisited these assumptions as discussed below.

Capital Requirements over the Next Ten Years

The following chart identifies the anticipated capital requirements for the NTC over the next ten years as estimated by staff on the basis of typical building maintenance practices. The NTC includes new Halls A, B, C and D and Heritage Court, the Automotive Building, the Coliseum, East and West Annexes, and the Industry Building.

Building	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
\$(000)										
NTC Halls A, B, C & D and Heritage Ct	0	250	900	600	950	200	500	550	700	1,000
Automotive Building	510	475	300	875	1,280	275	100	75	500	200
Coliseum Complex	0	50	50	1,550	50	50	50	50	50	50
Industry Building	0	50	0	50	1,800	50	1,200	50	0	50
NTC Exterior	0	200	0	0	500	0	0	0	0	0
Total	510	975	1,250	3,075	4,580	575	1,850	725	1,250	1,300

No provision has been made in these estimates for major maintenance of the Coliseum or West Annex, as currently an Offer to Lease is under review with a long-term tenant. The tenant would make improvements of approximately \$32 million dollars to make the Coliseum a suitable venue for an IHL franchise.

Capital Costs of Ten Year Program

The NTC is forecasting a net operating profit of approximately \$1.9 million for 1999 and budgeting a net operating profit for 2000 of \$2.1 million. To ensure that the NTC remains competitive in the trade show industry in order to retain and attract new shows, especially new international shows, it is necessary to maintain the Class A quality of the building in accordance with the standards set in competitive facilities, both local, national and international.

Maintaining the NTC as a premier tradeshow venue is of significant benefit to the City. These benefits are far greater than just the annual income earned from this facility as there is significant economic impact associated with trade shows. A recent "Economic and Fiscal Impact Analysis – Selected Events at the National Trade Centre in 1998" indicated that in 1998, seven major events held at the NTC generated more than \$119

million in new spending in Toronto's economy and supported approximately 1,400 jobs and \$14 million in new Federal, Provincial and local tax revenues.

Funding Mechanisms

As indicated above, the NTC must remain competitive with other national and international facilities that are, in most instances, managed by the private sector. Typically, within commercial buildings, managers apply a percentage of annual income to fund major maintenance projects. The rates range from as low as 0.5% to as high as 2% of capital construction costs. Typically, the newer "AAA" buildings apply the lower rate and the older lower class buildings charge the higher rate. As this facility is a hybrid of new and significantly older structures it is appropriate to suggest that a funding ratio of 1% be utilized for this analysis which would translate into annual contributions of approximately \$1,500,000.00 per annum.

There are a number of scenarios that may be utilized as funding mechanisms for establishing NTC Reserve Fund. Five options are as follows:

- A) Transfer of the residual amount from the Exhibition Place Capital Reserve Fund to the NTC Capital Reserve Fund in 2000;
- B) Retention of a specific amount of the annual income from NTC operations;
- C) Contribution to capital from current budgets, a practice presently utilized by the City;
- D) Dedication of a portion of the annual Exhibition Place capital allocation; and,
- E) Assessment of a user fee/surcharge for NTC events.

An analysis of the five options indicates that Option A combined with Option B provides the most secure and continuous source of revenue. It is evident from the above table that funding requirements will substantially exceed proposed contributory levels during the period 2000-2003.

By adoption of the 1999-2003 Exhibition Place Capital Works Program, City Council further approved By-law No. 131-1999 which stated that "the monies contained in the reserve fund may also be spent, pledged and applied to the purpose of future capital improvements to Exhibition Place buildings and lands". Staff is recommending that the purposes of the Exhibition Place Capital Reserve Fund be amended to allow the monies to be dedicated to NTC capital projects and the Reserve Fund renamed to be the NTC Capital Reserve Fund. It is estimated that the amount remaining in the Exhibition Place Capital Reserve Fund after completion of capital projects funded from this Reserve in 1999 and 2000 will be approximately \$350.0.

If contributions were then made on the basis of incremental profit from the NTC, using the year 2000 as base (Option B), a total of \$3.06 million could be contributed during the period 2000-2003, as indicated on the table below.

YEAR	FORECAST INCOME \$ (000)	CONTRIBUTION TO RESERVE
1999	1,951	N/A
2000	2,073	(Estimate) 580
2001	2,469	396
2002	2,869	796
2003	3,361	1,288
	TOTAL	3,060

While alternate contributory sources would be required to meet the NTC's capital needs, options identified under Options C and D may prove problematic to future Exhibition Place operating and capital budgets. Option E has been successfully utilized in the past through the establishment of the Stadium Reserve Fund which paid for all capital project requirements, demolition and site remediation of the Stadium. However, staff of the NTC has raised concern with respect to this proposal due to the disincentive to consumers and show organizers.

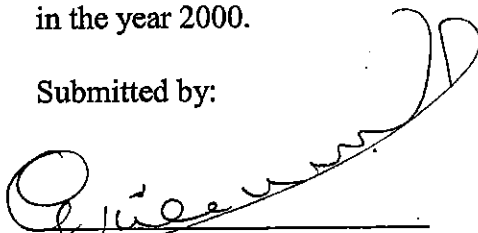
It is the intent of this report that expenditures from the NTC Capital Reserve Fund would relate only to infrastructure remediation requirements of the existing NTC and would not be used for facility expansion, furnishings or minor maintenance equipment. Furthermore, recommendations relating to draws from the NTC Capital Reserve Fund would be submitted as a program element of the five-year capital budget submission to the Board and City of Toronto.

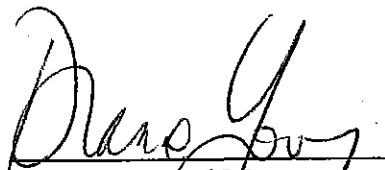
It is apparent that a consolidated funding approach will be required to address the short to medium term requirements of the NTC Capital Reserve Fund. Staff will need additional time to assess implications and opportunities associated with identified and future funding scenarios in order to generate sufficient contributory rates.

Conclusion:

This report recommends the establishment of an NTC Capital Reserve Fund commencing in the year 2000.

Submitted by:


General Manager
The National Trade Centre


Interim General Manager
Exhibition Place

