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June 5, 2000

To: The Board of Governors of Exhibition Place

From: Dianne Young
General Manager & CEO

Subject: **1999 Memorandum of Understanding between the Board and
CNEA – Waiver of Section 12**

Recommendation:

It is recommended that for 2000 the Board waive the requirements of Section 12 of the 1999 Memorandum of Understanding (“MOU”) between the Board and the CNEA as set out in this report.

Background:

At its meetings of October 29, 1999 and November 15, 1999, respectively, the Board and the CNEA approved of extending the 1997 MOU between the two parties on the terms and conditions set out in that report for a further period of two years (the “1999 MOU”).

Discussion:

Section 12 of the 1999 MOU provides that the Board and CNEA on an annual basis and before the first of April of each year of the term, calculate the level of Administrative Services to be provide to the CNEA and the Administrative Fee-for-Servie Cost. Furthermore, it provides that the Site Cost Reimbursement Fee also be recalculated on the basis of the buildings and grounds to be used by the CNEA and the move-in and move-out periods.

In 1998 and 1999, pursuant to the 1997 MOU, the CNEA paid the Board an Administration Fee-for-Service and a Site Cost Reimbursement Fee. The Administrative Fee was based on a calculation of the percentage of time spent by administrative staff (finance, corporate secretariate, executive offices, systems, and records/archives) on CNEA tasks. The Site Cost Reimbursement Fee was based on a percentage usage of the buildings as determined by the CNEA needs and the annual operating costs for those buildings. These fees were set in 1998 and refined in 1999 as costs were transferred from bulk fee charges to direct CNEA costs controlled

by the CNEA. However, other than transferring costs to direct charges, the 1997 MOU states that the fees once established would not be revised. In 1999, this resulted in a payment to the Board of fees totalling \$2,830,000 when the actual year-end expenditures would have resulted in a payment of \$2,794,086, a difference of \$35,914.

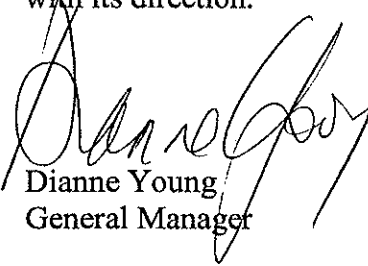
The 1999 MOU amended the 1997 MOU by providing a mechanism for the review and revision of the Administrative Fee-for-Service and Site Cost Reimbursement Fee on an annual basis by the first of April each year. The problem with this mechanism is that the Operating Budgets are set in the previous December. Therefore, it is difficult for the parties to then adjust their budgets with new figures in April. In 2000, the adjustment required is significant because of the substantial increase in the Exhibition Place Operating Budget for the Preventative Maintenance Program for the buildings. While the Administrative Fee-for-Service has decreased from \$900,000 to \$881,858, the Site Cost Reimbursement Fee has increased from \$1,930,000 to \$2,120,683 – a combined increase of \$172,541 or 6.1%.

It is impossible at this late date for the CNEA Program Operating Budget (or any tenant) to absorb this increase as the programming is too far advanced to make any significant changes. Given that the thrust of the MOU is to promote the financial and organizational independence of the CNEA, it is my recommendation that the Board waive the requirement of Section 12 of the 1999 MOU and the Administrative Fee-for-Service and Site Cost Reimbursement Fee remain at 1999 levels. This recommendation will not affect the combined 2000 Operating Budget for Exhibition Place and staff are recommending reconsideration of this issue within the 2001 Operating Budget process.

For the information of the Board, the CNEA has projected a net profit of \$245,948. As the Board is aware, any profit earned by the CNEA Program is to be deposited to a Reserve Account. However, prior to funds flowing to a Reserve Account, section 21 of the 1999 MOU provides that any surplus must first be applied to the 1998 and 1999 deficit incurred by the City which stands at \$2,570,648.00. Only following complete reimbursement of this amount will additional surplus funds be directed to the CNEA Reserve Account.

Conclusion:

This report recommends a waiver of section 12 of the 1999 MOU between the Board and the CNEA for the year 2000. Mr. David Bednar, GM, CNEA has reviewed this report and agrees with its direction.


Dianne Young
General Manager