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October 11, 2000

To: The Board of Governors of Exhibition Place

From: Dianne Young
General manager & CEO

Subject: NTC Capital Reserve Fund

Recommendation:

It is recommended that the Board:

- 1. Request the City of Toronto Council to make the necessary amendments to the Exhibition Place Capital Reserve Fund and reserve fund by-law (City of Toronto By-Law No. 131-1999) to permit the use of this reserve fund for future capital rehabilitation activities at the National Trade Centre and that the fund be renamed the National Trade Centre Capital Reserve Fund;**
- 2. Seek approval of the City for an annual contribution to the NTC Reserve of 1% of the operating budget revenues of Exhibition Place (excluding the revenues of the Canadian National Exhibition) based on the previous years audited statements, commencing in the budget year for 2002.**

Background:

At its meeting of November 26, 1999, the Board approved a staff report of November 17, 1999 entitled "Status of Stadium Project and Exhibition Place Reserve Fund" which recommended the establishment of the NTC Reserve Fund and that staff commence discussions with City of Toronto staff to accomplish this action. The report further requested that a report be presented to the Board to ensure that any issues associated with the establishment and future contributions to this fund are integrated with the 2001 Operating Budget and included in the budget discussions and review.

At its meeting of April, 2000, City Council had before it a report from the Finance Department outlining the issue and requesting that staff report back during the 2001 budget cycle.

Discussion:

The National Trade Centre is significantly different than most new structures as a result of the integration of the Automotive and Coliseum buildings within the overall structure. The age and structural integrity of the Automotive and Coliseum buildings necessitates ongoing capital investment in the short term with the entire Complex requiring funding over the longer term in order to maintain its status as Class "A" space competitive with other North American trade show venues.

For the year ended December 31, 1999, \$166,500 was contributed to the Exhibition Place Reserve Fund through interest income and the proceeds from the sale of stadium seats. In 2000 approximately \$40,000 will be added to the value of the reserve fund because of interest earnings providing for a total fund value of approximately \$800,000 at the end of this year. Compared to the replacement cost of the National Trade Centre, currently estimated to be \$170 million, the reserve fund has an extremely low balance. In addition, it is estimated that in order to maintain the NTC building to Class "A" standards, the estimated capital costs of replacements/repairs over the next 5 years will be approximately \$8.0 million.

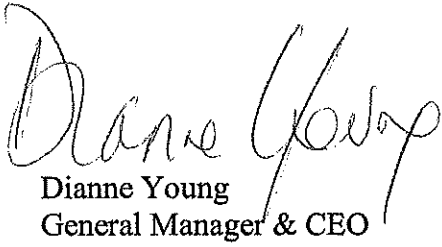
It is recommendation of staff that the present Exhibition Place Reserve Fund be renamed as the NTC Reserve Fund and its purpose changed to permit use of the fund only for capital rehabilitation activities within the NTC. While this narrows the purpose of the present Fund, it does reflect the long-term priority of the Board/City to develop the trade and consumer show business on the grounds. As pointed out in the NTC Economic Impact Analysis, this is a justified priority given that in 1999 this activity generated more than one-quarter of a billion new direct spending in Toronto.

For the near term the objective for the NTC Reserve Fund must be to increase its balance so that adequate resources are available in future years to assist in the funding of capital replacements and repairs. To accomplish this goal, staff are recommending the adoption of a contribution policy which would provide 1% of annual gross revenues for Exhibition Place (excluding revenues from CNEA Program) each year commencing in 2002 as based on the latest available audited statements. Based on the projected 2000 budget this policy would mean a contribution of approximately \$200,000 with interest payments of approximately \$40,000. While this level of funding is below industry standards for capital reserve funds for buildings of the nature of the NTC Complex, City budget pressures would likely limit any greater contributions at this point.

Staff have had discussions with staff of the Finance Department at the City of Toronto on this matter who have indicated support in principle although this direction would affect the Operating Budget and would need to be considered within that context. Therefore, the recommendations above require approval of City of Toronto Council. Finally, withdrawals from the NTC Reserve Fund would continue to required approval on an annual basis within the overall Capital Budget program for the Board.

Conclusion:

In order to maintain the competitive edge in the trade and consumer marketplace it will be necessary to maintain the NTC to Class "A" standards. With the pressures on the City's capital budgets, it is necessary and prudent to set in place a mechanism to ensure adequate funding is available to meet the ongoing capital rehabilitation of the NTC Complex. A conservative approach to meet this objective is outlined in this report. Finally, attached as Appendix "A" to this report is a summary of the proposed purposes and nature of the NTC Reserve Fund.



Dianne Young
General Manager & CEO

APPENDIX 1
NTC Reserve Fund

Statement of Purpose

The fund shall be to ensure adequate ongoing funding to support capital remediation requirements of the National Trade Centre Complex thereby ensuring that it remains competitive in the consumer/trade show industry and continues to be viewed as a premier trade show venue.

Designation of the Service Area "Owner", or Beneficiary Program

The owner/program shall be Exhibition Place.

Rational for the Appropriate Level to be Maintained in the Account

Funding reserve mechanism for similar facilities range between 0.5% and 2% of capital construction costs. The replacement construction cost of the National Trade Centre Complex is \$170 million.

Initial Contribution

Initial funding would be made by the renaming of the Exhibition Place Capital Reserve Fund to the NTC Capital Reserve Fund with the residual value of the fund remaining intact.

Contribution Policy

Annual contribution would be equal to 1% of the operating budget revenues of Exhibition Place (excluding the revenues of the Canadian National Exhibition) based on the previous years audited statements.

Withdrawal Policy

Withdrawals would be only for infrastructure remediation requirements of the existing National Trade Centre Complex and would be submitted as a program element of the 5-year capital budget submission to the Board of Governors and the City of Toronto.

Review Cycle

On an annual basis.



TORONTO STAFF REPORT

February 18, 2000

REPORT SUBMITTED TO CITY COUNCIL
AT ITS MEETING OF APRIL 26, 2000

To: Budget Advisory Committee
From: Chief Administrative Officer
Subject: EXHIBITION PLACE
2000 Preliminary Operating Budget

Purpose:

This report provides the Budget Advisory Committee with an analysis of the 2000 Operating Budget submission for the Exhibition Place program. A summary of budget highlights, outstanding issues and recommendations is also provided.

Financial Implications and Impact Statement:

The 2000 Recommended Operating Budget for the Exhibition Place program reflects gross expenditures of \$37.938 million and revenues of \$38.994 million, resulting in a net budget surplus of \$1.056 million. The following chart highlights the change from the 1999 Approved Budget.

Operating Budget Summary 1999 Approved Budget vs. 2000 Recommended						
(In \$000's)	Gross	Net	Gross Change		Net Change	
	\$	\$	\$	%	\$	%
1999 Approved Budget	36,369.6	(955.3)				
2000 Base Budget	36,563.0	(500.0)	193.4	0.5%	455.3	(47.7%)
2000 New Services	1,374.6	(556.5)	1,374.6	3.8%	(556.5)	58.3%
TOTAL 2000 Recommended	37,937.6	(1,056.5)	1,568.0	4.3%	(101.2)	10.6%

National Trade Centre Capital Reserve Fund

The Board of Governors of Exhibition Place has identified the need for the establishment of a reserve fund for capital rehabilitation activities at the NTC. As a result of the integration of the Automotive and Coliseum buildings within the overall structure and the age and structural integrity of the buildings, ongoing investment is required in the short term with the entire complex requiring funding over the longer term.

The Board of Governors of Exhibition Place have recommended the following actions:

- (1) The establishment of the NTC Capital Reserve Fund.
- (2) A business plan for the establishment of a NTC Capital Reserve Fund
- (3) A report to be submitted to the Board of Governors no later than its meeting of September 2000 to ensure integration within the 2001 Operating Budget process.
- (4) 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 remediation requirements of the NTC; and,
- (5) The Interim General Manager of Exhibition Place communicate these recommendations to the Finance Department of the City of Toronto.

As at January 1, 2000, the balance of the Exhibition Place Capital Reserve Fund was \$759.0 M. Outstanding expenditures to be charged to this reserve pertain to the Food Building, additional landscaping, relocation of technical services and storage relocation.

It is recommended that the Interim General Manager of Exhibition Place and the Chief Financial Officer and Treasurer report to the Policy and Finance Committee on the request of Exhibition Place to establish the NTC Capital Reserve Fund.

Disposition of Items Referred to the 2000 Process:

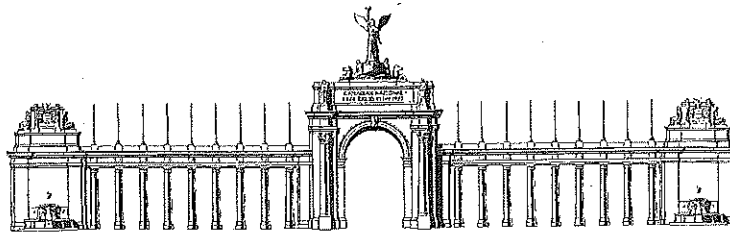
Parklands Acquisition Reserve

At its meeting of December 10 and 18, 1997, the former Metropolitan Council adopted the following recommendation:

“All profits earned from parking at Gore Park be retained by the CNEA, such profits to be net of all costs for preparation and reparation of the lands used, and that the issue of the parking profits from Marilyn Bell Park and Battery Park be referred back to the appropriate officials of Exhibition Place, the Canadian National Exhibition Association and the new City of Toronto for further discussion.”

The recommendations of a report, dated March 29, 1999, to Budget Committee from the Chief Administrative Officer, regarding Contributions to the Parkland Acquisition Reserve, were as follows:

1. The CNEA's contribution to the Parkland Acquisition Reserve from revenues earned from its use of Marilyn Bell and Battery Parks for parking purposes be waived during 1999;



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 \$2.83 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.

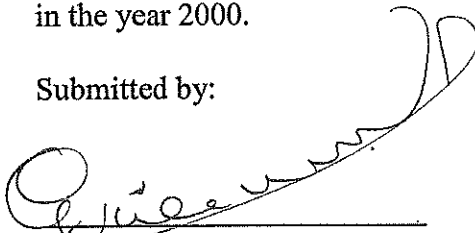
It is the intent of this report that expenditures from the NTC Capital Reserve Fund would relate only to infrastructure remediation requirements of the existing NTC and would not be used for facility expansion, furnishings or minor maintenance equipment. Furthermore, recommendations relating to draws 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.

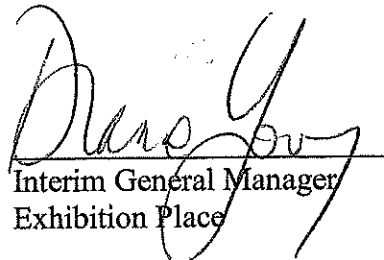
It is apparent that a consolidated funding approach will be required to address the short to medium term requirements of the NTC Capital Reserve Fund. Staff will need additional time to assess implications and opportunities associated with identified and future funding scenarios in order to generate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

