



EXHIBITION PLACE

October 11, 2000

TO: The Board of Governors of Exhibition Place

FROM: Kathryn Reed-Garrett
Director of Business Development

SUBJECT: Ernie's Arcade, operating as The Bandshell Café

Recommendations:

It is recommended that the lease agreement with Ernie's Arcade for the use of the Bandshell Café be renewed for three years, to expire on December 31, 2003 on the terms and conditions recommended in this report and such other terms as required by the City Solicitor.

Background:

At its meeting of November 26, 1999, the Board approved entering into a one year lease agreement with Ernie's Arcade for the operation of The Bandshell Café which lease expires December 31, 2000.

Discussion:

Ernie's Arcade has been operating a food and beverage business in the Bandshell Café. This agreement expires on December 31st and Ernie's Arcade wishes to renew their lease with the Board for a period of three years. For the information of the Board, Ernie's Arcade is also the operator of the 7-Up Stand, located on the exterior of the Food Building, which lease also expires December 31, 2000 and which lease renewal and the terms of that renewal have been submitted to the Board for its consideration under a separate report.

Staff are recommending a lease term of three years with no rent increase in year one and a rent increase at the rate of CPI (Canadian Price Indexing) for the second and third years of the term. As set out below, the background to this recommendation is the tenancy arrangements previously negotiated with this tenant over its 20 year history on the grounds and the past three years of increases experienced by Ernie's Arcade.

As indicated above, Ernie's Arcade operates two businesses on the site. In 1997, the Board received minimum rent of \$6,300.00 for the 7-Up Stand and received percentage rent only from the Bandshell Café equivalent to \$13,000.00. However, the Board paid 100% of the realty taxes assessed for both the Bandshell Café and the 7-Up Stand, and, in addition, the Board paid for a

portion of the maintenance costs of both businesses. Since 1997, staff has had many meetings with Ernie's Arcade to regularize the leasing arrangements by clarifying the maintenance costs and by requiring Ernie's Arcade to assume full responsibility for 100% of realty taxes. This has increased their annual costs for taxes alone by \$32,282.00 for the Bandshell Café and \$4,134.00 for the 7-Up Stand – equivalent to an overall increase of 105.7% over the past 3 years. Furthermore, in its financial statements for both 1998 and 1999 (fiscal year ending September 30th), Ernie's Arcade indicated a reduction in gross sales for 1999, year-to-year, of approximately 38%.

In recognition of the foregoing, staff recommend that there be no increase to minimum rent in 2001 but that in 2002 and 2003 the recommended increases in rent are tied to increases in the rate of CPI (Canadian Price Indexing). This is the final step to fully regularize the Board's lease agreement with Ernie's Arcade for the Bandshell Café.

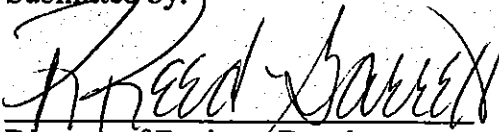
Accordingly, the substantial terms of the lease agreement with Ernie's Arcade for the Bandshell Café are as follows:

- (a) Term: Three years commencing January 1, 2001;
- (b) Minimum Rent:
 - 2000 - \$18,000 per annum or 8% of gross sales, whichever is greater; plus payment of all realty taxes, all utility costs, all interior maintenance costs and any other associated occupancy costs;
 - 2002 - \$18,000 per annum or 8% of gross sales, whichever is greater plus CPI; plus payment of all realty taxes, all utility costs, all interior maintenance costs and any other associated occupancy costs;
 - 2003 - \$18,000 per annum or 8% of gross sales, whichever is greater plus CPI; plus payment of all realty taxes, all utility costs, all interior maintenance costs and any other associated occupancy costs;
- (c) Permitted Uses: the operation of a licensed food and beverage business and for product launches or vendor shows that do not exceed 2500 square feet in display space; but not for any themed dinner theatre, trade and consumer show, product launches or vendor shows that exceed 2500 square feet in display space, or any vendor shows or meetings that are related to any trade and consumer show, or any casino use. In cooperation with the clients of the National Trade Centre, and by mutual agreement only, Ernie's Arcade may provide hospitality rooms and services to the Exhibitors of any trade or consumer show that is a client of the Board;
- (d) Insurance: Property and liability insurance with limits of \$5 million in form satisfactory to City; Operation during the Canadian National Exhibition: Ernie's Arcade agrees to operate the Bandshell Café during the hours of operation as prescribed by the CNEA and the Board; and will observe hours of operation during the balance of the operating year as prescribed by the General Manager & CEO; and,
- (e) Special Conditions: the Board agrees to waive Minimum Rent during the period of the annual Canadian National Exhibition ("CNE") if Ernie's Arcade is required to remit commissions on sales from this location to the CNEA for that period.

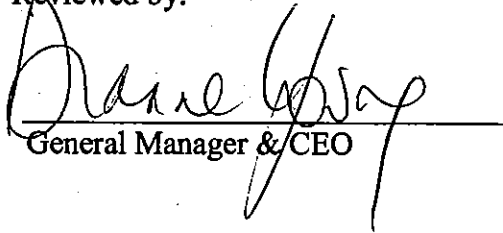
Conclusion:

This report recommends extending the current agreement with Ernie's Arcade for the operation of The Bandshell Café for a period of three years, to expire on December 31, 2003, on the terms and conditions set out and such other terms required by the City Solicitor.

Submitted by:


Director of Business Development

Reviewed by:


General Manager & CEO

ERNIE'S ARCADE LIMITED
20 Eglinton Avenue, West
Suite 1600
Toronto, Ontario
M4R 2H1

November 23, 2000

Board of Governors of Exhibition Place
Exhibition Place
Toronto, Ontario

Re: The Bandshell Café

Dear Board Members:

History

In September 1986, when the Board was displeased with the operator of the Bandshell Café who was asked to leave, we were approached to take over its operation and indeed for the past fourteen years, we have operated the Bandshell Café in addition to other concessions on the CNE grounds.

The Bandshell is a unique facility and despite our investment of significant capital and substantial time and effort, it has never been profitable. In the latter part of 1996, we gave up on this location and surrendered the keys. At that time, the General Manager prevailed upon us to stay under new arrangements whereby the rent was reduced to 8% of sales with a minimum of \$1,500.00 per month and we were responsible for 50% of the realty taxes. Unfortunately, even under these new arrangements, we have not been able to turn a profit on this location.

Ernie's Arcade Limited ("Ernie's")

Ernie's has been a tenant on the grounds for over 50 years. The late John Blair, who was one of the founders of Ernie's together with Dennis Madden, received recognition by the Board for 50 years of dedicated service with the presentation of a gold-plated lifetime pass to the exhibition grounds.

Ernie's has always maintained a high level of service and dependability and has always been available to assist the Board whenever problems arose that needed attention. As an example, when the Board needed an operator for the Coliseum, Ernie's immediately stepped in and the late John Blair and I worked day and night and were successful in achieving for the Board gross revenues that, to the best of our knowledge, have not been equaled to this date.

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November 23, 2000**

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Ernie's is one of the few concessionaires that devotes full time and attention to its operations on the exhibition grounds and has no other business interests. This is its only source of income.

Ernie's is also known for supporting the local community by hiring many employees from the surrounding areas and neighbourhoods. Several of these families have been employed with Ernie's for over 25 years and second-generation family members are also continuing to be employed by Ernie's.

Ernie's is a very substantial tenant on the grounds and pays approximately \$500,000 per annum to the Boards for rent and services.

Realty Taxes

There apparently has been a great deal of confusion with respect to the realty taxes. It is our feeling that we may have been inadvertently overcharged in past years when it is possible we were paying taxes on the whole Bandshell premises, including the stage and dressings rooms, rather than just the restaurant. In any event, we would draw to your attention that although realty taxes are levied on land and buildings, our lease makes it clear that the Bandshell Café has no specific parking privileges for its customers or employees and parking is not available on many dates designated by the Board. This, of course, restricts our catering revenue.

We have never been given any credit for the fact that we are paying realty taxes on the land when we do not have the full use of that land.

We should point out that the Bandshell Café is only used approximately 70 days per year or less than 20% of the time.

For the year 2000, realty taxes have for some unknown reason increased to in excess of \$32,000. Notwithstanding this dramatic increase in realty taxes, we are being asked to pay 100% of the taxes. In an article from the Toronto Star, dated November 17, 2000, it was reported, "there has been a cap of 10%, 5% and 5% for the past three years on tax increases that municipalities can levy on commercial property". Notwithstanding this, our realty taxes have increased by at least 35%.

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Financial

As acknowledged by senior staff in a 1997 report, the National Trade Centre is now the focal point and Bandshell sales and sales for the Coke Stand (the subject of another lease) will be negatively impacted in the future.

The 1993 report goes on to state that "due to the tough economic times, the declining attendance at our shows and events and Ontario Place, the fluctuation of illegal hot dog carts onsite, the uncertainty of the future development of the trade center and amphitheatre and the growth of foodservice competition within walking distance of the grounds ...".

In addition to the above, it is our understanding that the Board is now in the process of finalizing arrangements with The Liberty Group, which will provide even more competition for the Bandshell.

We should point out that the Bandshell has always catered functions for the City and/or the Board at close to cost.

Proposal

In view of the above, we are proposing that commencing January 1, 2000, our rent remain at 8% of sales with a minimum of \$1,500.00 per month and the Board, rather than Ernie's, be responsible for realty taxes. If we were to be considered agents of the Board, there is a possibility that there would not be any realty taxes levied against the premises.

It is our desire to work in good faith with the Board as has been evidenced by our past performance and we feel that under this proposal we would be prepared to extend every possible effort both in capital and labour resources to make this a successful operation for both the Board and Ernie's.

Your favourable consideration of this proposal would be greatly appreciated.

Yours very truly,

Ernie's Arcade Limited

By: Dennis Madden

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Suite 1600
Toronto, Ontario
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