



EXHIBITION PLACE

ACTION REQUIRED

November 1, 2007

To: The Board of Governors of Exhibition Place

From: Business Development Committee

Subject: **Exhibition Place Conference Centre Design and Costing Issues**

Summary:

The following report was considered by the Business Development Committee at its meeting of November 1, 2007 and is recommended to the Board for approval.

This report addresses the costing issues related to the renovation of the Automotive Building to become a first-class, dual-purpose conference centre and exhibition space facility at Exhibition Place providing a 45,400 sf. ballroom/plenary session space, a 70,000 sf. Class A exhibit hall and 37,821 sf. of meeting rooms.

The development of a conference centre at Exhibition Place commenced three years after the opening of the Direct Energy Centre when a study by Pannell Kerr Forster Consulting Inc. (PKF) compared the Direct Energy Centre to other competitive facilities and found that other major trade centres had a ratio of meeting room space to event floor space in the range from 7.2% to 32.0%. The ratio in the Direct Energy Centre is 1.9%. PKF suggested in 2000 that the utilization and growth of business in the Direct Energy Centre was hindered by the lack of complementary meeting room space and a ballroom.

In 2006, the Board approved examining the feasibility of converting the Automotive Building to a dual purpose conference centre/exhibition space. Major advantages to having the conference centre in the Automotive Building include its existing underground connection to the Direct Energy Centre; the ability to upgrade the Automotive exhibit space from Class B to Class A as part of this project; the ability to intensify use of an underutilized heritage facility; and the ability to address at the same time the "state-of-good-repair" capital costs determined to be required by a 2005 building assessment.

Following the Board's direction, Exhibition Place staff engaged an architect in 2006 to complete a preliminary design and costing for the renovation of the Automotive Building which came up with a total cost of \$29.0M. Following approval by Council to proceed with this project, Exhibition Place engaged a project manager, architects and cost consultants to proceed with a

detailed program review and design. Initial workshops were held with various conference and trade show organizers which substantially affected the design of the ballroom/plenary session room to become a column-free space. Further investigation of the mechanical and electrical systems resulted in substantial changes in order to improve the energy efficiency of the renovated building.

Because of these two major design changes, the cost of the project has escalated from a total cost of \$29.0M to \$46.88M. Confidential Attachment I outlines in detail the increased cost by specific areas. Given the cost increase, Exhibition Place staff entered into consultation with the City Finance Department to find a solution to the cost escalation and the recommendations below are ones that were discussed with City Finance staff.

Exhibition Place staff believe that it is essential to proceed with the updated, more costly design for the conference centre if the centre is to be competitive within the GTA marketplace. Because this conference centre is being funded through a loan from the City (not a grant), it must meet the high standards set by competitors such as the MTCC and Congress Centre in order to be competitive and attract clients.

Recommendations:

It is recommended that the Board:

- 1. Approve of the increase in the overall Conference Centre capital budget from \$29.0M to \$46.88M;**
- 2. Request that City Council increase its loan to the Board from \$21.2M to \$35.6M for the renovation of the Automotive Building to a Conference Centre facility with an increase in the interest rate from 4.75 to 5.0 percent and an increase in the amortization period from 20 to 25 years; and**
- 3. As before, request that City Council allow for the depletion of the full Exhibition Place Capital Reserve which as of September 30, 2007 stands at \$1.966M but will receive interest payments of approximately \$0.059 by 2007 year-end for a total of approximately \$2.025M.**

Financial Impact:

Increasing the City loan from \$21.2M to \$35.6M (with an amortization period of 25 years) will result in positive cash flow for the Board over 20 years of \$34.45M before debt service and \$13.73 after debt service.

In addition to the positive cash flows noted above, the Conference Centre has the potential to have a positive economic impact for the City. Exhibition Place marketing staff has already received very positive feedback from the marketplace and event organizers have indicated their willingness to go to contract as soon as the construction and opening date of the facility is finalized. There has been strong response from the Canadian Associations market as well a

number of the existing shows have indicated that they are increasing their educational component of their trade shows and can only remain at Exhibition Place if the meeting requirements can be met. Secondly, Exhibition Place is currently bidding on a major citywide event that has never been held in Toronto but can only come if the conference centre is built.

Finally, in part, as a result of the financial commitment of the Board and Council to the development of the conference centre at Exhibition Place, the Board through a publicly tendered Request for Proposals has attracted a very high profile New York hotel developer to the grounds. This private sector development would see the construction of a 300-room hotel at the sole cost of the private sector developer of approximately \$80.5M. This would be a major economic generator both for Exhibition Place and the City.

Decision History:

Board of Governors, November 3, 2006	Approval of business terms for an exclusive food services agreement between the Board and Centreplate and the National Hotel Corporation (the "FSP") related to the provision of food and beverage services within the proposed Conference Centre in the renovated Automotive Building.
Board of Governors, December 15, 2006	Approval of the terms and conditions of the full LOI between the Board and the FSP for food services within the renovated Conference Centre and the financial proposal for the proposed Conference Centre which included a loan from the National Hotel Corporation for part of the construction costs.
City Council, March 5 & 6, 2007	Approval of LOI between the Board and the FSP for exclusive food services in the proposed Conference Centre. In addition, approval of a recommendation which deleted the need for financing from the National Hotel Corporation and replaced this financing with a City loan of \$21.2M
Board of Governors, May 4, 2007	Approve of the engagement of NORR as the design architect on the Conference Centre project at a fee of \$652,223 (including GST) for Phase I of the project and subject to further approval of the Board in September 2007, the engagement of NORR for Phase II of the project at a cost of \$373,857.00

Issue Background:

Since the opening of the Direct Energy Centre in 1997, the addition of a conference facility was seen by the Board as essential for the growth of the trade and consumer show business. A study in 2000 by Pannell Kerr Forster Consulting Inc. (PKF) compared the Direct Energy Centre to other competitive facilities and found that other major trade centres had a ratio of meeting room space to event floor space in the range from 7.2% to 32.0% with the average ratio being 18%. The ratio in the Direct Energy Centre is only at 1.9%. PKF suggested that the utilization and growth of business in the Direct Energy Centre was hindered by the lack of complementary meeting room space and the availability of a ballroom.

The PKF study examined a variety of options for the expansion of the meeting space/ballroom and in 2006 the Board approved of examining the feasibility of a conversion of the Automotive Building to a dual purpose conference centre/exhibition space. Major advantages to having the conference centre in the Automotive Building include its existing underground connection to the Direct Energy Centre; the ability to upgrade the Automotive exhibit space from Class B to Class A as part of this project; the ability to intensify use of an underutilized heritage facility; and the ability to address at the same time the “state-of-good-repair” capital costs determined to be required by a 2005 building assessment.

Following the Board’s direction, Exhibition Place staff engaged an architect to complete a preliminary design and costing for the renovation of the Automotive Building. The proposed budget based on the 2006 design/costing was a total cost of \$29.0M. After review by the City Finance Department, Council approved in March 2007 the following sources for funding the conference centre development:

Summary of Capital Funding Approved by City Council based on Summer 2006 Design	
City Loan (20 year term/amortization) with interest rate of 4.75%	21.20
FSP contribution toward F&B FF&E	4.00
Exhibition Place Capital Reserve Fund	1.94
Exhibition Place 2007 & 2008 State-of-Good Repair Capital Budget	1.86
TOTAL	29.00M

Following approval from Council, the Board engaged MHPM Inc. as the project manager; NORR Architects; Enermodal Engineering Limited as the LEED consultant; and Marshall & Murray Inc. as the cost consultant. The first part of the design process was a set of workshops with staff, the consultants and potential clients. The following were the key components of the design issues raised during these workshops:

- a) The overriding negative comments given by show and event organizers related to the obstructions within the ground floor/plenary space as part of the 2006 design which consisted of a centre column and a ten foot bulkhead running the full length of the room. All organizers unanimously stated that the conference centre would not be competitive in the GTA area if it was constructed with these obstructions in place.
- b) A detailed assessment by NORR and Enermodal of the mechanical and electrical services indicated the need to substantially increase funding for these systems in order to meet new safety and occupancy levels, provide an energy efficient building and obtain LEED Silver certification.
- c) In addition to these two major design issues, the booming construction market in the GTA have driven prices to increase by an escalation rate of 8% annually.

Attached as the confidential report are the specifics of each of the cost escalators noted above.

Comments:

As a result of the factors noted above and in Attachment 1, the cost of the Conference Centre project as designed and costed in October 2007 now totals \$46.88M. The recommendations in

this report propose, subject to approval of Council, that the funding of this project now be as follows:

Summary of Proposed Capital Funding Request based on November 2007 Design	
City Loan (25 year term/amortization) with interest rate of 5.0%	35.6
FSP contribution toward F&B FF&E	4.00
Exhibition Place Capital Reserve Fund (deplete entirely as of December 31, 2007)	Approx. 2.025
Exhibition Place 2007 & 2008 State-of-Good Repair Capital Budget	1.86
FF&E for Conference Centre through lease equipment/purchase through operating/sponsorship supply	3.4
TOTAL	46.88M

In addition, as recommended previously by the Board, the revenues from the current Direct Energy Centre naming rights contract would be held by the City as a guarantee against the City loan. Furthermore, revenues from the Conference Centre title sponsor will also be held by the City in a reserve fund. It is anticipated that these revenues would be sufficient to fund any potential cash shortfalls resulting from the most extreme of the sensitivity analysis scenarios examined by the Chief Financial Officer.

Based on capital funding sources being recommended, the pro-forma income statements submitted project revenues during the twenty-year FSP agreement period of \$34.5M before repayment of the City \$35.6M loan and \$13.7M after repayment of the loan. These nominal revenues are equivalent to \$19.7M Net Present Value before financing costs and (\$7.0M) after repayment of the City loan exclusive of the residual value of the building.

Typically, the construction of trade and conference facilities are undertaken by governments because of the economic generation it brings to the entire City and GTA. These facilities are not usually funded through a loan mechanism but through grants from various levels of governments. As stated above, there is a crucial need for a conference centre facility to be built at Exhibition Place and staff believe that the Conference Centre project will not only be able to repay the City loan but there will be a very positive economic impact of this Centre at Exhibition Place and for the City.

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