

THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2016 CREDIT FACILITY UPDATE

EXECUTIVE SUMMARY

Annually, Administration updates Council regarding the credit facilities guaranteed by The City of Calgary for the Calgary Exhibition and Stampede Ltd. (CES) Stampede Park redevelopment and expansion. The operating results for 2016 were positive and in line with 2015. CES is proactively managing its operations and capital expenditures during the prolonged economic downturn. CES has complied with all of the credit agreement covenants.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee recommends that Council receive this report for information.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2017 JUNE 06

That Council approve the Administration Recommendation contained in Report PFC2017-0418.

PREVIOUS COUNCIL DIRECTION / POLICY

In September 1998, Council approved a \$60 million loan guarantee for land acquisition, the initial expansion of the BMO Centre, and subsequent on-site upgrades (FB98-49). In October 1998, Council approved Guarantee Bylaw No. 38M98. Council also directed Administration to provide regular project updates which have since been presented annually.

In December 2005 (FCS2005-42), Council approved an additional loan guarantee of \$80 million related to CES' Master Plan (Guarantee Bylaw No. 49M2005). In 2014, the loan guarantee was reduced by \$20 million at the request of CES (PFC2014-0463).

BACKGROUND

The City has guaranteed three credit facilities (B, C, and D) for CES related to the Stampede Park redevelopment and expansion. The City entered into an amended credit agreement dated 2008 April 1 to add guaranteed Facility D for \$80 million, which was reduced in 2014 to \$60 million in the amended and restated credit agreement dated 2014 April 11. The following disclosure is included in Note 26 to the financial statements in The City's 2016 Annual Report:

"The City has guaranteed certain indebtedness of the Calgary Exhibition and Stampede Limited ("CES"). This third party debt agreement requires The City to make immediate payment of certain outstanding borrowings on behalf of CES in the event CES cannot fulfill its obligations to a Canadian chartered bank. The terms of these guarantees are equal to the amortization periods of the related credit facilities, which mature between 2024 and 2036. The interest rates on the credit facilities held by CES range from 1.21% to 6.23% (2015 – 1.34% to 6.23%). As at December 31, 2016, CES has drawn a total of \$71,092 (2015 – \$75,272) on the total maximum available facility of \$89,492 (2015 – \$93,672). The City, as an unconditional guarantor, holds as security a fixed debenture in the amount of \$100,227 (2015 – \$100,227) charging certain lands

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owned by the CES."

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Guaranteed Credit Facilities

As of 2016 December 31, a total of \$71.1 million was outstanding on the three guaranteed credit facilities; \$18.4 million of credit facility D is available for future expansion and development, for a total maximum available facility of \$89.5 million. The details are given below:

Description (\$000s)	Facility B	Facility C	Facility D	Total
Initial Authorization (1998)	\$30,000	\$30,000		\$60,000
Addition (2005)			\$80,000	\$80,000
Reduction (2014)			(\$20,000)	(\$20,000)
Total Authorized	\$30,000	\$30,000	\$60,000	\$120,000
Utilized Amount	\$30,000	\$30,000	\$41,600	\$101,600
Balance Available	\$0	\$0	\$18,400	\$18,400
Amount Repaid	\$6,927	\$16,093	\$7,488	\$30,508
Outstanding as at 2016 Dec 31	\$23,073	\$13,907	\$34,112	\$71,092

2016 Financial Highlights

2016 was another successful year for CES and marked the launch of a new, three-year strategic plan with a vision for CES to be a world-class, year-round gathering place and destination. The Stampede exhibition attendance in 2016 was 1.09 million, compared to 1.17 and 1.26 million in 2015 and 2014 respectively. The 7% annual decline in attendance was attributable to the unfavorably wet and cool weather and partially mitigated by spontaneous promotions. CES' focus in 2016 on reducing expenses and prudent capital deployment in the downturn, and in light a further \$0.5 million reduction in provincial government grants in 2016, experienced only a small decrease in operating results. The Attachment shows comparative operating results: Excess of revenue over expenses was \$2.22 million in 2016, a slight decrease of \$0.16 million over 2015 (\$2.38 million). Gross revenue also decreased by \$11.94 million to \$136.42 million in 2016 (\$148.36 million in 2015), with direct expenses also decreasing by \$10.75 million in 2016 to \$95.88 million (\$106.63 million in 2015).

Financial Covenant

The Debt Service Coverage Ratio (DSCR) is a financial covenant within both The City's and CES' Lender's credit agreements. The covenant requires that the four year average DSCR be not less than 1:00 to 1. The four year average ratio for 2016 was 1.57 to 1 (2015 – 1.65 to 1) and CES was in compliance, in all material respects, with all of the credit agreement covenants.

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Projections for 2017

CES began taking initiatives in 2014 to mitigate the economic slowdown and reduce operational expenses without impacting the customer experience. These efforts have continued through 2015, 2016 and 2017. Planned capital projects have been reviewed to identify projects that could be cancelled or deferred. 2017 budget expectations are similar to the 2016 performance adjusted for normal weather conditions during the Stampede exhibition. CES anticipates that attendance and overall revenues will increase in 2017 due to normalized weather, increased spending on food & beverage and tarp auction revenues, which are partially offset by lower corporate ticket sales. In total, these measures are forecast to more than offset the negative economic impact associated with a prolonged downturn and also position CES to manage a weaker corporate environment in future.

Capital Campaign / Projects

The Calgary Stampede Foundation and CES conducted a "We're Greatest Together" capital campaign that formally concluded in 2015. As at 2016 December 31, a total of \$135.4 million was raised (\$91.4 million received and \$44 million pledged and to be received in future periods). The campaign funds will be allocated to the development of three major Stampede Park community initiatives, and further transform Stampede Park into a world-class year-round gathering place for the community. The projects include: Youth Campus, Agrium Western Event Centre (completed in 2015) and ENMAX Park (completed in 2016). ENMAX Park was a significant undertaking and aligns with the commitments between CES and The City respecting that land. In 2016, CES contributed \$1.2 million in donations to the Foundation (2015 - \$3.6 million).

CES has an unutilized amount of \$18.4 million out of the total \$120.0 million in City guaranteed credit facilities. CES plans to utilize the available balance for park infrastructure to support park development.

In February 2016, CES and the Calgary Municipal Land Corporation (CMLC) signed a memorandum of understanding for CMLC to offer its planning and business support on several of CES' key developments in and around lands owned by CES that will form part of Calgary's Culture and Entertainment District. These development projects include the entertainment zone, extending 17th Avenue into the park, expanding the BMO Centre convention and trade space, and incorporating the RiverWalk pathway.

In March 2016, CES announced that it is preparing for a \$500 million proposed expansion of the BMO Centre that would double the current size for a total building footprint of just over one million square feet. The expansion is estimated to create 1,862 construction jobs, add 1,580 full-time positions in Calgary directly related to the project, and make Calgary an international destination for conferences, trade shows, and conventions. CES officials are continuing to meet with all three levels of government to discuss stakeholder needs and funding for the project.

In December 2016, the TransAlta Performing Arts Studio facility was completed and will provide rehearsal space for youth performing arts programs. Other Youth Campus developments underway include Calgary Arts Academy, which began construction in 2016, and the BMO Amphitheatre and Walton Hall, which are anticipated to be completed in 2017 and 2018 respectively.

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Stakeholder Engagement, Research and Communication

Staff from Treasury interact with CES and have had ongoing communication on financial and operational performance, and capital expenditure plans. CES has reviewed and concurs with this report.

Strategic Alignment

The City supports CES through the provision of loan guarantees which assist CES to obtain satisfactory capital financing to fund its capital development plans. CES is an important organization to Calgary and Region for social, economic, cultural, and historic reasons.

Social, Environmental, Economic (External)

In addition to the annual Stampede event, the expansion and redevelopment of Stampede Park into a year-round gathering place and destination will continue to attract major international events such as the Global Petroleum Show. Enhanced youth education and performing arts programs of the Stampede strengthen the connection between the urban and rural communities, today and for the future.

A portion of the redevelopment plan includes the improvement of park space and riverfront greening; all Stampede development projects incorporate sustainable environmental design elements.

Financial Capacity

Current and Future Operating Budget:

No implications based on the current status of the credit facilities.

The City charges an annual administration fee of 0.02% on the average outstanding balance of the guaranteed credit facilities. The fee paid for 2016 was \$14,739.10.

Current and Future Capital Budget:

No implications based on the current status of the credit facilities.

Risk Assessment

This report has been completed in accordance with The City's Integrated Risk Management (IRM) Policy and Framework.

The financial loss to The City in case of default on the guaranteed debt is largely mitigated by way of a fixed debenture in an amount sufficient to fully cover the loans guaranteed by The City, charging certain lands owned by CES. The City requires a minimum value to loan coverage ratio of 1.25 to 1; lands are appraised every five years during the term of the credit agreement; last appraisal reports were received in February 2013 and found to be acceptable. These appraisals were revised in March 2014 concurrent with the provision of an amended security package provided to The City.

CES has historically developed reliable budgets and projections and continues to exercise strong financial and project management. In April 2016, a prolonged economic slowdown and turbulent environment resulted in CES management reducing its 2016 forecast and taking proactive actions to further minimize costs, which helped achieve its 2016 financial targets and will help maintain financial stability in future years.

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CES has the ability to stage development such that non-revenue producing projects are scheduled following positive cash flow projects, and achievements of consolidated cash flows demonstrating overall serviceability of the credit facilities. In early 2016, the Stampede launched a three-year strategic plan to position the Stampede as a year-round destination. During 2017, the company will continue to focus on pursuing the expansion of the BMO Centre, to position Calgary as a tier-one convention city, which will reduce the reliance of CES' operating results on the seasonal exhibition event for future growth of the business in an evolving economic environment.

The potential impact of inclement weather on the annual Stampede event represents an ongoing risk to CES revenue. Historically over 50% of revenue has been generated from the ten day event. In spite of 2016 being the wettest Stampede event since 1927 and a 7% reduction in attendance, positive operating results were achieved due to various management initiatives to enhance revenue streams, including successful spontaneous campaigns. Development over time into a year round destination will somewhat reduce seasonality of cash flow.

CES does not have a long-term grant agreement with the Province. Provincial government grants were reduced by \$0.5 million in 2016/17. The new government has indicated that its support will remain at this level in 2017/18.

REASON(S) FOR RECOMMENDATION(S):

2016 operating results are fully satisfactory. CES complied with all of the covenants in the credit agreement. CES continues to proactively manage its operations and capital expenditures through the current economic downturn.

ATTACHMENT(S)

Summary of Operating Results