

Chief Financial Officer's Report to
Priorities and Finance Committee
2020 July 14

ISC: UNRESTRICTED
PFC2020-0670

Calgary Exhibition and Stampede Limited – 2019 Credit Facility

EXECUTIVE SUMMARY

Annually, Administration updates Council regarding the credit facilities guaranteed by The City of Calgary for the Calgary Exhibition and Stampede Limited (“CES”), related to Stampede Park redevelopment and expansion. CES demonstrated positive operating results for 2019, exceeding its revenues in 2018 performance. CES has successfully managed operations and capital expenditures through a prolonged economic downturn and continues to be focused on continued operational optimization.

Challenges arose in 2020 with the COVID-19 pandemic resulting in the cancellation of the annual exhibition for the first time in nearly a century. For the 2019 fiscal year, CES remained in full compliance with all covenants set out in the its credit agreement facilities, but, as a result of the COVID-19 pandemic, CES requires The City’s consent to amend certain credit facilities and amend certain financial covenants for fiscal year 2020 in order to ensure CES remains in good standing under its credit facilities.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee recommends that Council:

1. Direct Administration to consent to the amendment of certain CES’s credit facilities in order to ensure CES remains in good standing under such credit facilities. The form and terms of such consent shall be acceptable to the City Treasurer;
2. Direct Administration to amend the necessary financial covenants to allow CES to remain in good standing under its credit facilities with The City. The form and terms of such amendments shall be acceptable to the City Treasurer; and
3. Direct that attachments 2 and 3 remain confidential pursuant to Sections 16, 24, and 25 of the Freedom of Information and Protection of Privacy Act and review these attachments by 2022 July 15.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, 2020 JULY 14:

That Council:

1. Adopt Administration Recommendations 1 and 2 contained in Report PFC2020-0670; and
2. Direct that attachments 2 and 3 remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 24 (Advice from officials), and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act* and review these attachments by 2022 July 15.

PREVIOUS COUNCIL DIRECTION / POLICY

In 1998 September, 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 1998

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October, Council approved Guarantee Bylaw No. 38M98. Council also directed Administration to provide regular project updates which have since been presented annually.

In 2005 December (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 (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.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Guaranteed Credit Facilities

As of 2019 December 31, a total of \$61.4 million was outstanding on the three guaranteed credit facilities. CES has \$13.4 million of undrawn availability remaining under its \$120 million of total authorized credit facilities with guarantees provided by The City. CES plans to utilize any undrawn capacity for future Calgary Stampede Park expansion and development with a total maximum available facility of \$74.8 million.

2019 Financial Highlights

Attendance of 1.28 million at the 2019 Calgary Exhibition and Stampede helped CES to continue delivering on its strategic plan to provide a world-class, year-round gathering place. 2019 attendance was CES's second largest attendance of all time with annual attendance trending positively for the past 6 years.

Projections

On 2020 April 24, CES announced cancellation of the annual Stampede exhibition due to the COVID-19 pandemic, which will have significant financial impact on CES's operations as described in confidential attachment 2. The annual exhibition along with related sponsorships account for approximately 62% of CES's operating income.

CES engaged KPMG on 2020 April 8 to review the reasonableness of its current business strategy and financial projections for the remainder of 2020 and 2021. The summary results and commentary are included in confidential attachment 3.

Stakeholder Engagement, Research and Communication

Staff from Treasury within the Finance business unit interact with CES on a regular and as needed basis and have had ongoing communication with respect to financial and operational performance, and capital expenditure plans. Real Estate & Development Services and Law have been in communication with CES's appraiser and legal counsel. CES has reviewed and concurs with this report.

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Strategic Alignment

The City supports the 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.

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 2019 was \$12,938, which supports the administrative and monitoring costs associated with the guaranteed credit facilities.

Current and Future Capital Budget:

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

Risk Assessment

The impact of COVID-19 on the Calgary Exhibition and Stampede represents an ongoing financial risk for CES as the event contributes approximately 60% of its annual revenues and 62% of its operating income. CES's management has implemented several initiatives to mitigate associated risks and significantly reduce expenses while the COVID-19 pandemic continues to impact the economy. Development of Stampede Park over time into a year-round destination will somewhat reduce the sensitivity of CES's cash flow to seasonality and other factors.

Financial loss in the event of default is mitigated by way of a fixed-charge debenture covering all loans guaranteed by The City and secured with specific property owned by CES. The City Loan to Value Ratio amount equal to 125% of the Maximum Guaranteed Amount provides excess value to secure the guarantee in the event the appraised value does not materialize. An updated appraisal of the aggregate market value of "The City Charged Lands" is to be delivered every fifth year during the term of The City's credit agreement. The last appraisal report received in 2019 April remained in compliance with this requirement. (The appraisal underwent Real Estate & Development Services' Valuation Review Committee and the appraised values of CES lands were confirmed.) The next appraisal is scheduled to be completed in 2024.

CES has the ability to stage development so that non-revenue producing projects are scheduled following positive cash flow projects in order to achieve consolidated cash flows demonstrating overall serviceability of its credit facilities.

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REASON(S) FOR RECOMMENDATION(S):

2019 operating results are fully satisfactory. Prior to the COVID-19 pandemic, CES complied with all of the covenants in its credit agreements and CES continues to proactively manage its operations and capital expenditures. CES is an important organization to Calgary and the surrounding region for social, economic, cultural, and historic reasons and it is important for The City to cooperatively assist CES with managing the current financial impacts of the COVID-19 pandemic.

ATTACHMENT(S)

1. Attachment 1 – Summary of Operating Results
2. Attachment 2 – COVID-19 impacts and Credit Facility Amendments (Confidential)
3. Attachment 3 – KPMG report on the 2021 Forecasts (Confidential)