

THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2014 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 2014 were positive and consistent with 2013. CES' Stampede Park Redevelopment plans including the capital fundraising campaign are progressing. CES has complied with all of the credit agreement covenants.

As at December 31, 2014, recovery and restoration efforts on the damage caused during the 2013 floods have been substantially completed.

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 2015
JUNE 23:**

That the Administration Recommendation contained in Report PFC2015-0411 be approved.

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. More details about the guaranteed credit facilities are available in Financial Statements Note 26, in The City's 2014 Annual Report.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

Guaranteed Credit Facilities

As of 2014 December 31, a total of \$79.3 million was outstanding on the three guaranteed credit facilities; \$18.4 million of credit facility D is available for future expansion and development. The details are given below:

Description (\$000')	Facility B	Facility C	Facility D	Total
Initial Authorized (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	--	--	\$18,400	\$18,400
Amount Repaid to 31 Dec 2014	\$5,099	\$13,169	\$4,063	\$22,331
Outstanding as at 31 Dec 2014	\$24,901	\$16,831	\$37,537	\$79,269

2014 Financial Highlights

2014 was another successful year for CES. The attendance in 2014 was the second highest in history at 1.26 million, compared to 1.13, 1.40 and 1.17 million in 2013, 2012 and 2011 respectively. The Attachment shows comparative operating results: Income from Continuing Operations was \$2.26 million in 2014, a decrease of \$0.76 million over 2013 (\$3.02 million) Gross Revenue increased by 3% to \$137.06 million in 2014 (\$133.02 million in 2013).

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 DSCR be not less than 1:00 to 1. The ratio for 2014 was 1.16 to 1 (2013 – 1.24 to 1) and CES was in compliance, in all material respects, with all of the credit agreement covenants.

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Projections for 2015

In anticipation of an economic slowdown as a result of falling oil prices, initiatives have been taken to reduce all operational expenses without impacting the customer experience. The capital projects have been reviewed to identify projects that could be cancelled or deferred. It is anticipated that revenues will remain flat and that there could be a negative impact due to a potential reduction in provincial government grants, restructuring charges, reduced sponsorship, food & beverage, and tarp auction revenues. However the negative impact is forecast to be more than offset by several factors including certain incremental revenues, renegotiated contracts, costs saving on cancelled projects, and reduced operational costs. In total, these measures are forecast to fully offset the negative economic impact and also provide for a sufficient buffer to provide for unanticipated events.

2013 Flood Update

As at December 31, 2014, recovery and restoration efforts on the damage caused during the 2013 floods have been substantially completed. CES maintains various insurance policies that have been utilized to fund a considerable portion of the initial cleanup costs and the remediation of the facilities damaged by the flood. As at December 31, 2014 the amount expended to remediate the damage associated with the flood was \$48.4 million out of which \$47.7 million is being funded or expected to be funded by insurance providers. CES incurred only \$0.8 million in flood-related costs that were not covered by insurance.

CES has undertaken certain projects to further protect Stampede Park from flood damage which are not covered by insurance. CES has applied for government grants totalling \$10 million to fund these projects. In the interim, the projects will be funded by available credit facilities. As at December 31, 2014, \$7.6 million (2013 - \$0.4 million) has been incurred in relation to these projects. CES has received \$4.6 million in funding under the Flood Recovery Erosion Control Program (FREC) grants and expects to receive additional funding under the Alberta Government Disaster Recovery Program (DRP) in 2015.

Capital Campaign / Projects

The Calgary Stampede Foundation and CES conducted a "We're Greatest Together" capital campaign. As at December 31, 2014, a total of \$130.2 million has been raised, (\$71.7 million received and \$58.5 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 new projects include: Youth Campus, ENMAX Park and the Agriculture Discovery Zone, including the completed Agrium Western Event Centre.

CES has an unutilized amount of \$18.4 million out of the total \$120.0 million credit facility. CES plans to utilize the available balance towards construction of a substation to support the park development and some land settlement which are planned during the coming years.

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The Agrium Western Event Centre was completed in May 2014 and provides a state-of-the-art facility for national and international equine competition, rodeos, agriculture exhibitions and trade shows. The event centre has a built up area of 150,000 square ft with an attached exhibition hall of 20,000 square ft. The total seating capacity is 2,500. The \$61 million Agrium Western Event Centre Building and Supporting Infrastructure project was largely funded by the Alberta Government and the Federal Government Canada Buildings Program for \$25 million each.

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.

There has been recent turnover in senior roles at CES with the retirement of CEO Vern Kimball, who was replaced earlier this year by Warren Connel, former VP of Park Development and Community Relations. In addition, CFO and VP Support Operations, Paul Harrison, left the organization in January and in May, Shelly Flint, who had been acting in the capacity of Treasurer, was announced as the new CFO.

Bill Gray assumed the role of President and Chairman of the Board, a volunteer role, replacing Bob Thompson in 2015 March.

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. Educational components and enhanced youth 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 2014 was \$14,360.

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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. CES has the ability to stage development such that non-revenue producing projects are scheduled following positive cash flow projects, and achievement of consolidated cash flows demonstrating overall serviceability of the credit facilities.

In December 2014 oil prices started falling, signalling a possible economic slowdown. CES management took proactive actions which will help in achieving 2015 financial targets with minimal impact to customer service.

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. 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. Moving forward, provincial funding at previous levels is yet to be confirmed.

REASON(S) FOR RECOMMENDATION(S)

2014 operating results are fully satisfactory. CES complied with all of the covenants in the credit agreement. Recovery and restoration efforts on the damage caused during the 2013 floods have been substantially completed. CES has proactively reacted to the current economic uncertainties.

ATTACHMENT(S)

Summary of Operating Results