

THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2013 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 2013 were positive in light of the unprecedented flood that took place on 2013 June 20 just over 2 weeks prior to the 2013 Stampede Festival. Recovery and restoration efforts related to the 2013 flood are ongoing and are expected to continue with virtually all of CES' facility repairs completed by the 2014 Stampede. CES management estimates that the total cost to remediate the damage associated with the flood will range between \$50-\$52 million and that all but \$1-1.5 million of this will be covered by its insurance policies.

After accounting for total funding committed by insurers, CES' financial position improved marginally over 2012 and CES complied with all of the credit agreement covenants. In addition to the financial results, CES' Stampede Park Redevelopment plans including the capital fundraising campaign are progressing. Working with The City's Law Department and CES' Lender, amendments to the credit facility that Administration reported at last year's update have now been incorporated into our credit agreement with CES in the form of an amended and restated credit agreement dated 2014 April 11.

ADMINISTRATION RECOMMENDATION(S)

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

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). Council also directed Administration to provide regular project updates which have since been presented annually. In October 1998, Council approved Guarantee Bylaw No. 38M98.

In December 2005 (FCS2005-42), Council approved an additional loan guarantee of \$80 million related to CES' Master Plan (Guarantee Bylaw No. 49M2005).

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 this year to \$60 million in the amended and restated credit agreement dated 2014 April 11, as anticipated in last year's update. More details about the guaranteed credit facilities are available in Financial Statements Note 25, Guarantees, in The City's 2013 Annual Report.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Guaranteed Credit Facilities

As of 2013 December 31, a total of \$64.4 million was outstanding on the three credit facilities; Facilities B and C have been fully drawn and \$56.4 million of Facility D is available for future

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expansion and development. Subsequent to year-end, CES withdrew \$6 million from the available balance under Facility D to finance the completion of Agrium Western Event Centre expected to open in June 2014. This, combined with the \$20 million reduction in Facility D under the amended and restated credit agreement and \$0.6 million in additional repayments under the guaranteed facilities, has reduced The City's guarantee to \$100.2 million.

(\$ millions)

As at December 31, 2013	Authorized	Outstanding	Available to Draw
Facilities B & C	\$43.8	\$43.8	--
Facility D	\$77.0	\$20.6	\$56.4
Total Guaranteed Facilities	\$120.8	\$64.4	\$56.4

As at April 11, 2014	Authorized	Outstanding	Available to Draw
Facilities B & C	\$43.4	\$43.4	--
Facility D	\$56.8	\$26.4	\$30.4
Total Guaranteed Facilities	\$100.2	\$69.8	\$30.4

Note: Authorized balances shown above represent original authorizations less amounts repaid to date.

2013 Financial Highlights

2013 was another successful year for CES. Coming off of the 2012 Centennial Stampede that saw a record breaking attendance of 1.4 million visitors, 2013 attendance fell to 1.13 million, comparable to 1.17 million in 2011. While it represents a decrease from 2012, the attendance was impressive given the flood in Calgary only weeks prior. Attachment 1 shows comparative operating results: Income from Continuing Operations was \$3.0 million in 2013, a decrease of \$6.6 million over 2012 (\$9.6 million) and an increase of \$2.4 million over 2011 (\$630,000); Gross Revenue decreased 3% to \$133.0 million in 2013 (\$137.8 million in 2012) but increased 18% over 2011 (\$112.4 million).

Financial Covenant

The Debt Service Coverage Ratio (DSCR) is a financial covenant within both The City's and CES' Lender's credit agreements. As at 2013 December 31, the covenant required that the DSCR be not less than 1.00 to 1. The ratio for 2013 was 1.02 to 1 and CES was in compliance, in all material respects, with all of the credit agreement covenants.

Recognising that CES is a non-profit organisation and can experience fluctuations in annual operating income (mainly from fluctuating attendance and cyclical events), CES proposed

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amending the credit agreements to change the calculation of the DSCR to be based on a 4 year rolling EBITDA and Debt Service Requirements. Administration and CES' Lender agreed to this amendment in 2013 and incorporated it into the amended and restated credit agreement dated 2014 April 11. Based on this revised calculation, the DSCR for 2013 was 1.24 to 1. Attachment 1 shows calculations of various financial ratios including the previous and revised DSCR.

Park Redevelopment and Expansion

CES continues to progress with its redevelopment plans including the capital fundraising campaign. Attachment 2 shows the projects as they were originally approved per Council report FCS2005-42 and previously-approved revisions to the allocation of Facility D.

As shown in Attachment 2, CES has targeted using third party capital contributions for many of the projects, either directly or over time. As a result, in 2013, CES requested to reduce its guaranteed facilities by \$20 million and replace this amount with a non-guaranteed facility from their lender that would provide them with increased flexibility in terms of permitted use of funds. This amendment was reflected in the 2014 amended and restated credit agreement and reduces The City's guarantee and thus, the risk exposure of The City.

It was also noted in last year's report that CES requested the ability to lend up to \$25 million of the remaining guaranteed credit facility to the Calgary Stampede Foundation (the "Foundation"), a related non-profit entity, as owner of certain portions of the land on which the Youth Campus will reside. The 2014 amended and restated credit agreement accommodates the provision, subject to a guarantee from the Foundation supported by security satisfactory to Administration in the form of a floating charge debenture. This guarantee and security will be obtained and documented appropriately at the time that CES formally requests the ability to onward lend the loan proceeds of Facility D to the Foundation.

Updated Land Appraisals

In accordance with the credit agreement, CES provides The City with new appraisal reports on City Charged Lands every five years with the most recent appraisal dated 2013 February 13. These reports were previously reviewed by Corporate Properties and Buildings (CPB) and were found to be adequately and reasonably prepared, and reflect the current market value of the various land parcels.

The relinquishment of \$20 million of the authorised, guaranteed credit facility limit required revisions to the security package of City Charged lands. In consultation with CPB, Finance reviewed and accepted the security package offered by CES. The value to loan coverage ratio after relinquishment is estimated to be 1.27 to 1, slightly higher than the 1.26 to 1 coverage anticipated in last year's update and also above the minimum 1.25 to 1 coverage required by the credit agreement.

Amendments to the Credit Agreement

An "amended and restated credit agreement" and related legal documentation was prepared by the parties' respective legal counsel, to reflect the amendments described above and for reference, listed below:

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1. Amendment to the financial covenant to change the calculation of the DSCR to be based on a 4 year rolling EBITDA and Debt Service Requirements.
2. Reduction in the authorised limit of the guaranteed credit facility D by \$20 million.
3. Allowance for CES to onward lend from the guaranteed credit facility D to the Foundation in order to facilitate the Youth Campus component of the Stampede Park re-development plan.
4. Amendment to security agreements and debentures, reflecting the \$20 million reduction in the authorised limit of The City guaranteed Facility D as well as adjustments to the Lender's security package to reflect additional security for the separate, non-City guaranteed credit facility.

Stakeholder Engagement, Research and Communication

Staff from Treasury met with CES' Chief Financial Officer to discuss the flood impact and year-end financial results, and have had ongoing communication with CES regarding amendments to the credit agreement, financial and operational performance, and capital expenditure plans. CES has reviewed and concurs with this report. Finance also worked with CES' Lender and the Law Department including external legal counsel engaged by The City on the amended and restated credit agreement dated 2014 April 11. CPB reviewed the appraisal reports provided by CES that had been prepared by a third party on behalf of CES.

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 and the Social Enterprise World Forum Convention. 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.

In 2013, CES created and marketed Hell or High Water T-Shirts to support flood relief programs. This program generated net proceeds of \$2.4 million which were donated in full to the Canadian Red Cross Alberta Floods Response.

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 2013 was \$13,226.

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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 The City's ownership of property in Stampede Park and security 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; appraisal reports due in 2013 were received and found to be acceptable. These appraisals were revised in 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.

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 is also planning certain projects to protect the Stampede Park from future flood damage, and has applied for government grants totalling \$15.6 million to provide funding. To date, CES has spent approximately \$0.5 million on these flood mitigation projects. CES does not have a long-term grant agreement with the Province. Provincial funding challenges could result in further cuts to the annual grant received by CES but would be mitigated through CES' budget process.

REASON(S) FOR RECOMMENDATION(S)

2013 operating results were above historical levels, though lower than the prior year largely due to the Centennial Stampede in 2012 and the flood in 2013. CES complied with all of the covenants in the credit agreement. The Stampede Park Redevelopment plans including the capital fundraising campaign are progressing. Administration executed an amended and restated credit agreement on 2014 April 11 that incorporated amendments to the credit facility anticipated in last year's report.

ATTACHMENT(S)

1. Summary of Operating Results
2. Update on the Stampede Park Redevelopment Projects