

## **THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2015 CREDIT FACILITY UPDATE**

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### **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 2015 were positive and in line with 2014. CES is proactively managing its operations and capital expenditures during the current 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 OR THE PRIORITIES AND FINANCE COMMITTEE DATED, 2016 JUNE 07:**

That the Administration Recommendation contained in Report PFC2016-0366 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 2015 Annual Report.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

#### **Guaranteed Credit Facilities**

As of 2015 December 31, a total of \$75.3 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:

**THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2015 CREDIT FACILITY UPDATE**

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	\$5,989	\$14,589	\$5,750	\$26,328
Outstanding as at 2015 Dec 31	\$24,011	\$15,411	\$35,850	\$75,272

**2015 Financial Highlights**

2015 was another successful year for CES. The attendance in 2015 was 1.17 million, compared to 1.26, 1.13, 1.40, and 1.17 million in 2014, 2013, 2012 and 2011 respectively. Despite the drop in attendance and a \$1.5 million reduction in provincial government grants, CES' focus on reducing expenses and higher one-time event revenue, allowed for a slight positive increase in operating results. The Attachment shows comparative operating results: Income from Continuing Operations was \$2.38 million in 2015, a slight increase of \$0.13 million over 2014 (\$2.26 million). Gross Revenue also increased by \$1.36 million to \$148.34 million in 2015 (\$146.98 million in 2014).

**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 2015 was 1.65 to 1 (2014 – 1.63 to 1) and CES was in compliance, in all material respects, with all of the credit agreement covenants.

**Projections for 2016**

Given the current economic slowdown as a result of falling oil prices, CES began taking initiatives in 2014 to reduce operational expenses without impacting the customer experience. These efforts have continued through 2015 and 2016. The capital projects have been reviewed to identify projects that could be cancelled or deferred. CES anticipates that attendance will remain flat in 2016 but that revenues will decrease due to reduced spending on food & beverage, corporate ticket sales, and tarp auction revenues. However, the negative impact is forecast to be offset by several factors including cost savings on cancelled projects, reduced operational costs, new ticket sales strategies, and recognition of other expenses in 2015 that will not be recurring in 2016. In total, these measures are forecast to more than offset the negative economic impact and also position CES to manage a weaker economic environment.

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**THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2015 CREDIT FACILITY UPDATE**

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**Flood Update**

CES maintains various insurance policies that were utilized to fund the majority of initial cleanup costs and remediation of the facilities damaged by the 2013 flood. As at 2015 December 31, the amount spent on remediation was \$48.4 million of which \$47.6 million was funded by insurance providers; all insurance claims have now been settled and received.

CES has undertaken certain projects to further protect Stampede Park from flood damage, which are not covered by insurance. As at 2015 December 31, CES had incurred \$9.1 million (2014 - \$7.7 million) for these projects and had no additional outstanding commitments (2014 - \$0.3 million). CES received \$2.8 million in government grants under the Government of Alberta Disaster Recovery Program (DRP) in 2015 with an additional \$0.5 million to be received in 2016. CES has also received a net total of \$3.9 million in funding under the Flood Recovery Erosion Control Program (FREC) grants.

**Capital Campaign / Projects**

The Calgary Stampede Foundation and CES conducted a "We're Greatest Together" capital campaign that formally concluded in 2015. As at 2015 December 31, a total of \$135.4 million was raised (\$82.0 million received and \$53.4 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). In 2015, CES contributed \$3.6 million in donations to the Foundation (2014 - \$0.8 million).

CES has an unutilized amount of \$18.4 million out of the total \$120.0 million 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. 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. The expansion is estimated to create 1,800 construction jobs, add 500 full-time positions directly related to the project, and make Calgary an international destination for conferences, trade shows, and conventions. CES officials are meeting with all three levels of government to discuss stakeholder needs and funding for project.

**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.

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**THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2015 CREDIT FACILITY UPDATE**

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**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 2015 was \$15,552.35.

**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.

**THE CALGARY EXHIBITION AND STAMPEDE LTD. - 2015 CREDIT FACILITY UPDATE**

In December 2014, oil prices started falling, signalling a possible economic slowdown. CES management took proactive actions, which helped achieve its 2015 financial targets and will help maintain financial stability in 2016. The company's focus in 2016 and going forward is ensuring flexibility to manage further economic declines or to react appropriately if a rebound occurs earlier than expected.

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. Provincial government grants were reduced by \$2.0 million in 2015, which only impacted 2015 financials by \$1.5 million; thus, a further reduction of \$0.5 million will be realized in 2016. The new government has indicated that its support will remain at this level.

**REASON(S) FOR RECOMMENDATION(S):**

2015 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