

The Calgary Exhibition and Stampede Limited - 2017 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 Limited (CES), Stampede Park redevelopment and expansion. Positive operating results for 2017 exceeded 2016 performance. CES successfully managed operations and capital expenditures through a prolonged economic downturn and is focused on expansion as the economy shows signs of recovery. CES remains in full compliance with all covenants set out in the credit agreement.

ADMINISTRATION RECOMMENDATION:

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

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2018 JUNE 05:

That the Administration Recommendation contained in Report PFC2018-0599 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 (Facility 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 2017 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 1.45% to 6.23% (2016 – 1.21% to 6.23%). As at December 31, 2017, CES has drawn a total of \$71,740 (2016 – \$71,092) on the total maximum available facility of \$85,140 (2016 – \$89,492). The City, as an unconditional guarantor, holds as security a fixed debenture in the amount of \$100,227 (2016 – \$100,227) charging certain lands owned by

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the CES."

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Guaranteed Credit Facilities

As of 2017 December 31, a total of \$71.7 million was outstanding on the three guaranteed credit facilities and \$13.4 million available under Facility D to fund ongoing expansion and development, for a total maximum available facility of \$85.1 million. The details outlined 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
Opening Balance at 2017 Jan 1	\$23,073	\$13,907	\$34,112	\$71,092
Net Amount Repaid / (Drawn Down)	\$989	\$1,592	(\$3,229)	(\$648)
Balance Outstanding at 2017 Dec 31	\$22,084	\$12,315	\$37,341	\$71,740
Undrawn Availability	\$0	\$0	\$13,400	\$13,400
Maximum Availability				\$85,140

2017 Financial Highlights

CES continued delivering against its strategic plan to provide a world-class, year-round gathering place and destination with Stampede exhibition attendance of 1.21 million in 2017 representing an 11% increase year-over-year. Annual attendance rebounded from 1.09 million visits in 2016, 1.17 million in 2015 and was only marginally below 1.26 million in 2014 when early ticket sales and event bookings were higher. CES leveraged various promotions to stimulate incremental attendance at the annual exhibition and continues to build recognition through community engagement, youth education programs, and ongoing investment to better position Stampede Park to host business, tourism, sporting, hospitality, and community events every year. In 2017, gross revenues increased over 2016 as a result of higher attendance at the annual fair. The Attachment shows comparative operating results: Excess of revenue over expenses increased by \$0.8 million to \$3.1 million (\$2.22 million in 2016). Gross revenue increased by \$7.0 million to \$142.9 million (\$136.0 million in 2016) and direct expenses increased by \$4.0 million to \$97.3 million (\$93.3 million in 2016). Expenses grew at a slower rate than revenues indicating efforts to manage costs positively impacted performance.

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

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be not less than 1:00 to 1. The four year average ratio for 2017 was 1.58x (2016 was 1.57x) and remained in compliance, in all material respects, with covenants outlined in the credit agreement.

Projections for 2018

CES implemented several initiatives to mitigate impacts from the economic slowdown and remain focused on managing operational expenses while offering new customer experiences. In 2018 there is an expectation of no material increases over 2017. CES will consider further revenue growth opportunities while continuing to build on existing promotional activities. Non-discretionary capital spending will focus on maintenance and upgrades of existing infrastructure within cash generated from operations. Budgeting activities include a detailed review of planned capital projects to determine opportunities to defer/cancel wherever appropriate. 2018 budget expectations represent a slight improvement over 2017 performance and assume normal weather conditions during the exhibition. Improved performance is anticipated from increased attendance year-over-year, translating to higher demand for food & beverage and events. 2018 annual tarp auction proceeds were well above 2017 further supporting expectations for increased participation and spending focused on the exhibition.

Capital Campaign / Projects

The Calgary Stampede Foundation and CES completed the "We're Greatest Together" capital campaign in 2015, raising approximately \$135 million. Total contributions of \$66.1 million have been received by CES to date, including \$2.1 million in 2017, and \$19.7 million is anticipated to be received in future periods. The Capital Campaign supported the development of three major Stampede Park community initiatives being the Agriculture Discovery Zone, ENMAX Park and the Youth Campus. Youth Campus provides shared spaces for Youth Education and Performing Arts and includes the TransAlta Performing Arts Studios (completed in March 2017), the Calgary Arts Academy (completed in October 2017), BMO Amphitheatre (completed in November 2017), Walton Hall, The SAM Centre, Enbridge Plaza, and the Calgary Opera. ENMAX Park (completed in 2016) was a significant undertaking and aligns with the commitments between CES and The City respecting that land. In 2017, CES contributed \$0.6 million in donations to the Foundation (2016 - \$1.2 million).

CES has \$13.4 million of undrawn availability remaining under its \$120 million of total authorized credit facilities with guarantees provided by the City of Calgary. CES plans to utilize any undrawn capacity for future Calgary Stampede Park expansion and 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. Potential 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 it was exploring options for a \$500 million expansion of the BMO Centre, which would double its current size to just over one million square feet. The expansion would create approximately 1,862 construction jobs, 1,580 full-time positions, while promoting

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Calgary as an international destination for conferences, trade shows, and conventions. CES officials continue to meet with all three levels of government and CMLC to discuss various stakeholder needs and funding for the project.

In 2017, CES entered into the ENMAX Park Joint Venture agreement with the Calgary Stampede Foundation to jointly further develop, construct, maintain and operate ENMAX Park that will include year round outdoor spaces for public gatherings, recreation, a performance stage for indigenous cultural, youth and other events, a legacy trail, public art and the Sweet Grass Lodge.

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 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.

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 Rotary International and 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 included 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 2017 was \$14,089 and partially offset administrative and monitoring costs.

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.

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Financial loss in the Event of Default is mitigated by way of a fixed-charge debenture covering all loans guaranteed by The City of Calgary and secured with Specified Real Property held by CES. City Loan to Value Ratio amount equal to 125% of the Maximum Guaranteed Amount supported by 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 Credit Agreement. The last appraisal report received in February 2013 remained in compliance with this requirement and was subsequently revised in March 2014 concurrent with an amended security package provided to The City of Calgary. The next appraisal is scheduled to be completed in 2019.

CES has historically developed reliable budgets and projections while demonstrating strong financial leadership and project management. In April 2016, the economic slowdown and volatile environment resulted in steps to minimize costs that carried over in 2017 and contributed to improved performance year-over-year. CES remains focused on maintaining financial stability in future periods.

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 response to the economic slowdown, the Stampede launched a strategic plan in 2016 to position the Stampede as a year-round destination. In 2018 CES will continue to focus on the proposed expansion of the BMO Centre, with an overarching goal for Calgary to be recognized as a tier-one convention destination on the international stage. Investment into expanded and revitalized convention space will provide further diversification of CES' operations and reduce reliance on its seasonal exhibition to promote growth of the business and reinvestment in various community initiatives.

The potential impact of inclement weather on the Stampede Exhibition represents an ongoing financial risk as the event contributes approximately 50% of annual revenues. 2017 represented a more normalized weather year compared with 2016, which was the wettest Exhibition since 1927 and resulted in a 7% reduction in attendance. Management implemented several initiatives in previous years to address risks and enhance revenue streams with spontaneous promotional campaigns aimed at driving increased attendance. Development over time into a year round destination will somewhat reduce seasonality and sensitivity of cash flow.

The Calgary Stampede received \$7.6 million in funding from the Government of Alberta through Alberta Culture and Tourism in 2017 (\$7.6 million in 2016), CES does not have a long-term grant agreement with the Province; however, grants renew on an annual basis and remain unchanged since 2016. 2018 grant money was recently approved at the same level as 2017 and continues to be funded on a quarterly basis.

REASON(S) FOR RECOMMENDATION(S):

2017 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)

Attach - Summary of Operating Results