

**Chief Financial Officer's Report to
Priorities and Finance Committee
2019 June 04**

**ISC: UNRESTRICTED
PFC2019-0685**

The Calgary Exhibition and Stampede Limited - 2018 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"), Stampede Park redevelopment and expansion. Positive operating results for 2018 exceeded 2017 performance. CES successfully managed operations and capital expenditures through a prolonged economic downturn and is focused on continued operational optimization even 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:

1. Receive this report for information; and
2. Direct that attachment 2 remain confidential pursuant to Sections 16, 24, 25, and 27 of the Freedom of Information and Protection of Privacy Act and review of the report's confidential status by May 15, 2021.

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 29 to the financial statements in The City's 2018 Annual Report:

"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 2.30% to 6.23% (2017 – 1.45% to 6.23%). As at December 31, 2018, CES has drawn a total of \$66,687 (2017 – \$71,740) on the total maximum available facility of \$80,087 (2017 – \$85,140). The City, as an unconditional guarantor, holds as security a fixed debenture in the amount of \$100,227 (2017 – \$100,227) charging certain lands owned by the CES."

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

Guaranteed Credit Facilities

As of 2018 December 31, a total of \$66.7 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 of Calgary. CES plans to utilize any undrawn capacity for future Calgary Stampede Park expansion and development with a total maximum available facility of \$80.1 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 2018 Jan 01	\$22,084	\$12,315	\$37,341	\$71,740
(Net Amount Repaid) / Drawn Down	(\$1,042)	(\$1,686)	(\$2,324)	(\$5,052)
Balance Outstanding 2018 Dec 31	\$21,042	\$10,629	\$35,017	\$66,688
Undrawn Availability	\$0	\$0	\$13,400	\$13,400
Maximum Availability				\$80,088

2018 Financial Highlights

CES continued delivering its strategic plan to provide a world-class, year-round gathering place and destination with Stampede Exhibition attendance of 1.27 million in 2018 representing a 5% increase year-over-year. Annual attendance is trending positively from 1.21 million in 2017, 1.09 million visits in 2016, 1.17 million in 2015 and 1.26 million in 2014. 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 2018, gross revenues increased over 2017 as a result of higher attendance at the annual festival as well as several one-time conferences (Toyota national dealer, Aha Khan, Alberta Health Services). Attachment 1 shows comparative operating results: Excess of revenue over expenses increased by \$0.6 million to \$3.64 million (\$3.06 million in 2017). Gross revenue increased by \$6.3 million to \$149.3 million (\$143.0 million in 2017) and direct expenses increased by \$5.7 million to \$103.0 million (\$97.3 million in 2017). Expenses grew at a slightly slower rate than revenues, indicating efforts to manage costs positively impacted performance.

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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 be not less than 1:00 to 1. The four year average ratio for 2018 was 1.53x (2017 was 1.58x) and remained in compliance, in all material respects, with covenants outlined in the credit agreement.

Asset to Loan Ratio

CES provided an appraisal on CES owned lands with a “Hypothetical Current Market Value Estimate” of \$413 million as at March 15, 2019. CES proposed amending the City’s security to include parcel 4, 5 and 8 with an aggregate value of \$99.3 million which would offer 126% coverage to the amended loan guarantee amount of \$78.8 million (Based on exposure as of April 2019). After the amendment of security, the ratio remained in compliance. The appraisal has undergone real estate and development services valuation review committee and the appraised values of CES lands have been confirmed, therefore, treasury is comfortable with the proposal.

Description (\$000s)	2014	2019
		Proposed
City Guaranteed Amount	\$100,227	\$78,796
Total Appraised Value	\$127,420	\$99,300
Asset to Loan Ratio	127%	126%
Appraised value per parcel		
parcel 2	\$5,380	
parcel 4	\$34,740	\$35,000
parcel 5	\$35,000	\$33,300
parcel 6	\$18,000	
parcel 8		\$31,000
parcel 12	\$34,300	

Projections for 2019

For 2019, no material variance is expected from 2018. 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. A conservative 2019 budget represents a slight deterioration over 2018 performance and assumes normal weather conditions during the exhibition. The performance is anticipated from static Stampede attendance year-over-year, with a slight revenue increase along with higher food & beverage based revenues but offset by an increase in administrative expenses. 2019 annual tarp auction proceeds were slightly above 2018 further supporting expectations for continued participation and spending focused on the exhibition.

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Capital Campaign / Projects Update

BMO Centre Expansion

In March 2016, CES announced it was exploring options for a \$500 million expansion of the BMO Centre (“BMO Centre Expansion”) and in 2018, CES entered into a development agreement with Calgary Municipal Land Corporation (“CMLC”) to oversee the BMO Centre Expansion. CES requested that the BMO Centre Expansion be funded equally by the three levels of government.

On 2019 March 6, the Government of Canada approved federal funding in principle for up to \$166.7 million total eligible costs for the BMO Centre Expansion, subject to execution of a contribution agreement. On 2019 March 18, Council approved the City to execute an internal loan of up to \$333.3 million to be provided to CMLC representing The City and Government of Alberta’s contributions towards the BMO Centre Expansion. The loan will be sourced from the Council approved Major Capital Projects Reserve and requires loan and contribution agreements between The City and CMLC.

When the BMO Centre Expansion is completed in 2024, the BMO Centre will have more than doubled its current rentable space, with nearly one million square feet of total floor space, making it the second-largest facility of its kind in Canada. The proposed expansion will elevate the status of the BMO Centre and be able to service larger international business events.

Park Development

In early 2019, CES entered into a marketing agreement with CMLC to lead the marketing and development strategy of Stampede-owned lands for mixed-use development opportunities. This land assembly represents approximately 30 acres at the centre of Calgary’s future culture and entertainment district. The plan is to move forward to secure a hotel development partner to support the needs of the planned BMO Centre expansion. In February 2019, CMLC issued a Request for Proposals to potential developer partners related to building an adjacent hotel.

Capital Campaign

The Calgary Stampede Foundation and CES completed the “We’re Greatest Together” capital campaign in 2015, raising approximately \$135 million in donations. Total contributions of \$107.2 million have been received to date, including \$8.1 million in 2018 \$7.7 million in 2017, with the remainder 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), and Doherty Hall (completed in October 2018). Future development of the Youth Campus includes 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 2018, CES contributed \$1.9 million in donations to the Foundation (2017 - \$0.6 million).

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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 on financial and operational performance, and capital expenditure plans. Real Estate and Development Services and Law have been in communication with CES's appraiser and legal counsel. 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 Calgary Stampede Park expansion and development 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 2018 was \$13,965, which supports the 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.

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 owned by CES. 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 Credit Agreement. The current appraisal

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report (Attachment 2) was received in April 2019, remains in compliance with this requirement. The next appraisal is scheduled to be completed in 2024.

The appraisal has undergone real estate and development services valuation review committee and the appraised values of CES lands have been confirmed.

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.

The potential impact of inclement weather on the Stampede Exhibition represents an ongoing financial risk as the event contributes approximately 50% of annual revenues. 2018 represented a more normalized weather year compared to 2016, which was the wettest Exhibition since 1927 and resulted in a 7% reduction in attendance. Management has historically managed weather conditions with prepaid event tickets and variable staff costs bases on events. Management has also 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 \$7.7 million in funding from the Government of Alberta through Alberta Culture and Tourism in 2018 (\$7.7 million in 2017). CES does not have a long-term grant agreement with the Province; however, grants renew on an annual basis and remain unchanged since 2016. 2019 grant money is expected to continue at the same level as 2018 and continues to be funded on a quarterly basis.

REASON(S) FOR RECOMMENDATION(S):

2018 operating results are fully satisfactory. CES complied with all of the covenants in the credit agreement and continues to proactively manage its operations and capital expenditures through the current economic downturn.

ATTACHMENT(S)

1. Attachment 1- Summary of Operating Results
2. Attachment 2 – CESL Summary Land Holdings (Confidential)