Board of Directors Direction:
The HECFI Board of Directors, at its meeting of August 18, 2009, requested staff to report the Operating Budget Variance to June 30, 2009.

Information:
HECFI staff has prepared an analysis showing a projected budget deficit of $395,000 for the year ended December 31, 2009. This report, including the outlined mitigation efforts, has been approved by the HECFI Audit & Finance Committee and the HECFI Board of Directors. Attached to this report, as Schedules A and B, is the detailed report to the HECFI Board of Directors and a copy of our slide presentation. HECFI is reporting an actual budgetary deficit of approximately $403,000 for the first six months of 2009. To address this situation, HECFI management has begun to implement a series of mitigation efforts and it is anticipated that this will result in a budgetary surplus of $8,000 for the last half of the year yielding a net budget variance of $395,000 for 2009 as a whole. This variance represents 2.8% of total budgeted expenditures and 1.1% from total operations once approximately $23,000,000 in ticket sales are factored in.

The 2009 Operating Budget, in accordance with a commitment made to City Council three years previously, included a 5% reduction to the Municipal Contribution. If HECFI had instead presented a budget that followed the 2009 City Council guidelines of a maximum increase of 2%, the 2009 Municipal Contribution would have been $204,700 higher and this would have reduced the forecast variance to $190,300 (or 0.5% of total operations).

The types of problems that HECFI is facing this year are not unique to this organization. Through contacts in the industry, it is apparent that many convention centres are enduring even higher revenue shortfalls and facilities in the entertainment industry are also dealing with drops in ticket sales. Financial problems are even being experienced by some City departments this year.
Members of the Audit & Administration Committee should be aware that HECFI's revenues are volatile and therefore it is possible that the actual results for the year ending December 31, 2009 could differ materially from this forecast.

**Reasons for Forecasted Variance**

2009 has proven to be a very challenging year with regard to revenue generation. As outlined in Schedule B, the effect of the sudden downturn in the economy has affected our hospitality, sponsorship, signage, display advertising, private box and ticket sales. As well, the ongoing speculation that an NHL team could be relocated to Hamilton in October has also negatively affected our revenues from hockey operations.

A summary of the estimated non-controllable components in our forecast include:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects of the economic downturn</td>
<td>$212,000.00</td>
</tr>
<tr>
<td>Effects of NHL speculation</td>
<td>54,000.00</td>
</tr>
<tr>
<td>Unanticipated costs relating to staff illnesses</td>
<td>64,000.00</td>
</tr>
<tr>
<td>Snow removal costs in excess of budget</td>
<td>9,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$341,000.00</strong></td>
</tr>
</tbody>
</table>

These non-controllable components constitute 86.3% of the total projected variance.

**Mitigation Efforts**

HECFI staff has taken active steps to address the financial pressures, as further detailed in Schedules A and B. These measures include the imposition of a spending freeze on discretionary expenditures, the elimination of the 2009 COLA for non-union staff, conducting operational reviews of HECFI'S departments to maximize efficiencies and assessing our activities with a view to generation of new or enhanced revenue streams.

**Historical Perspective**

The 1986 Municipal Contribution (first full year of HECFI operations) was $2,432,570. The 2009 Municipal Contribution is $2,790,000 representing an increase of $357,430 or 14.7% over a twenty-four year period. The 2009 Operating Budget includes staff members transferred to HECFI from CUP whereas the 1986 budget did not, therefore to make the numbers comparable it is necessary to exclude $287,330 from the 2009 budget. As a result, the comparable increase over a twenty-four year period is only $70,100 or 2.9%. As further illustrated in Schedule B, the Municipal Contribution as a percentage of operations (measured by total expenditures) has declined from 31.5% to 18.2% while operations have increased by 78.1%. As can be seen, HECFI has been working to limit its budgetary increases since it came into existence and is now operating on razor thin margins.
Since 1986 HECFI has generated net surpluses of $4,248,221 which have been returned to the City of Hamilton and allocated to the HECFI Reserve for Capital Projects. The 2009 forecast variance of $395,000 represents only 9.3% of the previous surpluses. Due to the accumulation of these surpluses, there are sufficient funds available in this reserve to finance the forecast variance for 2009. Utilization of the Capital Reserve in this manner will not affect planned capital expenditures in 2010.

Duncan Gillespie
Chief Executive Officer
MEMO TO : HECFI BOARD OF DIRECTORS
FROM : Mr. D. Gillespie
       Chief Executive Officer
DATE : August 14, 2009
SUBJECT : PROJECTED YEAR END RESULTS

RECOMMENDATION:

THAT THE FOLLOWING REPORT ON PROJECTED YEAR END RESULTS BE RECEIVED FOR INFORMATION.

Mr. D. Gillespie
Chief Executive Officer

BACKGROUND

At the May 28, 2009 meeting of the HECFI Board of Directors, staff indicated that they would be presenting a report on the estimated year end financial results.

Various staff members reviewed events that are booked, events where negotiations are ongoing, expenditure plans and cost savings programmes in order to compile their best estimate of the projected financial results as of December 31, 2009. The first draft of this forecast showed a preliminary budgetary deficit of approximately $800,000, therefore staff made a second review to identify cost savings and revenue enhancements. As a result, the best estimate at this time is a projected Budgetary Deficit for December 31, 2009 of $395,000. This represents a variance of 2.8% from total budgeted expenditures and 1.1% from total operations once approximately $23,000,000 in ticket sales are factored in. It should be remembered that the 2009 Operating Budget, in accordance with a commitment made three years previously, included a 5% reduction to the Municipal Contribution. If HECFI had instead presented a budget that followed the 2009 City Council budget guidelines of a maximum increase of 2%, the 2009 Municipal Contribution would have been $204,700 higher. In turn, this amount would have decreased the 2009 projected budgetary deficit to $190,300 (representing a variance of 1.4% from total budgeted expenditures and 0.5% from total operations).
Members of the Board should be aware that HECFI’s revenues are volatile and therefore it is possible that the actual results for the year ended December 31, 2009 could differ materially from this forecast.

**Reasons for Forecasted Budgetary Deficit**

2009 has proven to be a very challenging year with regard to revenue generation. We are projecting a shortfall from budget in Hospitality Sales revenues as a result of the effects of the sudden economic downturn which has led to nineteen events cancelling this year (with gross revenues of $207,000). Had the economic downturn not hit us as hard and as swiftly as it did, we would have been well on the way to not only meeting but exceeding our very aggressive sales target for 2009. Despite the economic downturn, we are projecting that rental and food and beverage revenues at the Hamilton Convention Centre will exceed the actual revenues attained in 2008 by $221,600 or 7.3%. In relation to the budget, gross rental and food & beverage revenues in the Hospitality Department are $6,600 ahead of target for the first six months of the year but are projected to decline by $218,500 in the last half of 2009. This will result in a revenue shortfall from budget of $211,900 or 6.1% for the year. Unfortunately, labour and supply costs have exceeded expectations in the first half of the year. A restructuring of the operations in this department has been undertaken to address these concerns and the forecasted expenditures for the last six months of the year should be in line with the projected revenues.

The economic downturn has also adversely affected sponsorship sales in both regular operations and Hockey Operations as this type of discretionary spending is often the first to be cut. Ticket sales for Hockey Operations have also been less than anticipated. While we have been successful in attracting events in Entertainment Programming, the effect of the economic downturn has still been felt in that ticket sales have been less than anticipated. Had ticket revenues attained our expectations, the higher revenues would have been available to partially mitigate the shortfalls in other areas. It should be noted that HECFI is not alone in feeling the impact of the economic downturn. Contacts in other facilities have indicated that they too are facing the same problems.

In total the effect of the economic downturn is an estimated $212,000 and this is outlined on a more detailed basis in Schedule B to this report. In addition, the ongoing speculation that an NHL team may be relocated to Hamilton and begin playing as early as October of this year has affected HECFI’s operations by an estimated $56,000 (also outlined in Schedule B).

In addition to these revenue effects, there are some cost problems that have impacted the forecast. These include costs for the replacement of three employees who have been ill and who also must be accommodated through modified duty arrangements. We are forecasting that this accounts for approximately $64,000 in additional costs. As well, snow clearing costs in the first quarter were affected by weather conditions resulting in a cost overrun of $9,000.

As a result of the foregoing, it is estimated that non-controllable items approximate $341,000 or 86.3% of the forecast budgetary deficit.
**FORECASTED RESULTS**

<table>
<thead>
<tr>
<th>Actual Budgetary Surplus (Deficit) to June 30, 2009</th>
<th>Forecast Budgetary Surplus (Deficit) July 1 to December 31, 2009</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Hospitality Operations ($157,761)</td>
<td>$48,272</td>
<td>($206,033)</td>
</tr>
<tr>
<td>Net Entertainment Operations 39,006</td>
<td>64,283</td>
<td>103,289</td>
</tr>
<tr>
<td>Net Hockey Operations (213,100)</td>
<td>(42,672)</td>
<td>(255,772)</td>
</tr>
<tr>
<td>Net Sponsorship Operations (52,175)</td>
<td>(22,898)</td>
<td>(75,073)</td>
</tr>
<tr>
<td>Building Operations Expenses (17,844)</td>
<td>(32,639)</td>
<td>(50,483)</td>
</tr>
<tr>
<td>Gold Circle Ticketing Club</td>
<td>-</td>
<td>20,000</td>
</tr>
<tr>
<td>Marketing/Sales Admin Expenses (51,772)</td>
<td>18,532</td>
<td>(33,240)</td>
</tr>
<tr>
<td>CEO/Board Admin Expenses 38,876</td>
<td>26,393</td>
<td>65,269</td>
</tr>
<tr>
<td>Postponement in Filling CAO</td>
<td>-</td>
<td>25,000</td>
</tr>
<tr>
<td>Position (to late October)</td>
<td></td>
<td>25,000</td>
</tr>
<tr>
<td>Various Others (Net) 11,612</td>
<td>431</td>
<td>12,043</td>
</tr>
<tr>
<td>($403,158)</td>
<td>$8,158</td>
<td>($395,000)</td>
</tr>
</tbody>
</table>

**Action Plan to Mitigate the Financial Problems**

HECFI staff are addressing the financial pressures facing the organization. A spending freeze on discretionary expenses has been implemented and staff have been told that all vacation and overtime entitlements must be utilized by year end. The 2009 budgeted inflation increase will not be paid out to the non-union full time staff thereby resulting in an estimated savings of $87,000.

In addition, Management is reviewing expenditures in order to improve margins for the Hamilton Convention Centre Food and Beverage operations (as indicated earlier in this report), the Hamilton Place Bar operations, the Box Office operations, and usage of stagehand and part time Supervisory staff. General advertising and promotions initiatives have been somewhat reduced in the latter part of the year (by approximately $25,900 or 24%) but cannot be cut further without negatively impacting future revenue streams. Staff members in Building Operations have reviewed their spending plans and determined what expenditures could be reduced without seriously impacting building operations. These expenditure savings have been reflected in the forecast.

Food and beverage prices, rental rates and staff charge-out rates are being reviewed. Staff have also been assessing the possibility of increasing revenue streams. For example, Marketing staff have created a Gold Circle ticket club whereby patrons pay a membership for the privilege of buying tickets before they go on sale to the general public. It is anticipated that this endeavour will generate net profits of $20,000 in 2009.

HECFI staff are actively attempting to attract additional events to all three facilities. In particular there has been a focus on attracting Christmas parties (to replace some that have cancelled) and a New Year’s Eve show at the Convention Centre.

As a result of the foregoing initiatives, the forecasted Budgetary Deficit will be approximately $395,000 at December 31, 2009. Any further spending reductions will likely have negative long term effects on HECFI’s revenues and are therefore not recommended.
CURRENT FINANCIAL STATUS

Actual Budgetary Deficit @ June 30th  $ (403,158)
Forecast Surplus  July 1\textsuperscript{st} to December 31\textsuperscript{st}  8,158
Forecast Budgetary Deficit @ December 31\textsuperscript{st}  $ (395,000)

NOTE:
If HECFI had requested City Council’s maximum allowable 2\% budget increase in 2009 instead of voluntarily proposing a 5\% reduction, the 2009 Municipal Contribution would have been $204,700 higher and the Forecast Budgetary Deficit at December 31, 2009 would have decreased to $190,300.
## SUMMARY OF DEFICIT POSITION

<table>
<thead>
<tr>
<th></th>
<th>Actual Budgetary Surplus (Deficit) to June 30, 2009</th>
<th>Forecast Budgetary Surplus (Deficit) July 1 to December 31, 2009</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Hospitality Operations</td>
<td>($157,761)</td>
<td>($48,272)</td>
<td>($206,033)</td>
</tr>
<tr>
<td>Net Entertainment Operations</td>
<td>39,006</td>
<td>64,283</td>
<td>103,289</td>
</tr>
<tr>
<td>Net Hockey Operations</td>
<td>(213,100)</td>
<td>(42,672)</td>
<td>(255,772)</td>
</tr>
<tr>
<td>Net Sponsorship Operations</td>
<td>(52,175)</td>
<td>(22,898)</td>
<td>(75,073)</td>
</tr>
<tr>
<td>Building Operations Expenses</td>
<td>(17,844)</td>
<td>(32,639)</td>
<td>(50,483)</td>
</tr>
<tr>
<td>Gold Circle Ticketing Club</td>
<td>-</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Marketing/Sales Admin Expenses</td>
<td>(51,772)</td>
<td>18,532</td>
<td>(33,240)</td>
</tr>
<tr>
<td>CEO/Board Admin Expenses</td>
<td>38,876</td>
<td>26,393</td>
<td>65,269</td>
</tr>
<tr>
<td>Postponement in Filling CAO Position (to late October)</td>
<td>-</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Various Others (Net)</td>
<td>11,612</td>
<td>431</td>
<td>12,043</td>
</tr>
<tr>
<td></td>
<td>($403,158)</td>
<td>$8,158</td>
<td>($395,000)</td>
</tr>
</tbody>
</table>
NON-CONTROLLABLE COMPONENTS IN FORECAST

Economic Downturn:

Cancellations in Hospitality Sales (Net) $90,000
Shortfalls in LED/Sponsorships 20,000
Shortfalls in Corporate Sales and Ticketing (Hockey Ops) 102,000

Total Economic Downturn 212,000

Effect of NHL Speculation (Hockey Ops) 56,000
Staff Replacement Costs due to Illnesses 64,000
Snow Removal Costs in Excess of Budget 9,000

Total $341,000

Total Forecast Budgetary Deficit $395,000

Non-Controllable Component is 86.3% of Forecast Deficit
CONTROLLABLE COMPONENTS IN FORECAST

Effect of Labour and Supply Cost Problems in Hospitality  ($116,000)
Hockey Operations  (98,000)
Net Entertainment Operations  103,000
Gold Circle Ticketing Club  20,000
Remainder (Net)  37,000

($54,000)

Controllable Component is 13.7% of Forecast Deficit
ACTIONS TAKEN TO REDUCE DEFICIT
PERIOD OF JULY 1 – DECEMBER 31

Reductions in Spending:
- Elimination of COLA for Non-Union Staff $87,000
- Elimination of Vacation Carryover 10,000
- Building Operations 58,600
- Marketing/Sales 26,900
- Food and Beverage – Hospitality 23,000
- Business Services 20,400
- CEO/Board 19,500
- Events Delivery 6,000
- Professional Fees 12,200

Total Reductions in Spending: 263,600

Improvement in Hockey Operations 50,000

Total: 313,600

Increase in Revenues:
- Increase in Targets at Convention Centre 60,000
- Negotiation of a New Contract with Tel-Av 30,000
- Creation of a Gold Circle Ticket Club 20,000

Total Increase in Revenues: $423,600
HISTORICAL PERSPECTIVE
HECFI MUNICIPAL CONTRIBUTION

Municipal Contribution For 2009 $2,790,000

Less Staff Transferred From CUP 287,330

Adjusted 2009 Municipal Contribution 2,502,670

Municipal Contribution For 1986 2,432,570

Increase Over 24 Years $70,100

Percentage Increase Over 24 Years 2.9%
## HISTORICAL PERSPECTIVE

### MUNICIPAL CONTRIBUTION AS A % OF OPERATIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>Municipal Contribution</th>
<th>Total Expenditures</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>$2,432,570</td>
<td>$7,714,366</td>
<td>31.5%</td>
</tr>
<tr>
<td>2009</td>
<td>$2,502,670</td>
<td>$13,737,110</td>
<td>18.2%</td>
</tr>
</tbody>
</table>

**INCREASE**

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>6,022,744</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase %</td>
<td>2.9%</td>
<td>78.1%</td>
</tr>
</tbody>
</table>
HISTORICAL PERSPECTIVE
HECFI SURPLUSES RETURNED TO CITY OF HAMILTON

Surpluses Generated From 1986 – 2008 $4,248,221

2009 Forecast Variance 395,000

Variance As A % of Previous Surpluses 9.3%