

Report to Strategic Priorities and Policy Committee

To: Chair and Members
Strategic Priorities and Policy Committee
From: Anna Lisa Barbon, Managing Director, Corporate Services
and City Treasurer, Chief Financial Officer
Subject: RBC Place London – COVID-19 Financial Impacts
Date: April 27, 2021

Recommendation

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer:

- a) This report on RBC Place London COVID-19 Financial Impacts **BE RECEIVED** for information;
- b) RBC Place London **BE REQUESTED** to review their 10-year capital plan to re-assess priority needs and to mitigate potential capital budget requests through the 2022 Annual Budget Update process.

Executive Summary

The COVID-19 pandemic has had a devastating impact on RBC Place London (RBC Place). Social distancing requirements and limitations on indoor gathering sizes have eliminated the majority of RBC Place's revenue streams and forced the organization to take extensive cost saving measures to mitigate the revenue losses. In response, Council approved a \$1.6 million one-time grant to RBC Place through the 2020 Mid-Year Operating Budget Monitoring Report in September 2020. Through the 2021 Annual Budget Update, Council also approved the forgiveness of the outstanding promissory note payable to the City of London to provide further financial relief to RBC Place.

Despite the actions taken to date and the promising ramp-up in distribution of COVID-19 vaccines, it is anticipated that 2021 will continue to be a challenging year for RBC Place. Current forecasts project a deficit of \$1.8 million to \$2.5 million for 2021. Through the accompanying 2020 Year-End Operating Budget Monitoring Report, a one-time grant in the amount of \$2.5 million is recommended to provide funding support to sustain RBC Place's operations through 2021 and to partially replenish RBC Place's operational reserves that have been depleted throughout 2020. An additional amount of \$1.0 million is also recommended to be contributed to the RBC Place Renewal Reserve Fund to ensure that RBC Place's capital plan remains fully funded in light of anticipated reduced contributions and investment earnings on the reserve fund.

Linkage to the Corporate Strategic Plan

Council's 2019-2023 Strategic Plan for the City of London identifies "Leading in Public Service" as a strategic area of focus. One of the objectives under this strategic area of focus is to maintain London's finances in a well-planned manner to balance equity and affordability over the long term. This report summarizes the financial challenges experienced by RBC Place London as a result of the COVID-19 pandemic and the support required to sustain RBC Place's operations through 2021, while recommending a course of action that maintains London's financial stability and flexibility.

RBC Place London supports the City of London's 2019 to 2023 Strategic Plan through "Growing our Economy" strategic area of focus. More specifically, RBC Place directly supports the strategy "Continue to engage the community to attract conventions, conferences, and multi-day events to London contributing to the community's economic prosperity."

Analysis

1.0 Background Information

1.1 Previous Reports Related to this Matter

2021 Annual Budget Update – Budget Amendment #1:

<https://london.ca/sites/default/files/2021-03/Tax%202021%20Annual%20Budget%20Update%20Property%20Tax%20Supported%20Approved.pdf>

September 22, 2020, Strategic Priorities and Policy Committee, 2020 Mid-Year Operating Budget Monitoring Report & COVID-19 Financial Impacts:

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=74797>

June 23, 2020, Strategic Priorities and Policy Committee, COVID-19 Financial Impacts – Update:

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=73213>

April 28, 2020, Strategic Priorities and Policy Committee, COVID-19 Financial Impacts and Additional Measures for Community Relief:

<https://pub-london.escribemeetings.com/filestream.ashx?DocumentId=72691>

2.0 Discussion and Considerations

2.1 COVID-19 Impacts on RBC Place London

Like many organizations, COVID-19 has significantly impacted the City of London and its many agencies, boards and commissions (ABC's). Due to restrictions on public gatherings, RBC Place has been and continues to be particularly impacted. Since mid-March 2020, RBC Place has been almost entirely unable to host events. While social distancing restrictions were eased over the summer and fall months, limits on indoor gatherings remained in place, making most events uneconomical for RBC Place.

RBC Place has provided regular updates on their operations and financial situation to Civic Administration throughout the pandemic, which have been incorporated in previous COVID-19 Financial Impact reports to the Strategic Priorities and Policy Committee. As outlined in the September 22, 2020 report to Committee, RBC Place implemented significant actions to address their financial challenges:

- 90% of the RBC Place London team was laid off;
- Remaining team members accepted a 15%-25% wage reduction;
- Variable costs were eliminated due to the lack of events being held;
- All discretionary spending was cancelled;
- Repairs and maintenance were deferred where not urgent;
- Service contracts were placed on hold as appropriate;
- Building systems were shut down as appropriate to reduce energy consumption;
- Capital plans, with the exception of previously committed contracts, were placed on hold pending further full review of the 10 year capital plan;
- Payments to the City of London for annual insurance premiums and technology support were delayed;
- Approved 2020 capital funding provided by the City of London in the amount of \$648,000 was re-directed to cover operational needs; and
- Fully utilized the funding from the operational reserve (\$500,000) and special projects reserve (\$200,000) to manage cash flow requirements.

As part of the 2020 Mid-Year Operating Budget Monitoring report, Council approved a one-time grant in the amount of \$1.6 million to support RBC Place operations for the remainder of 2020. This grant was comprised of \$1.0 million of operational funding and \$0.6 million to replace 2020 capital funding that was re-allocated to support operations. It was noted in the Mid-Year Budget Monitoring report that this grant represented interim funding and that additional funding was likely to be required to offset COVID-19 pressures that persisted into 2021.

2.2 Financial Review of RBC Place London

The one-time grant provided to RBC Place recommended and approved through the 2020 Mid-Year Operating Budget Monitoring Report was subject to the completion of a financial sustainability review to assess RBC Place's financial condition, validate the amount requested and to analyze the magnitude of potential funding required in 2021. Civic Administration engaged KPMG to review RBC Place's financial position and request for funding. The key findings of the review included:

- As anticipated, the requirement for 2021 operating support is linked to the timing of resumption of public events. In the best-case scenario prepared by RBC Place management and reviewed by KPMG, a forecasted cash operating loss of at least \$1.3 million could be anticipated (if events were to commence in September 2021), with the projected loss increasing if the resumption of events is further delayed. RBC Place may also incur termination and severance costs in 2021 due to a statutory liability to employees laid off in 2020 and not recalled to work within the required 35-week period after starting to receive employment insurance benefits (once the Infectious Disease Emergency Leave period has been lifted by the Government of Ontario).
- Prior to the pandemic, RBC Place was generally able to break-even or generate a small cash profit on its operations; however, similar to most municipally-owned convention centres in Canada, the municipality will typically need to fund the majority of the capital costs of maintaining and upgrading the venue.
- RBC Place's working capital position has been deteriorating since 2017, primarily as a result of annual principal and interest payments associated with the promissory note due to the City of London to fund first floor renovations in 2015 to 2016. Given the financial difficulties experienced by RBC Place due to the pandemic, forgiveness or deferral of the promissory note payments was proposed by KPMG to alleviate some of RBC Place's challenges.
- KPMG recommended that RBC Place management continue exploring opportunities to re-purpose the facility to alternate uses, including potential use as a vaccination centre.
- KPMG recommended that RBC Place consider consulting with a government subsidy program expert to conduct a detailed analysis of RBC Place's eligibility for the Canada Emergency Wage Subsidy (CEWS) program, which provides a subsidy of up to 75% of the remuneration paid to employees, up to a maximum threshold.

2.3 Updates Since September 2020

Since the September 22, 2020 report to the Strategic Priorities and Policy Committee, RBC Place's immediate prospects remain little changed. Reimposed restrictions aimed at limiting the spread of COVID-19 have continued to make events and gatherings impractical and, in many cases, impossible due to restrictions on indoor gathering sizes. RBC Place has taken a number of actions aimed at maximizing opportunities under current restrictions while positioning the organization to generate additional opportunities once restrictions are further lifted. This includes:

- Installation of a studio that can accommodate virtual and hybrid events, with several virtual events currently booked which will generate a small amount of rental revenue;

- Events previously booked are being offered take-out meals, with one group in February 2021 confirming their participation in this program;
- The meal program (offering meals at cost) has been expanded to include the City's temporary shelter program, which will continue until April 2021.

RBC Place has continued to explore opportunities to re-purpose the facility in order to generate additional revenue. With the exception of Chartered Financial Analyst (CFA) exams held at RBC Place in early December 2020, limited success has been realized in securing other opportunities. RBC Place was under consideration for use as a vaccination centre, however alternate sites were ultimately chosen for this purpose. RBC Place management continues to explore all opportunities to generate revenue to mitigate the 2021 operational deficit.

Consistent with the recommendation from the KPMG review, RBC Place management engaged third-party legal expertise in government subsidy programs in order to provide an opinion on RBC Place's eligibility to apply for CEWS. Unfortunately, based on this review, it appears that RBC Place would be considered a "public institution" and therefore is not eligible to apply for CEWS.

As part of deliberations for the 2021 Annual Budget Update approved by Council on January 12, 2021, Budget Amendment #1 requesting forgiveness of the promissory note owing to the City was approved. Consistent with the recommendations of the KPMG review, forgiveness of this loan will reduce RBC Place's annual expenditures by approximately \$220,000 per year, providing financial relief in 2021 and further flexibility to rebuild depleted reserves in future years.

3.0 Financial Impact/Considerations

3.1 Operating Support Required for 2021

While vaccines provide hope for the lifting of social distancing and gathering restrictions in 2021, it is anticipated that there will remain lingering unease regarding large group gatherings, such as conferences. While the ability to offer virtual events and take-out meals provides the ability to generate limited amounts of revenue, RBC Place management is currently forecasting minimal revenues as many planned events have been postponed or cancelled through September 2021. It is hoped that some small-scale events will occur in the last month or two of the year, however according to RBC Place management, many convention centres across the country are seeing cancellations and postponements for the remainder of 2021. Based on latest projections, RBC Place is currently forecasting a \$1.8 million to \$2.5 million deficit for 2021 inclusive of one-time personnel related costs.

As noted previously, RBC Place was forced to utilize funding from their operational reserve (\$500,000) and special projects reserve (\$200,000) to manage cash flow requirements in 2020. Replenishing these reserves, even partially, would provide some margin of financial flexibility for RBC Place heading into 2022, in the hope that operations will be normalizing by that point.

Based on the above noted needs, Civic Administration is recommending a one-time grant to provide the financial support required to sustain RBC Place through 2021 and start to replenish RBC Place's operational reserves. Recommendation d) i) in the accompanying 2020 Year-end Operating Budget Monitoring Report recommends \$2.5 million be allocated to RBC Place, noting that this amount will be contingent upon regular financial reporting from RBC Place.

3.2 Contribution to RBC Place Renewal Reserve Fund

Consistent with the recommendation of the KPMG review noted above, the City of London has generally funded the capital needs of RBC Place through an annual contribution to the RBC Place Renewal Reserve Fund. The City's contributions have been supplemented by parking revenues at RBC Place, and investment income earned on the balance of the reserve fund. Based on the current capital plan, projected reduced parking revenues to be contributed to the Reserve Fund over the next year or two and lower than previously anticipated investment income in the reserve fund, the RBC Place Renewal Reserve Fund balance is effectively nil and forecasted to dip into negative balances in some years. As a result, recommendation d) ii) in the accompanying 2020 Year-end Operating Budget Monitoring Report recommends that an additional \$1.0 million be contributed to the RBC Place Renewal Reserve Fund. This will ensure that the current RBC capital plan remains fully funded, while also enabling RBC Place to take advantage of the closure of the facility to complete urgent capital repairs.

3.3 Summary of Recommended Financial Support

The following table summarizes the allocations recommended to ensure the short-term financial sustainability of RBC Place and ensure that RBC Place's current 10-year capital plan remains fully funded:

| Description | Amount |
|--|---------------|
| Recommended Operating Grant to be Provided to RBC Place | \$2.5 million |
| Recommended Contribution to RBC Place Renewal Reserve Fund | \$1.0 million |

3.4 Future Capital Needs

In 2020, subsequent to the approval of the 2020 to 2023 Multi-Year Budget, a property condition assessment was completed by EXP Services and an elevator assessment report was completed by Rooney, Irving and Associates Ltd. The property condition assessment report identified a 2021-2029 capital budget shortfall of approximately \$2.9 million, after adjustments made by management to reflect the onset of the pandemic. The elevator assessment report identified an additional \$2.3 million related to the major re-conditioning of two escalators and six elevators, which has not been included in the RBC Place capital plan.

It is anticipated that these additional capital needs will be brought forward by RBC Place through the 2022 Annual Budget Update. In preparation, this report recommends that Council formally request that RBC Place undertake a full review of their 10-year capital plan to assess priority projects and the adjusted timing of capital needs, given that the facility has been closed for the past year and not experiencing the usual traffic and usage. The objective of this review would be to mitigate, to the extent possible, the capital funding support anticipated to be requested through the 2022 Annual Budget Update.

Conclusion

RBC Place has experienced devastating financial consequences as a result of the COVID-19 pandemic. Despite the financial support provided to date and the promise of the ongoing vaccination effort, 2021 is anticipated to be another challenging year for RBC Place.

This report outlines the immediate operating and future capital budget challenges facing RBC Place and provides context to support the recommended funding support outlined in the accompanying 2020 Year-end Operating Budget Monitoring Report on the April 27th Strategic Priorities and Policy Committee agenda.

Submitted by: Kyle Murray, CPA, CA, Director, Financial Planning & Business Support

Recommended by: Anna Lisa Barbon, CPA, CGA, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer