

March 16, 2023

## **First annual review of Westerner agreement going to Council**

It has been one year since The City and the Westerner Exposition Association (WEA) formalized the Relationship Framework Agreement (RFA). The RFA was written and signed by The City and WEA to outline its relationship and accountability to each other in support of the success and stability of the WEA. Per the RFA, the agreement must be reviewed each year and on Monday, administration will provide an update to Council on the RFA and an update on Westerner's journey to financial sustainability stemming from financial instability in 2019 and the inability to maintain steady revenue throughout the pandemic.

On Monday, March 20, Council will consider the following administrative recommendations:

- In 2023, begin the development of a Master Plan for Westerner, which is expected to cost \$100,000. The recommendation is that this cost be equally split between The City and WEA. The Master Plan, recommended in the RFA, is a 15-year vision that will include land use, access and multi-modal transportation, building design principles and site servicing.
- Support short-term cash flow for the Westerner by providing a \$1 million line of credit for WEA to cover expenses prior to realizing event revenue. This contingency loan is seen as emergency funds, with an expectation for it to be paid back once revenue is realized and only used after their current line of credit.
- Amend the repayment formula for the \$19 million Exhibition Hall loan agreement for five years to allow time for WEA to retain sufficient cash to meet current obligations and improve cash flow. If approved, administration projects that while WEA would not make a loan payment until the fifth year, there is no impact to The City's budget or to the 30-year loan payment deadline.
- Amend the current RFA to have the City Manager approve all expenditures from WEA's Major Maintenance Reserve.

### **1. Why did The City originally get involved in the Westerner Exposition Association's (WEA) finances?**

Westerner reached out to The City of Red Deer for assistance in late 2019 after a number of factors ultimately led to the financial instability at Westerner, including the decision to expand the facility, major event contract negotiations and the economic reality at that time, to name a few. The additional impacts of COVID-19 placed greater financial pressures on Westerner with no ability to host events or generate revenue throughout the COVID-19 pandemic.

The City's goal is to continue to support strong economic activity in the city and region. Westerner has an annual impact of \$150 million on the economy and is an important part of the region's economic recovery and future Major Event Strategy and Destination Development Framework.

### **2. What involvement has The City had in Westerner in the past?**

In early 2020, The City of Red Deer assumed temporary financial oversight for Westerner to help navigate the challenges. In addition, The City owns the land at Westerner, which it leases to WEA under a 50-year lease.

Our shared goals are financial and operating stability with the Westerner continuing to serve as our community hub for events that are pivotal to our community life and economic development in our city, and to prevent additional or similar financial challenges from occurring in the future.

**3. How much financial support has The City provided to the Westerner in the past and does it impact tax payers?**

Since 2019, The City has provided seven million dollars in operating grants to the Westerner to ensure the continued operations through the economic downturn and pandemic. There was no direct impact to taxpayers stemming from these grants as they were funded from reserves through one-time funding. Along with the grants, The City loaned the Westerner \$19 million to pay out an unsustainable loan Westerner previously held, relating to construction of the Exhibition Hall. This loan is expected to be fully paid back by the Westerner over 30 years. Even with the changes proposed by administration, WEA is expected to maintain that commitment.

**4. What are the details of the Exhibition Hall Loan?**

The \$19 million loan approved by Council has a 30-year payback period. The loan is split into two parts with the first \$10 million considered a Tranche 1 loan, and the remaining \$9 million considered Tranche 2 loan. Payments for each are triggered by EBITDA (earnings before interest, taxes, depreciation, and amortization) thresholds. The WEA is expected to fully pay back this loan as per the agreements.

Tranche 1 loan (\$10 million):

- Accumulates interest at 2.616 per cent.
- Payments triggered when EBITDA is at or less than \$1 million.
- Payments are 50 per cent of EBITDA.

Tranche 2 loan (\$9 million):

- No interest accumulations.
- Payments triggered when EBITDA is more than \$1 million, and are calculated as:
  - Zero per cent of EBITDA less than \$1 million
  - 75 per cent of EBITDA between \$1 million and \$2 million
  - 90 per cent of EBITDA between \$2 million and \$3 million
  - 100 per cent of EBITDA more than \$3 million

**5. Why did The City and the Westerner sign a Relationship Framework Agreement?**

Shifting to a more formal agreement was a natural transition with the increase in financial support approved by The City. The agreement was signed on October 13, 2021 and provides access to City resources for operational, capital and financial planning and decisions, giving a broader community lens as the success of the Westerner has substantial community impact.

**6. What was included in the Relationship Framework Agreement?**

The framework, gives The City a higher level of involvement in decision-making, oversight, budgeting, lease agreements and other major items relating to the Westerner. One of the key elements of the agreement is the development of a Master Plan for the Westerner. The plan will establish the 15-year vision for the Westerner and Council will provide input to this plan.

An asset management plan is also being developed to ensure maintenance of all infrastructure on the grounds and to provide a guide for capital investment to support the long-term plan for the site. Council approved one-time funding to cover 50 per cent of the contract cost in 2022.

As the City's Liaison to WEA, the City Manager now has a greater role in advising the WEA Board and CEO. The RFA also outlines the role of the two City Councilors and City Manager on the board,

and what types of matters must be brought forward to The City for review and approval.

The agreement is reviewed annually to ensure optimum conditions are in place that reflect the intended relationship between WEA and The City. The agreement also assigned responsibility for financial oversight back to the Board and consolidates current agreements into one collection of documents.

**7. What is Council considering adding to the Relationship Framework Agreement?**

The intent of the proposed financial support is to enable WEA to build Major Maintenance Reserve. This would hold funds in reserve for minor capital expenses, meaning WEA would have dollars available if unexpected maintenance is required on the facility. This is a necessary step towards financial sustainability.

By amending the loan repayment terms, WEA will be provided the WEA with the opportunity to start building this reserve. Administration is recommending an amendment to have the City Manager approve all expenditures from this reserve. This provides further financial oversight by The City, protecting the intent of the investment.

**8. When the agreement was signed, did it take away decision making from the Westerner?**

No. The WEA is its own organization with policies, bylaws, governance and operations. The new arrangement outlines where there needs to be joint decision making, recognizing the significant financial investment The City has made and the shared goals of the two organizations to work together to support community life and economic development. The RFA outlines this expectation and ensures The City has more timely access to critical information than it did in the past.

**9. There was a forensic financial audit done of the WEA financials, what was the result?**

The financial audit showed there was no fraudulent activities at the Westerner. However, the audit identified the need for WEA to modernize business practices to avoid future fiscal challenges.

**10. Is The City confident the Westerner can regain financial footing?**

The City is working to fully support the Westerner on its journey to regain solid financial footing. While nothing is ever guaranteed, modelling and projections show the Exhibition Hall loan will be paid within the 30-year term. In 2020, The City commissioned a financial sustainability review of the Westerner. Of the 30 recommendations made, the majority have already been implemented and benefits are being realized, including improved financial controls which has increased WEA's revenue per square foot by 50 per cent (pre-covid).

**11. What would happen if the Westerner defaults on their loan?**

The City of Red Deer is the owner of the Westerner land, and leases it to the WEA through longstanding lease agreements. The City recognizes the important and integral role the Westerner plays in our community and catalyzing broader economic development in the city. The City is committed to the WEA regaining financial sustainability and took over the Exhibition Hall Loan from a private bank to help protect this vital community asset in the event of WEA defaulting on their payments. If this situation were to occur, WEA assets would transition to The City of Red Deer ownership.



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**FREQUENTLY ASKED QUESTIONS**