



STAFF REPORT ACTION REQUIRED

Design Exchange (DX) 2007 Annual Grant Review

Date:	February 5, 2007
To:	Economic Development Committee
From:	Donald G. Eastwood, General Manager Economic Development, Culture & Tourism
Wards:	All
Reference Number:	P:\2007\Cluster A\EDCT\ed0702-004

SUMMARY

This report presents recommendations that Council commend the Design Exchange (DX) for its work, approve the 2007 grant and authorize staff to negotiate a renewal of the City's grant agreement with the DX which expires July 31, 2007.

The DX is projecting a surplus before amortization of approximately \$201,400 for the year 2006, as compared to a budgeted surplus of \$152,646. Costs have been controlled, debt is being eliminated and a new revenue strategy is in place. The DX expects to generate a net operating surplus before amortization of capital assets of \$150,153 in 2007.

A development agreement with the TD Centre requires the developer to pay \$500,000 per year to the City until 2013 for the purpose of running a design showcase/centre on the site of the former stock exchange. These funds are placed in a reserve fund to pay the DX grant, which is revenue neutral to the City.

RECOMMENDATIONS

The General Manager of the Economic Development, Culture and Tourism Division recommends:

1. Council commend the Design Exchange (DX) for its work in the promotion of design as a strategic tool for business innovation in the City of Toronto;

2. Council approve the Design Exchange's 2007 grant of \$500,000 plus accrued interest as per the terms of the City's grant agreement with the Design Exchange subject to 2007 operating budget approval;
3. Council authorize City staff to execute a six year renewal of the grant agreement which expires on July 31, 2007, with the Group for the Creation of a Design Centre in Toronto known as the "Design Exchange" (DX), advising that the purpose of this agreement is to continue developing and promoting design as a strategic tool for business investment, subject to the satisfaction of the General Manager of Economic Development, Culture and Tourism, the Deputy City Manager and Chief Financial Officer, and the City Solicitor; and
4. Council request Economic Development staff work with the DX during 2007 to address the issue of sustainability, review the DX mandate and activities with input from funders and key industry stakeholders including the industry associations, and resolve outstanding heritage preservation issues with the developer.

Financial Impact

As a result of the commercial development on the DX site the City receives \$500,000 per year from the property owner/developer, which is placed in reserve fund XR3020 to pay the DX grant. At the present time reserve fund XR3020 has sufficient funds to pay the DX grant. The grant amount is included in the EDCT 2007 operating budget recommended by the administrative review to the Budget Committee.

The Deputy City Manager and Chief Financial Officer have reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting on July 30, 31 and August 1, 2002, Clause No. 7, Report No. 7, Council approved a five-year renewal of the City's grant agreement with the Group for the Creation of a Design Centre in Toronto, known as the Design Exchange. Council recommended that it provide funding of up to \$500,000 (plus accrued interest and less capital reserve deductions) annually to the DX, to continue developing and promoting design as a strategic tool for business innovation, subject to an annual review and approval of the DX grant request by Council.

<http://www.toronto.ca/legdocs/2002/agendas/council/cc020730/edp7rpt/cl007.pdf>

ISSUE BACKGROUND

The City secured a long term lease of the space at 222 Bay Street, occupied by the DX, in conjunction with the approval of a commercial development on the site of the former Toronto Stock Exchange (TSE). The former TSE facility and additional space (the "premises") in the new building were leased to the City for a term of 99 years, from June 1, 1992 to May 31, 2091. The City subleased the premises to the DX from December 1, 1994 to May 30, 2091.

The developer agreed to make annual payments of \$500,000 to the City for 24 years (until and including the year 2013), for the use and benefit of the occupant of the premises, subject to conditions set out in the development agreement. The City's grant agreement with the Design Exchange requires that the grant be used to pay operating, utility, repair, maintenance and insurance costs for the facility, to ensure it is kept in a state of good repair.

The Design Exchange is Canada's design centre. Its mission is to promote Canadian design and its vision is to establish Canada as a design leader worldwide. The DX provides a full range of services and programs that include exhibitions, workshops and educational activities that promote and encourage design, in all of its forms, to the public and business community.

The DX is incorporated as a non-profit and managed by an independent Board of Directors, with 2 Councillors acting as the City's representatives on the Board. As an important strategic tool for business, and a driving force behind economic success, design is a crucial component of the City's long-term competitiveness. The DX and the City share a common mandate to develop and promote design as a strategic tool for business innovation.

COMMENTS

2006 Program Highlights

In 2006 the Design Exchange embarked on an aggressive program schedule that included 4 major exhibitions in the main exhibit hall: By Design; Archetype; Milano, Made in Design; and Design Exchange Awards Profile. Items from the DX's permanent collection of industrial design were installed in their new ground floor showcase. The Chalmers Centre and Teknion Lounge hosted 23 exhibits. Travelling exhibits from the DX were on display at Terminal 1, the Dalhousie University Faculty of Architecture and Planning, the Toronto Regional Conservation Authority and the Kortright Centre.

Education programs included Designers in the Classroom; the DX's sold-out Design Camps; and lectures by Giovanna Franci, Peter Busby, Aldo Colonetti and Alain de Botton, among others. Hundreds of entries were received in various design competitions. Export development initiatives included seminars, New Design Canada at the Interior Design Show and missions to Milan, New York and Hong Kong. Research and development initiatives undertaken with the City included 2 charrettes on street furniture, Orphan Spaces, and the Chicago priority neighbourhoods project with George Brown College. The DX continues as an advisor on the internationally syndicated television series Save Us From Our House.

Financial Situation

The DX's initial operation plan and financial model earmarked \$1 million for operational funding. Unfortunately a shortfall in fundraising and an overrun on building renovations left the DX with no operating reserve. The financial performance of the DX had been

close to break-even for most years, but losses as a result of the 1999 Gusto exhibit and the 2002 bankruptcy of DX NET contributed to its budgetary problems. The DX's original strategic plan projected its first surplus for 2004, but lower than expected returns, loss of the restaurant tenant without notice and significant one-time severance payments in that year resulted in a deficit.

Since 2004 the DX has focussed its efforts to tightly control expenses, increase revenues and pay down its bank debt. The DX's working capital situation improved by 40% in 2005, and a further 20% last year, with current liabilities exceeding current assets by \$328,216 in 2006, down from \$950,000 in 2004. For 2006 the DX is forecasting a surplus of \$204,052 as compared to a projected surplus of \$152,646. The Black and White Gala raised approximately \$70,000 in 2006, after almost breaking even in 2005. New appointments have been made to strengthen the DX Board and its fundraising ability.

Modest increases in expenditures are projected in almost all budget areas for 2007, but remain below 2006 approved budget levels. Revenue projections are also lower in 2007 than 2006 budgets, which were not achieved. The only exception is fundraising. The DX has a new revenue strategy in place for 2007 and is hiring a new fundraiser. A tenant has been located for the restaurant space that will invest in the facility and provide additional revenue to the DX. For 2007 the DX Board has approved a budget they are confident they can achieve, with a surplus of \$150,000 to be used to pay down debt. Table 1 shows performance with respect to budget for the years 2004-2007.

DX Strategic Plan

In 2005 the Design Exchange updated their strategic plan for the years 2006-2010. The new plan identified 10 key objectives for the DX. At the end of 2006, staff reviewed the organization's performance against each objective. A strategic planning session was held with the DX Board in January, at which the following 5 key priorities were identified for 2007: Membership, Marketing and Public Relations; Development; Museum & Permanent Collection; Government Relations; and Facility.

2007 DX Program Forecast

Highlights of the Design Exchanges' planned programming for 2007 includes:

- Canada Week in Mexico - hosted by the Canadian Trade office in Guadalajara;
- The Living City: Ecological Design for the Toronto Region workshop;
- DX Power Speaker Series – featuring Raymond Moriyama, Janet Rosenberg, Dr. Valerie Steele and other national and international designers and researchers (tbc);
- Toronto-Chicago Charrette, Toronto – students redesign priority neighbourhoods;
- ICFE – 19th International Contemporary Furniture Fair presentation in New York;
- DX second annual National Design Conference June 14-16, 2007;
- DX Black and White Gala annual fundraiser;
- Design Exchange Awards – 40 awards co-sponsored by the Globe & Mail;
- March Break and Summer Camps;
- Japan Design Today 100 - international travelling exhibition; and
- First City Beautiful: The Architecture of John Lyle and Beyond – during FAD.

TABLE 1 – Comparison of DX actual vs. budgeted figures for 2004-2007							
	2004 Audited Actuals (\$000s)	2004 Approved Budget (\$000s)	2005 Audited Actuals (\$000s)	2005 Approved Budget (\$000s)	2006 Projected Actuals (\$000s)	2006 Approved Budget (\$000s)	2007 Approved Budget (\$000s)
1. Revenue	2,458.4	3,173.7	2,870.5	3,311.9	2,839.7	3,104.9	2,759.7
2. Expenses	2,650.3	3,029.4	2,717.0	3,265.8	2,635.6	2,952.3	2,609.5
3. Operating Surplus/(Deficit)	(191.9)	144.3	153.5	46.0	204.1	152.6	150.2
4. Diana Event (net revenue)	112.3	89.5					
5. Surplus/(Deficit) – (before amortization)	(79.6)	233.8	153.5	46.0	204.1	152.6	150.2
6. Amortization of Capital Assets	(418.1)	(429.0)	(358.4)	(429.0)	(361.1)	(353.8)	(355.9)
7. Write-off DXNet Inc.	(12.2)		2.0				
8. Loan Forgiveness			(209.2)				
9. Capital Contributions			(5.1)		(5.1)		
10. Net Operating Surplus/(Deficit)	(485.6)	(195.2)	7.4	(383.0)	(151.9)	(201.2)	(205.8)

2006 Building Occupancy and Costs

As shown in the table below, overall building occupancy and maintenance expenses are marginally higher than forecast for 2006. According to the DX, building occupancy and maintenance costs for 2007 will be slightly lower than 2006, and will exceed the amount of the City's grant by \$91,207.

	2005 Actuals \$	2006 Budget \$	2006 Projected Actuals \$	2007 Budget \$
1. Maintenance salaries & benefits	35,430	44,230	48,475	38,178
2. Rent & building shared costs	422,607	436,800	446,040	442,733
3. Cleaning contract	42,878	43,764	45,887	48,000
4. Maintenance	31,304	45,369	38,170	44,896
5. Insurance	31,291	26,326	20,470	17,400
6. Total	563,510	596,489	599,042	591,207

DX Capital Improvement Plan and Budget

The DX has submitted a five-year capital improvement and maintenance plan and budget as required by the grant agreement (Attachment No. 1). Spending was lower in 2006 than is forecast for coming years. Improvement spending will increase substantially in 2007. A leak in an upper floor of the building damaged the trading floor in 2006. The replacement will be covered by insurance. The Design Exchange is also in discussion with a supplier regarding donation of new office furniture. A lobby renovation in 2008 will continue this increased level of investment in the facility.

Renewal of DX Grant Agreement

The City's grant agreement with the Design Exchange will expire July 31st 2007, and staff are requesting Council authorization to renegotiate the agreement. A six year term is recommended for this renewal to coincide with the end of the developers grant.

Although some clarification is required in the agreement regarding the timing of the flow of funds and the methods for calculating interest, substantial changes are not expected to result. City staff will execute a renewal of the grant agreement with the Group for the Creation of a Design Centre in Toronto, known as the "Design Exchange" (DX), advising

that the purpose of this agreement is to continue developing and promoting design as a strategic tool for business investment. The renegotiated agreement will be subject to the approval of the General Manager of Economic Development, Culture and Tourism, the Deputy City Manager and Chief Financial Officer, and the City Solicitor.

CONTACT

Kyle Benham, Director, Business Development and Retention, Economic Development,
Tel: (416) 397-5309, Fax: (416) 392-3374, Email: kbenham@toronto.ca

Laurie Belzak, Sector Development Officer, fashion/apparel & design, Economic
Development, Tel: (416) 392-1296, Fax: (416) 392-3374, Email: lbelzak@toronto.ca

SIGNATURE

Donald G. Eastwood, General Manager,
Economic Development, Culture & Tourism

ATTACHMENTS

Attachment 1: DX Capital Maintenance and Improvement Plan 2006-2010

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		1st Year 2006	2nd Year 2007	3rd Year 2008	4th Year 2009	5th Year 2010	5 Year Total
Maintenance							
1	General Maintenance Fund	\$ 11,941	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 43,941
2	Equipment Testing and Repairs		\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 16,000
3	Safety Fund		\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 6,000
4	Painting	\$ 21,065	\$ 15,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 66,065
5	Millwork Repairs		\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 30,000
6	Flooring Maintenance		\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 32,000
7	Bridge Maintenance		\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 6,000
8	Roof Top Chiller Maintenance		\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000	\$ 32,000
9	Lighting Maintenance	\$ 2,689	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 32,689
10	Servery Kitchen Maintenance		\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 12,000
11	Door Repairs		\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 8,000
12	Electrical Repairs		\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 6,000
13	Bay Street Lighting Maintenance	\$ 2,476	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 20,476
14	HVAC Maintenance		\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 20,000
	Maintenance Total	\$ 38,170	\$ 77,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 331,170
Capital Projects (New Improvements)							
1	Conservation Equipment		\$ 5,000				\$ 5,000
2	Exhibition System	\$ 9,691		\$ 10,000			\$ 19,691
3	New Bay Street Lighting				\$ 150,000		\$ 150,000
4	Genie Lift		\$ 3,500				\$ 3,500
5	Lobby Renovation			\$ 350,000			\$ 350,000
6	North Door Canopy		\$ 7,500				\$ 7,500
7	Exterior Signage						\$ -
8	Phones					\$ 15,000	\$ 15,000
9	Café Washrooms						\$ -
10	Resource Centre Blinds			\$ 10,000			\$ 10,000
11	House Lights		\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 20,000
12	Elevator Cab Renovation		\$ 15,000	\$ 15,000			\$ 30,000
13	Wayfinding / Signage			\$ 15,000			\$ 15,000
14	New Security System	\$ 3,834	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 13,834
15	Trading Floor Storage	\$ 2,500	\$ 7,500				\$ 10,000
16	New Millwork					\$ 12,000	\$ 12,000
17	Carpet Replacement		\$ 2,500		\$ 30,000		\$ 32,500
18	Replace Wood Floor		\$ 100,000				\$ 100,000
19	Office Furniture Refurb/Replace		\$ 170,000				\$ 170,000
20	Audience Seating Replacement		\$ 100,000				\$ 100,000
21	Designer Walk of Fame					\$ 250,000	\$ 250,000
22	Tables		\$ 3,500	\$ 2,000		\$ 2,000	\$ 7,500
	Capital Projects Total	\$ 16,025	\$ 422,000	\$ 409,500	\$ 187,500	\$ 286,500	\$ 1,321,525