

Design Exchange (DX) 2008 Annual Grant Review

Date:	February 5, 2008
To:	Economic Development Committee
From:	Kyle Benham, Director, Business Development & Retention Economic Development, Culture & Tourism
Wards:	All
Reference Number:	P:\2008\Cluster A\EDCT\ECON DEV\ed0802-009 (AFS#6752)

SUMMARY

This report provides recommendations that Council recognize the DX for its work in the promotion of design as a strategic tool for business innovation, and approve the 2008 grant to the Design Exchange.

The DX is projecting a surplus before amortization of approximately \$263,250 for the year 2007, as compared to a budgeted surplus of \$145,005. Costs have been controlled, debt is being eliminated and the DX is working to develop a revenue strategy for long-term sustainability of the operation. The DX expects to generate a net operating surplus before amortization of capital assets of \$146,600 in 2008.

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 Director, Business Development & Retention, Economic Development, recommends:

1. Council recognize the 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 2008 grant of \$500,000 plus accrued interest as per the terms of the City's grant agreement with the Design Exchange

subject to 2008 operating budget approval and the renewal of the grant agreement;
and

3. Council request Economic Development staff work with the DX in 2008 to address the issue of sustainability 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 the reserve fund has sufficient funds to pay the DX grant. The grant amount is included in the EDCT 2008 operating budget recommended by the administrative review to the Budget Committee.

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

DECISION HISTORY

At its meeting on March 5, 6, 7 and 8, 2007, Council adopted Item ED2.5, Design Exchange 2007 Annual Grant Review. As recommended in that report, staff are negotiating a six-year renewal of the grant agreement, with the Group for the Creation of a Design Centre in Toronto, known as the Design Exchange.

Minor updates to the grant agreement are required, but no major changes are being made. The agreement recommends, as it has in the past, that the City provide funding of up to \$500,000 (plus accrued interest and less capital reserve deductions as required) 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.

The current grant agreement was scheduled to expire on July 31, 2007, but continues to apply until the parties revise it. The revised agreement is subject to the satisfaction of the General Manger of Economic Development, Culture and Tourism, the Deputy City Manager and Chief Financial Officer and the City Solicitor, and will be finalized shortly.

<http://www.toronto.ca/legdocs/mmis/2007/cc/decisions/2007-03-05-cc03-dd.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 museum and centre for design research and education. Its mission is to promote the value of Canadian design through engaging and enriching programs. "Canada by Design" is the DX's vision - to establish Canada as a design leader worldwide. The DX provides a range of services and programs that include exhibitions, workshops and educational activities, to raise awareness and understanding of design, in all its forms, with the public and business community.

The DX is incorporated as a non-profit and managed by an independent Board of Directors, with Councillors Karen Stintz and Mark Grimes 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. Toronto's new *Agenda for Prosperity* recognises the importance of design, including it in its actions to increase productivity and growth of the City. The DX and the City share a common mandate to develop and promote design as a strategic tool for business innovation.

COMMENTS

2007 Program Highlights

The DX ran an impressive array of programs in 2007. Exhibits in the Chalmers Design Centre attracted an average of 6,000 people monthly. Canada in the Making's main floor space showcased products from the DX's permanent collection to approximately 20,000 people. The Main Exhibit Hall hosted 4 major exhibits over the year for 15,000 visitors: Japan Design Today 100; First City Beautiful: the Architecture of John Lyle and Beyond; Material Skills, Evolution of Materials; and the new Design Exchange Awards exhibit.

Professional programs included the DX Power Speaker series, the DX National Design Conference, the Universal Design Development Series and export missions to Mexico, New York and Chicago. Youth programs continue to grow, with record attendance at design camps. Programs undertaken by the DX for and with the City included the Toronto-Chicago Charette, promotion of Toronto at NeoCon in Chicago, hosting the opening for Doors Open and other Festival of Architecture & Design events, and workshops on ecological design, TTC Branding and street furniture.

Financial Situation

The Design Exchange's initial operating 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. Amortization of that investment in capital assets results in an ongoing deficit on the DX's financial statements, in spite of continuing improvements in recent years from an operating perspective.

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 has improved dramatically, from current liabilities exceeding current assets by approximately \$900,000 in 2004, to \$82,949 in 2007. Forgiveness of a \$209,000 note payable and reversal of accrued interest in 2005, and surpluses in the years 2005-2007 have allowed the DX to significantly reduce its debt, which it hopes to retire in 2008.

From an operating perspective the DX is forecasting a surplus of \$263,250 in 2007 as compared to a projected surplus of \$145,005. (see Table 1) Meeting and Event Services (MES) performed very strongly, offsetting small variances in other income categories. Expenditures were higher than projected for Fundraising and Marketing and MES, but below budget overall. The Black and White Gala raised almost \$100,000, an increase of 43% over 2006, after almost breaking even in 2005.

Modest increases in most revenue and expenditure categories are projected for 2008, with similar totals to 2007, resulting in a forecast surplus of \$146,600. The DX has prepared a budget it is confident it can achieve, with a surplus to pay down its remaining debt.

New appointments have strengthened the DX Board and its fundraising ability. A Director of Marketing, Sponsorship and PR has been hired; donations and sponsorships are increasing. The DX plans to start work now with a strategic planner, to address issues of long-term sustainability in advance of the end of the grant from the City in 2013. Staff have reviewed the DX grant submission as per the grant agreement and recommend Council approve their 2008 grant request.

2008 DX Program Forecast

The DX will host three exhibitions in the Exhibition Hall in 2008, and eight in the Chalmers Design Centre. Highlights will include The Art of Clairtone: The Making of a Design Icon, supported by The Munk Foundation. The basis for the beginning the DX's Permanent Collection, Clairtone is an important part of Canadian design history. This exhibition will celebrate its fiftieth anniversary with the launch of the exhibit catalogue.

In March the DX will host a business forum to share research results to boost innovation in Canadian enterprises. Digifest, the DX Gala, DX Awards, Universal Design, DX tours, workshops and educational programs will continue. The DX plans to double the number of summer camps. New initiatives will include: the Chinese Design. Everyday. exhibit, supported by Asia Heritage Month; H2O, supported by the Italian Chamber of

Table 1 – Comparison of DX actual vs. budgeted figures for 2005-2008							
	2005 Audited Actuals (\$000s)	2005 Approved Budget (\$000s)	2006 Audited Actuals (\$000s)	2006 Approved Budget (\$000s)	2007 Projected Actuals (\$000s)	2007 Approved Budget (\$000s)	2008 Budget (\$000s)
1. Revenue	2,870.5	3,311.9	2,760.8	3,104.9	2,789.9	2,759.7	2,764.3
2. Expenses	2,717.0	3,265.8	2,558.7	2,952.3	2,526.7	2,609.5	2,612.3
3. Surplus/(Deficit) – (before amortization)	153.5	46.0	202.1	152.6	263.3	150.2	152.0
4. Amortization of Capital Assets	(358.4)	(429.0)	(361.7)	(353.8)	(360.3)	(355.9)	(359.9)
5. Write-off DXNet Inc.	2.0						
6. Loan Forgiveness	(209.2)						
7. Capital Contributions	(5.1)		(5.7)		(5.8)		
8. Net Operating Surplus/(Deficit)	7.4	(383.0)	(153.9)	(201.2)	(91.2)	(205.8)	(207.9)

Commerce and Italian Cultural Institute; and a number of other projects still in development.

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: financial stability; development; marketing; community & membership; DX facility; youth education programs; adult education programs; museum and permanent collection; library and archives; and exhibits. At the end of 2006 the organization’s performance against each objective was assessed, and a strategic planning session was held with the Board to establish key priorities for 2007. A similar review will be held shortly to review 2007 performance and set priorities for 2008. City representatives will be invited to attend.

2007 Building Occupancy and Maintenance Costs

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. As shown in Table 2, building occupancy and maintenance costs for 2007 were slightly less than forecast in most areas. Maintenance costs were significantly under budget. Cleaning, and maintenance salaries and benefit costs were slightly higher. Overall the costs were less than 2006 expenditures, less than forecast, and exceeded the amount of the City’s grant by \$67,759 for the year. The DX forecasts slight increases in all areas except cleaning for 2008, and total costs are projected to exceed the amount of the City’s grant by \$94,094.

Table 2 – DX Building Occupancy and Maintenance Costs				
	2006 Actuals	2007 Budget	2007 Projected Actuals	2008 Budget
	\$	\$	\$	\$
1. Maintenance salaries & benefits	48,475	38,178	39,677	42,850
2. Rent & building shared costs	446,040	442,733	434,046	447,074
3. Cleaning contract	45,887	48,000	49,655	46,350
4. Maintenance	38,170	44,896	28,063	39,821
5. Insurance	20,470	17,400	16,318	18,000
6. Total	599,042	591,207	567,759	594,094

DX Capital Improvement Plan and Budget

The DX has submitted an updated five-year capital improvement and maintenance plan and budget 2006-2010 (see Attachment No. 1), as required by the grant agreement. The 2006 plan carries forward many of the items from previous plans, with more consistent spending for maintenance. The plan proposed lower spending on capital projects (new improvements) than had been included in previous plans, which is reasonable given that DX lacked sufficient funds to undertake the work. Although it has been the DX's goal to invest \$70,000 per year in maintenance, given the DX's financial situation that has not been possible. The DX is increasing its investment in the facility as resources permit.

In 2007 approximately \$30,000 was spent on general maintenance, painting, flooring and electrical repairs. However, capital project contributions for the year totalled \$122,460, a six-fold increase over 2006. Due to a flood on an upper floor of the building, an insurance settlement replaced the wooden trading floor with one made from the world's hardest wood. A sponsor was found for new audience seating. Carpet was replaced and a lobby renovation undertaken, which has helped with marketing the venue for events.

The DX has recently located a potential sponsor for millwork repairs. In the coming year DX will maintain its fundraising efforts, seek additional sponsorships and continue to work with the landlord to resolve outstanding heritage preservation issues. For 2008, maintenance estimates show a slight increase above plan, while capital improvement estimates have been reduced to more achievable levels, with a planned increase of 30% over 2007 spending.

CONTACT

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SIGNATURE

Kyle Benham, Director, Business Development & Retention, Economic Development

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	\$ 16,297	\$ 20,179	\$ 8,000	\$ 8,000	\$ 64,417
2	Equipment Testing and Repairs				\$ 4,000	\$ 4,000	\$ 8,000
3	Safety Fund			\$ 1,500	\$ 1,500	\$ 1,500	\$ 4,500
4	Painting	\$ 21,065	\$ 2,575	\$ 10,000	\$ 10,000	\$ 10,000	\$ 53,640
5	Millwork Repairs			\$ 7,500	\$ 7,500	\$ 7,500	\$ 22,500
6	Flooring Maintenance		\$ 2,635	\$ 8,000	\$ 8,000	\$ 8,000	\$ 26,635
7	Bridge Maintenance			\$ 1,500	\$ 1,500	\$ 1,500	\$ 4,500
8	Roof Top Chiller Maintenance		\$ 3,903	\$ 8,000	\$ 8,000	\$ 8,000	\$ 27,903
9	Lighting Maintenance	\$ 2,689		\$ 7,500	\$ 7,500	\$ 7,500	\$ 25,189
10	Servery Kitchen Maintenance			\$ 3,000	\$ 3,000	\$ 3,000	\$ 9,000
11	Door Repairs			\$ 2,000	\$ 2,000	\$ 2,000	\$ 6,000
12	Electrical Repairs		\$ 2,593	\$ 1,500	\$ 1,500	\$ 1,500	\$ 7,093
13	Bay Street Lighting Maintenance	\$ 2,476		\$ 4,500	\$ 4,500	\$ 4,500	\$ 15,976
14	HVAC Maintenance			\$ 5,000	\$ 5,000	\$ 5,000	\$ 15,000
	Maintenance Total	\$ 38,170	\$ 28,003	\$ 80,179	\$ 72,000	\$ 72,000	\$ 290,352
Capital Projects (New Improvements)							
1	Conservation Equipment						\$ -
2	Exhibition System	\$ 9,691		\$ 10,000			\$ 19,691
3	New Bay Street Lighting				\$ 150,000		\$ 150,000
4	Genie Lift			\$ 20,000			\$ 20,000
5	Lobby Renovation		\$ 12,782	\$ 40,000			\$ 52,782
6	North Door Canopy						\$ -
7	Exterior Signage						\$ -
8	Phones					\$ 15,000	\$ 15,000
9	Café Washrooms						\$ -
10	Resource Centre Blinds						\$ -
11	House Lights			\$ 10,000	\$ 5,000	\$ 5,000	\$ 20,000
12	Elevator Cab Renovation			\$ 15,000			\$ 15,000
13	Wayfinding / Signage			\$ 7,500			\$ 7,500
14	New Security System	\$ 3,834		\$ 2,500	\$ 2,500	\$ 2,500	\$ 11,334
15	Trading Floor Storage	\$ 2,500					\$ 2,500
16	New Millwork			\$ 50,000		\$ 12,000	\$ 62,000
17	Carpet Replacement		\$ 5,000		\$ 30,000		\$ 35,000
18	Replace Wood Floor		\$ 88,483				\$ 88,483
19	Office Furniture Refurb/Replace						\$ -
20	Audience Seating Replacement		\$ 16,195				\$ 16,195
21	Designer Walk of Fame					\$ 250,000	\$ 250,000
22	Tables			\$ 5,000		\$ 2,000	\$ 7,000
	Capital Projects Total	\$ 16,025	\$ 122,460	\$ 160,000	\$ 187,500	\$ 286,500	\$ 772,485