

Design Exchange (DX) 2009 Annual Grant Review

Date:	June 2, 2009
To:	Economic Development Committee
From:	Michael H. Williams, General Manager, Economic Development, Culture and Tourism
Wards:	All
Reference Number:	P:/2009/Cluster A/EDCT/ECON DEV/June/ed0906-024

SUMMARY

This report recommends that Council approve the 2009 grant to the Design Exchange, and recognize the DX for its work in promoting the value of design.

In 2008 the DX budgeted for a surplus before amortization of \$145,737. The actual surplus was \$162,654, exceeding budget by almost \$17,000. The economic downturn had a significant impact on rentals, and sales were lower than expected. But cost control and tight management kept variances to a minimum. DX ended the year with a positive cash balance of \$39,000, having paid off bank debt. The DX is working to identify new sources of funds to ensure long-term sustainability of the operation.

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. The DX has requested a grant of \$500,000 plus interest, as per the grant agreement, for 2009.

RECOMMENDATIONS

The General Manager, Economic Development, Culture and Tourism recommends that:

1. Council approve the Design Exchange's 2009 grant of \$500,000 plus accrued interest as per the terms of the City's grant agreement with the Design Exchange;

2. Council recognize the Design Exchange for its work in promoting the value of design; and
3. Council request Economic Development staff work with the DX in 2009 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 is included in the EDCT 2009 operating budget approved by Council.

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 Annual Grant Review. As recommended in that report, staff negotiated a six-year renewal of the grant agreement with the Design Exchange, 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 Deputy City Manager for the General Manager of Economic Development, Culture and Tourism, the Deputy City Manager and Chief Financial Officer and the City Solicitor. According to the agreement, the DX grant is subject to an annual review and approval of the grant request by Council.

<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 234 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 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 Design Exchange 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 national design museum. It is the only design research, exhibition and promotion centre of its kind in North America. The DX is committed to promoting greater awareness of design and its indispensable role in

fostering economic growth, innovation, creativity, cultural vitality and sustainability. It is a registered charity, incorporated as a not-for-profit. The DX is managed by an independent Board of Directors, with Councillors Sandra Bussin and Karen Stintz 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 Agenda for Prosperity recognizes the importance of design, including it in its actions to increase productivity and growth in the City. Studies by the City of Toronto, the Design Industry Advisory Committee, the Martin Prosperity Institute, Industry Canada and the Design Council in the U.K. have all recognized the link between design, innovation, commercialization and prosperity. The DX and the City share a common mandate to develop and promote design as a strategic tool for business innovation.

COMMENTS

Renegotiation of the Grant Agreement

At its meeting on March 5, 6, 7 & 8, 2007, Council authorized staff to execute a six-year renewal of the DX grant agreement, which expired on July 31, 2007, 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. Renegotiation of the agreement has been completed in consultation with staff from Culture, Economic Development, Facilities & Real Estate, Finance, Legal and Risk Management, along with DX staff and their lawyer. The new grant agreement is in effect until July 31, 2013, when the developer's payments to the City cease.

As agreed by all parties, changes made were minimal. Key changes included: updating the name of the organization, titles and contact information; in the recital the parties acknowledged that the grant has historically approximated the developers payment; the agreement now states that the DX is allowed to accumulate and retain a surplus; the occurrence limit of the DX Crime Insurance policy was reduced to \$500,000; the dispute resolution process now provides recourse to mediation before going to arbitration; and only some covenants of the agreement will survive the expiry of the term.

2008 DX Program Highlights

In 2008 the Design Exchange was successful in its core programming. Youth Programs included: record attendance at March Break and Summer Camps; the National High School competition sponsored by Sears Canada garnered hundreds of entries across Canada; Connect, the national post-secondary competition, focused on graphic design to create the certificate awarded by competition sponsor, the Canadian Millennium Scholarship program; and programs in partnership with Harbourfront and the Bunch Family Salon.

Professional programs were well attended and focused on the relationship between design and business success: the DX Business Forum attracted over 150 participants and included presentations by Industry Canada, part of a collaborative on-going research

study on product design and development, and DIAC case studies; entries for the Design Exchange Awards were received from all across Canada; a new program called DX Physics was launched to introduce the correlation between design and physics; the new Innovators in Residence Program also launched, starting with a think tank of architecture and its intersection with every aspect of our lives; and DX staff gave lectures, conducted workshops, hosted design charrettes and participated on advisory boards across the county.

The Design Exchange held numerous small and two large exhibits in 2008: the Design Exchange Awards exhibit; and Clairtone, which coincided with the release of a book created by the DX with authors Nina Munk and Rachel Gottleib, that profiles the rise of Clairton and its iconic design. The DX is home to the Clairtone archives.

The Design Exchange's Black & White fundraising gala, which honoured Joe Mimran and Kimberly Newport Mimran, was a great success, raising over \$135,000 for DX youth programs.

2009 DX Program Forecast

Information about upcoming programs is included in the Design Exchange 2009 Program Guide, on the redesigned DX website at www.dx.org and in the DX's monthly electronic newsletter, DX Express. DX Youth Programs will include Design Camps, Designers in the Classroom, Design Competitions, DX Tours and Workshops.

Adult programs will include the: Architecture for Humanity Lecture Series; Audi Lecture Series; and DX Tours including participation in the City's Festival of Architecture and Design and Doors Open. Professional programs will include forums and workshops such as: Toronto IdeaXchange; Architecture + Poverty; DX Manufacturing & Design Forum; Seed to Table Program Charrette; Future Stewards Architecture Program Charrette; and Design for the Environment Report. Other professional programs include: the 2009 Design Exchange Awards; and export programs including New Design Canada, and Prospect.

Major exhibitions will include: Carrot City – Designing for Urban Agriculture; What has Architecture Done for You Lately?; Québec in Design: 75 years of works from the collection of the Musée national des beaux-arts du Québec; Fred Moffat Retrospective; Risking into the Void: The Scenography of Cameron Porteous; Parallel Nippon – Contemporary Japanese Architecture 1996-2006; and the Design Exchange Awards.

Financial Situation

The Design Exchange's initial operating plan and financial model earmarked \$1 million for operational funding. But due to a shortfall in fundraising and an overrun on building renovations, the DX was initiated without an endowment to operate. Amortization of that investment in capital assets results in an ongoing deficit on the DX's financial statements, in spite of continuous improvements in recent years from an operating perspective.

The financial performance of the DX was close to break-even in the early 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 \$863,893 in 2004, to \$19,811 in 2008. Forgiveness of a \$209,000 note payable and reversal of accrued interest in 2005, and surpluses in the years 2005-2008 allowed the DX to retire its debt in January 2009.

From an operating perspective, the DX forecast a surplus of \$145,737 before amortization in 2008, and achieved a surplus of \$162,654 (see Table 1). Overall income was lower than forecast due to the economic downturn, but revenues increased in some areas, including Donations, Memberships and Admissions & Registrations. Income declined in 2008 vs. 2007. Expenditures were controlled and lower than forecast in most areas in 2008, but higher than 2007 figures.

The DX has forecast declines overall and in most income categories for 2009, with the exception of Sponsorship and Admissions & Registrations. Increased expenditures are planned for Rentals, Facility and Marketing to try to combat the effects of the recession, but overall expenditures will decrease over 2008. A modest surplus of \$10,057 is forecast for 2009.

	2006 Audited Actuals (\$000s)	2006 Approved Budget (\$000s)	2007 Audited Actuals (\$000s)	2007 Approved Budget (\$000s)	2008 Approved Budget (\$000s)	2008 Projected Actuals (\$000s)	2009 Approved Budget (\$000s)
1. Revenue	2,760.8	3,104.9	2,837.3	2,759.7	2,903.7	2,807.1	2,565.8
2. Expenses	2,558.7	2,952.3	2,558.8	2,609.5	2,758.0	2,644.4	2,555.7
3. Surplus/(Deficit) – (before amortization)	202.1	152.6	278.5	150.2	145.7	162.7	10.1
4. Amortization of Capital Assets	(361.7)	(353.8)	(360.7)	(355.9)	(360.7)	(362.8)	(356.1)
5. Capital Contributions	5.7		6.2			1.0	
6. Net Operating Surplus/(Deficit)	(153.9)	(201.2)	(76.0)	(205.8)	(214.9)	(199.1)	(346.0)

2008 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, overall the 2008 costs were 2.5% higher than 2007 expenditures, very close to forecast, and exceeded the amount of the City's grant by \$101,208 for the year. The DX forecasts a 1.3% increase in total building occupancy and maintenance costs for 2009, with slight increases in maintenance salaries & benefits, rent & building shared costs and maintenance, and slight decreases in cleaning and insurance.

	2007 Actuals \$	2008 Budget \$	2008 Actuals \$	2009 Budget \$
1. Maintenance salaries & benefits	39,677	42,850	55,453	57,836
2. Rent & building shared costs	451,671	447,074	436,784	440,256
3. Cleaning contract	49,655	46,350	54,345	53,000
4. Maintenance	29,137	39,821	34,155	38,946
5. Insurance	16,318	18,000	20,471	19,275
6. Total	586,458	594,094	601,208	609,313

DX Capital Maintenance and Improvement Plan

The Design Exchange submitted an updated capital maintenance and improvement plan 2006-2010 (see Appendix 1) as required by the grant agreement. This plan carries forward many items included in previous plans, but with lower spending proposed given DX's lack of funds to undertake the work. The DX plans to increase its investment in the facility as resources permit.

In 2008 DX spent \$31,876 on maintenance, including general, painting, flooring, roof top chiller, and lighting maintenance, safety fund, and electrical repairs. \$80,179 was budgeted. 2007 expenditures totalled \$28,003.

2008 capital improvement projects totalled \$36,218, included expenditures on the exhibition system, genie lift, lobby renovation, and lighting. \$160,000 was budgeted. 2007 expenditures totalled \$122,460.

DX Plan for Change

The DX is working to identify new sources of funds, including investments from the federal and provincial governments, to ensure long-term sustainability of the operation. Debt free in 2009, the DX was ready to invest in a fundraising campaign to offset the demise of the grant in 2013. However, as a result of the recession, sponsorships are declining and the special events business is down 60%. This is impacting the DX's ability to generate funds for programming, building maintenance and fundraising.

The DX operates on a skeleton crew of staff and while programming has increased over the years, valuable programs are often put on hold or cancelled due to lack of funding. Investments are required in the façade, lobby, conference and collections spaces, to make the space competitive and protect its holdings. The Design Exchange served as a model for other nations when it was launched, however other centres are now better funded and their programming more integrated into government strategy than the DX. Operating costs for the historic DX venue continue to increase, as the sunset of the developer's grant approaches.

The DX has developed an ambitious plan to address these challenges in the year ahead. Staff will work with the DX and their strategic planner to develop a concrete strategy to raise funds to offset losses in rental activities, expand programming, offset the demise of the developer's grant, and to renovate the premises to remain competitive. Assistance from the senior levels of government will be required to address the issue of long-term sustainability for the Design Exchange.

Staff have reviewed the DX grant submission as per the grant agreement and recommend Council approve their 2009 grant request of \$500,000 plus interest accrued.

CONTACT

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SIGNATURE

Michael H. Williams, General Manager
Economic Development, Culture and Tourism

ATTACHMENTS

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

DX Capital Maintenance and Improvement Plan 2006-2010

Appendix 1

		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	\$ 11,907	\$ 8,000	\$ 8,000	\$ 56,145
2	Equipment Testing and Repairs				\$ 4,000	\$ 4,000	\$ 8,000
3	Safety Fund			\$ 2,560	\$ 1,500	\$ 1,500	\$ 5,560
4	Painting	\$ 21,065	\$ 2,575	\$ 1,953	\$ 10,000	\$ 10,000	\$ 45,593
5	Millwork Repairs				\$ 7,500	\$ 7,500	\$ 15,000
6	Flooring Maintenance		\$ 2,635	\$ 550	\$ 8,000	\$ 8,000	\$ 19,185
7	Bridge Maintenance				\$ 1,500	\$ 1,500	\$ 3,000
8	Roof Top Chiller Maintenance		\$ 3,903	\$ 2,466	\$ 8,000	\$ 8,000	\$ 22,369
9	Lighting Maintenance	\$ 2,689		\$ 11,334	\$ 7,500	\$ 7,500	\$ 29,023
10	Servery Kitchen Maintenance				\$ 3,000	\$ 3,000	\$ 6,000
11	Door Repairs				\$ 2,000	\$ 2,000	\$ 4,000
12	Electrical Repairs		\$ 2,593	\$ 1,106	\$ 1,500	\$ 1,500	\$ 6,699
13	Bay Street Lighting Maintenance	\$ 2,476			\$ 4,500	\$ 4,500	\$ 11,476
14	HVAC Maintenance				\$ 5,000	\$ 5,000	\$ 10,000
	Maintenance Total	\$ 38,170	\$ 28,003	\$ 31,876	\$ 72,000	\$ 72,000	\$ 242,049
Capital Projects (New Improvements)							
1	Conservation Equipment						\$ -
2	Exhibition System	\$ 9,691		\$ 9,785			\$ 19,476
3	New Bay Street Lighting						\$ -
4	Genie Lift			\$ 24,798			\$ 24,798
5	Lobby Renovation		\$ 12,782	\$ 1,635			\$ 14,417
6	North Door Canopy						\$ -
7	Exterior Signage				\$ 3,000		\$ 3,000
8	Phones					\$ 15,000	\$ 15,000
9	Café Washrooms						\$ -
10	Resource Centre Blinds						\$ -
11	House Lights					\$ 5,000	\$ 5,000
12	Elevator Cab Renovation						\$ -
13	Wayfinding / Signage						\$ -
14	New Security System	\$ 3,834			\$ 2,500	\$ 2,500	\$ 8,834
15	Trading Floor Storage	\$ 2,500					\$ 2,500
16	New Millwork					\$ 12,000	\$ 12,000
17	Carpet Replacement		\$ 5,000				\$ 5,000
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					\$ 2,000	\$ 2,000
	Sound system for Front desk				\$ 3,000		\$ -
	Sound system for Teknion Lounge - Wireless Mic				\$ 3,000		\$ -
	2nd flr kitchen reno				\$ 3,500		\$ -
	Boardroom Blinds				\$ 5,000		\$ -
	Lobby Bathrooms				\$ 30,000		\$ -
	Lighting			\$ 10,427	\$ 10,000		\$ -
	Capital Projects Total	\$ 16,025	\$ 122,460	\$ 36,218	\$ 60,000	\$ 286,500	\$ 466,703