



**STAFF REPORT
ACTION REQUIRED**

Design Exchange (DX) 2010 Annual Grant Review

Date:	April 8, 2010
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	P:/2010/Cluster A/EDC/ECON DEV/April/1004-012

SUMMARY

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 Design Exchange (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 2010. This report recommends that Council approve the 2010 grant to the Design Exchange, and recognize the DX for its work in promoting the value of design.

Given the difficult financial climate, the DX conservatively forecast a surplus before amortization of \$10,057 for 2009, as compared to \$162,654 in 2008. Cost control and tight management kept variances to a minimum and the actual surplus was \$12,271. For 2010 the DX has forecast an achievable surplus of \$8,946.

The DX is working to identify new sources of funds, including investments from the federal and provincial governments, as well as the private sector, to offset the expiry of the developer's grant in 2013 and ensure long-term sustainability of the operation.

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends that:

1. City Council approve the Design Exchange's 2010 grant of \$500,000 plus accrued interest as per the terms of the City's grant agreement with the Design Exchange;
2. City Council recognize the Design Exchange for its work in promoting the value of design; and
3. City Council request the President & CEO of the Design Exchange, together with a representative of the Design Exchange Board of Directors, to report back to the General Manager of Economic Development and Culture in six months on a concrete strategy to raise funds to offset the expiry of the developer's grant in 2013, to ensure the long term sustainability of the Design Exchange.

Financial Impact

As a result of the commercial development on the TD Centre 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, which is included in the EDC 2010 operating budget recommended by Executive Committee to 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. According to the agreement, the Design Exchange 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 serving 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 *Agenda for Prosperity* recognizes the importance of design, including its essential role in increasing 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 U.K. Design Council have all recognized the link between design, innovation, commercialization and prosperity. The DX and the City share a common objective to develop and promote design as a strategic tool for business innovation.

COMMENTS

2009 DX Program Highlights

The DX held numerous small and large exhibitions in 2009. *Carrot City: Designing for Urban Agriculture*, presented in partnership with Ryerson University, was highly successful, generating a great deal of interest about how the design of buildings and cities is enabling the production of food in the city. *Fred Moffatt Retrospective*, with drawings, plans, prototypes and maquettes from the recently acquired Fred Moffatt archives, showcased work from Moffatt's long and successful career as an artist, graphic designer and industrial designer. *Québec in Design: 75 years of works from the collection of the Musée national des beaux-arts du Québec*, was the first large-scale exhibition to delve into the different forms of Québec design and by extension, its place in Québec society.

In 2009 the DX Architecture for Humanity lecture series explored the past, present and future of Toronto's built environment, attracting standing room only crowds for four seminars held throughout the year. There were a record number of entries from across the country for the Design Exchange Awards (DXAs), presented on November 25. An exhibition of the winners followed in the Exhibition Hall until February 21, 2010. DX Youth Programs included Design Camps (with a record number of registrations), Designers in the Classroom, Design Competitions, DX Tours and Workshops.

The 2009 DX Black & White Fundraising Gala raised \$134,000 for DX youth programs and engaged the business community. Biz Bash magazine rated it number five of the top 100 events in the City in 2009. Sponsored by the private sector, the evening honoured RIM's industrial design team, Todd Wood, VP Industrial Design and Jason Griffin, VP Advanced Ergonomics.

To increase accessibility, the Design Exchange's permanent collection and most of the study collection were made available online as of September 2009. Accessible via the Collection page on the DX website, this online presence generated many enquiries, visitors and new opportunities. The DX also launched its first blog in September. Updated weekly it features upcoming events, new Canadian designers and innovative Canadian design ideas. The Design Exchange opened the "Buy Design" shop on the main floor during the year and plan to grow this endeavour to showcase more Canadian design.

2010 DX Program Forecast

Highlights of the 2010 professional program will include the DX Business Forum, the Design Exchange Awards, the Design Film Series, the Design Lecture Series, Financial District Walking Tours, the Orphan Spaces Workshop and Universal Design Workshops. The first of the Eb and Jane Zeidler Lecture Series, *The Furniture of Eero Saarinen: Designs for Everyday Living* by Brian Lutz, drew standing room only crowds, and a similar response is expected for the rest of the seminars in the series.

DX Youth Programs will include Design Camps, Designers in the Classroom, Design Competitions, DX Tours and Workshops. The DX Summer Camps are already beginning to sell out.

Exhibitions will include *From Mediterranean Traditional to Israeli Contemporary Design*, sponsored by the Consulate General of Israel. This exhibition of current Israeli industrial design is attracting a new audience to the DX, and will be followed by a tour to Israel to see their new design museum. *Study Model Wonderland from Halifax to Vancouver* includes sketch-models from among the most active and inspirational Canadian architects. *Will Alsop: New Work. The best is yet to come* will showcase current projects both in Canada and around the world. *Constructions: Contemporary Norwegian Design & Craft*, supported by the Royal Norwegian Embassy, will feature a variety of works, some with strong traditional roots and others that are more experimental. *Bent out of Shape: Canadian Design 1945 – Present* celebrates Canada's rich industrial design history, illustrating rapid political, technological, and social changes which burst forth following the war, showcasing the Design Exchange's permanent collection.

More information about upcoming programs is included in the Design Exchange 2010 Program Guide and other print materials, on the DX website at www.dx.org and in the DX's monthly electronic newsletter, DX Express.

Financial Situation

Initial plans for the Design Exchange 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 \$30,891 in 2009. 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.

	2007 Audited Actuals (\$000s)	2007 Approved Budget (\$000s)	2008 Audited Actuals (\$000s)	2008 Approved Budget (\$000s)	2009 Projected Actuals (\$000s)	2009 Approved Budget (\$000s)	2010 Approved Budget (\$000s)
1. Revenue	2,762.1	2,759.7	2,735.5	2,903.7	2,434.9	2,565.8	2,471.9
2. Expenses	2,477.3	2,609.5	2,571.7	2,758.0	2,422.7	2,555.7	2,463.0
3. Surplus/(Deficit) – (before amortization)	284.7	150.2	163.7	145.7	12.3	10.1	8.9
4. Amortization of Capital Assets	(360.7)	(355.9)	(362.8)	(360.7)	(369.4)	(356.1)	(360.6)
5. Net Operating Surplus/(Deficit)	(76.0)	(205.8)	(199.1)	(214.9)	(357.1)	(346.0)	(351.7)

The DX had hoped to benefit from this greater financial stability by undertaking a fundraising initiative to offset the loss of the developers grant, but with the downturn in the economy they were unable to do so. Given the difficult financial climate, the DX conservatively forecast a surplus of \$10,057 before amortization for 2009, as compared to \$162,654 in 2008, and achieved a surplus of \$12,271 (see Table 1). Overall income was lower than forecast, but revenues were above budget in some areas, including

Government Grants, Sponsorship, and Memberships. Income was lower in 2009 than 2008 in all categories except Sponsorship. To offset the expected declines, expenditures were tightly controlled below forecast in all areas except Programs, and Fundraising & Membership. 2009 expenditures were below 2008 levels overall and in all categories except Marketing.

The DX has forecast a very modest overall increase in revenue for 2010, with higher figures in the following income categories: Sponsorship, Donations, and Admissions & Registrations. Revenues are expected to be below 2008 levels. Increased expenditures are planned for Rentals, Facility and Programs to try to combat the effects of the recession, but overall expenditures are also predicted to be lower than 2008 figures. An achievable surplus of \$8,946 is forecast for 2010.

2009 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 2009 costs were 2.4% lower than 2008 expenditures, and 3.7% below budget. Given the economic climate, expenditures were reduced in all categories except Rent & Building shared costs and Insurance. 2009 building occupancy and maintenance costs exceeded the amount of the City’s grant by \$86,915 for the year. The DX forecasts a 2% increase in total costs for 2010, with slight increases in all categories.

Table 2 – DX Building Occupancy and Maintenance Costs						
	2007 Actuals \$000s	2008 Budget \$000s	2008 Actuals \$000s	2009 Budget \$000s	2009 Actuals \$000s	2010 Budget \$000s
1. Maintenance salaries & benefits	39.7	42.9	55.5	57.8	52.4	54.1
2. Rent & Building shared costs	451.7	447.1	436.8	440.3	442.4	445.8
3. Cleaning contract	49.7	46.4	54.3	53.0	46.3	50.0
4. Maintenance	29.1	39.8	34.2	38.9	26.2	28.8
5. Insurance	16.3	18.0	20.5	19.3	19.6	20.3
6. Total	586.5	594.1	601.2	609.3	586.9	598.9

DX Capital Maintenance and Improvement Plan

The Design Exchange submitted an updated capital maintenance and improvement plan 2006-2010 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.

In 2009 DX spent \$22,728 on maintenance, including general maintenance, safety fund, painting, millwork repairs, lighting maintenance, door repairs and electrical repairs (see Appendix 1). \$72,000 was budgeted, with spending in all maintenance categories. 2008 expenditures totalled \$31,876. Planned maintenance expenditures for 2010 are \$72,000.

2009 capital improvement projects totalled \$16,788, including elevator cab renovation and office furniture refurbishing/replacement. \$60,000 was budgeted. 2008 expenditures totalled \$36,218. Planned capital improvement expenditures for 2010 total \$99,000.

In the Capital Maintenance and Improvement Plan submitted in 2006, the DX forecast expenditures of \$436,000 over five years on maintenance, and \$2,239,000 on Capital Improvements. The DX needs additional resources to undertake required maintenance and capital improvements, and plans to increase its investment in the facility as resources permit.

DX Plan for Change

Debt free in 2009, the DX was ready to invest in a fundraising campaign to offset the expiry of the grant in 2013. However the recession impacted the DX's ability to generate funds for programming, building maintenance and fundraising, and no significant progress was made.

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 DX's 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 is working to identify new sources of funds, including investments from the federal and provincial governments and the private sector, to ensure long-term sustainability of the operation. They are ready to develop a new Strategic Plan, and looking at new space and product ideas to generate revenue. A Space Committee has been established, with a Chair who has experience in developing historic properties and working in partnership with government. A preliminary assessment of the situation will be presented at the next DX Board meeting. DX is also in the process of formalizing nominations to its Board of Directors, seeking new members with expertise in a number

of areas that will support the organizations' efforts to address this challenge in the near future.

The DX Board and their strategic planner must develop a concrete, sustainable strategy to raise funds to offset the expiry of the developer's grant, and to renovate the premises to remain competitive. City staff will provide advice and assistance. Financial support from the senior orders of government would be extremely beneficial to address the issue of long-term sustainability for the Design Exchange, but will be difficult to achieve given their current budgetary challenges. If the DX cannot find sufficient funding elsewhere to offset the expiration of the developers' grant, it is unlikely they will be able to afford to operate in this facility. Funding may be required from the City to pay building occupancy and maintenance costs for the facility, which the City has sub-leased to the Design Exchange. It is recommended that the DX report back to the City in six months on their progress in developing and implementing a Strategic Plan to achieve long-term sustainability.

Staff have reviewed the DX grant submission as per the grant agreement and recommend Council approve their 2010 grant request of \$500,000 plus interest accrued.

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SIGNATURE

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

ATTACHMENTS

Attachment No.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	\$ 9,027	\$ 8,000	\$ 57,172
2	Equipment Testing and Repairs					\$ 4,000	\$ 4,000
3	Safety Fund			\$ 2,560	\$ 151	\$ 1,500	\$ 4,211
4	Painting	\$ 21,065	\$ 2,575	\$ 1,953	\$ 825	\$ 10,000	\$ 36,418
5	Millwork Repairs				\$ 200	\$ 7,500	\$ 7,700
6	Flooring Maintenance		\$ 2,635	\$ 550		\$ 8,000	\$ 11,185
7	Bridge Maintenance					\$ 1,500	\$ 1,500
8	Roof Top Chiller Maintenance		\$ 3,903	\$ 2,466		\$ 8,000	\$ 14,369
9	Lighting Maintenance	\$ 2,689		\$ 11,334	\$ 4,499	\$ 7,500	\$ 26,022
10	Servery Kitchen Maintenance					\$ 3,000	\$ 3,000
11	Door Repairs				\$ 188	\$ 2,000	\$ 2,188
12	Electrical Repairs		\$ 2,593	\$ 1,106	\$ 7,837	\$ 1,500	\$ 13,037
13	Bay Street Lighting Maintenance	\$ 2,476				\$ 4,500	\$ 6,976
14	HVAC Maintenance					\$ 5,000	\$ 5,000
	Maintenance Total	\$ 38,170	\$ 28,003	\$ 31,876	\$ 22,728	\$ 72,000	\$ 192,777
Capital Projects (New Improvements)							
1	Conservation Equipment					\$ 5,000	\$ 5,000
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						\$ -
8	Phones					\$ 15,000	\$ 15,000
9	Café Washrooms						\$ -
10	Resource Centre Blinds						\$ -
11	House Lights					\$ 10,000	\$ 10,000
12	Elevator Cab Renovation				\$ 11,366	\$ 7,000	\$ 18,366
13	Wayfinding / Signage						\$ -
14	New Security System	\$ 3,834				\$ 2,500	\$ 6,334
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				\$ 5,422	\$ 2,500	\$ 7,922
20	Audience Seating Replacement		\$ 16,195				\$ 16,195
21	Designer Walk of Fame						\$ -
22	Tables					\$ 2,000	\$ 2,000
	Sound system for Front desk					\$ 4,000	\$ 4,000
	Sound system for Teknion Lounge - Wireless Mic					\$ 1,500	\$ 1,500
	2nd flr kitchen reno					\$ 25,000	\$ 25,000
	Boardroom Blinds					\$ 10,000	\$ 10,000
	Lobby Bathrooms					\$ 2,500	\$ 2,500
	Lighting			\$ 10,427			\$ -
	Capital Projects Total	\$ 16,025	\$ 122,460	\$ 36,218	\$ 16,788	\$ 99,000	\$ 290,491