



STAFF REPORT ACTION REQUIRED

Future of the Three Major Civic Theatres - Directions Resulting from the Request for Expressions of Interest No. 9101-12-7008

Date:	October 22, 2012
To:	Executive Committee
From:	City Manager
Wards:	All
Reference Number:	

SUMMARY

This report summarizes the results of the Request for Expressions of Interest No. 9101-12-7008, issued in May 2012 (the "REOI"), regarding the request for respondents to present options for Toronto's three civic theatres: the St. Lawrence Centre for the Arts, the Sony Centre for the Performing Arts, and the Toronto Centre for the Arts, as directed by Council in September 2011. The options were to include the sale, lease, operations or any other arrangements for any or all of the civic theatres to meet the City's cultural, social and economic goals.

The recommendations of this report are the result of a process that carefully considered the merits of the options proposed, the risks and benefits to the City, governance issues, and the impact of uncertainty to the ongoing business operations of the theatres. The process was monitored by a fairness monitor who ensured a fair, open, consistent and transparent process. The recommendations also take into consideration those made by the Theatre Panel of the Mayor's Task Force on Arts and Theatres in December 2011.

None of the qualifying responses to the REOI expressed an interest in purchasing either the St. Lawrence Centre for the Arts or the Toronto Centre for the Arts. It is recommended that these two theatres should remain municipally owned and operated because of their role in the not-for-profit community cultural sector. The REOI process has also led to the recommendation that the City pursue divestment of the Sony Centre for the Performing Arts given its focus on commercial entertainment.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council recognize the St. Lawrence Centre for the Arts as a community cultural asset and City Council:
 - a. direct the Board and senior management of the St. Lawrence Centre for the Arts, in consultation with the General Manager of Economic Development and Culture, to develop a long term strategic plan and a five-year business plan that ensures a creative, cost effective and sustainable operation; that minimizes the City's tax funding, that includes performance measures for its service to the community, and that provides for operating and capital reserves, to be presented to the Economic Development Committee in 2013 and as part of the 2014 budget consideration; and
 - b. commit to supporting its operations, subject to the five-year business plan being satisfactory to the General Manager of Economic Development and Culture.
2. City Council recognize the Toronto Centre for the Arts as a community cultural asset and City Council:
 - a. direct the Board and senior management of the Toronto Centre for the Arts, in consultation with the General Manager of Economic Development and Culture, to develop a long term strategic plan and a five-year business plan that ensures a creative, cost effective and sustainable operation, that minimizes the City's tax funding, that includes performance measures for its service to the community, and that provides for its service to the community and provision for operating and capital reserves, to be presented to the Economic Development Committee in 2013 and as part of the 2014 budget consideration; and
 - b. commit to supporting its operations, subject to the five-year business plan being satisfactory to the General Manager of Economic Development and Culture.
3. City Council authorize the City Manager to work with City staff to determine how to structure a potential divestment of the Sony Centre for the Performing Arts, and report back to Council with a proposed process and guidelines that:
 - a. include allowance for potential adaptive reuse and other innovative strategies for sustained use; and
 - b. are subject to existing zoning and heritage by-laws governing land use and the building, and take into consideration recent capital improvements.

Financial Impact

There is no immediate financial impact associated with this report. However, the intent of this report is to determine a level of subsidy for the theatres that will allow them to fulfill their mandates while ensuring a creative, cost effective and sustainable operation to minimize tax funding.

Below is a history of the actual net expenditures on the theatres from 2007 – 2011 and the approved budget for 2012.

Theatres Actual Net Expenditures (\$000s)

Theatre	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Budget 2012
Sony Centre for the Performing Arts	1,171.1	1,093.1	837.1	1,087.1	1,061.0	927.3
St. Lawrence Centre	1,734.1	1,648.2	1,643.2	1,662.8	1,543.6	1,211.8
Toronto Centre for the Arts	1,264.0	984.4	699.0	958.9	1,278.8	823.8
Total	4,169.2	3,725.7	3,179.3	3,708.8	3,883.4	2,962.9

Source: Year-End Variance Reports

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

DECISION HISTORY

At its meeting of September 26, 2011, City Council considered the Core Service Review and authorized the City Manager to issue a Request for Expression of Interest, on terms satisfactory to the City Manager, to determine the options for sale, lease, operation or other arrangement in respect of the Toronto Centre for the Arts, the Hummingbird Centre for the Performing Arts (operates as Sony Centre for the Performing Arts) and the St Lawrence Centre for the Arts and report back to the Executive Committee:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.EX10.1.>)

ISSUE BACKGROUND

The City owns and operates three large civic theatres: the St. Lawrence Centre for the Arts ("St.LCA"), the Sony Centre for the Performing Arts ("Sony Centre") located in downtown Toronto within one block of each other, and the Toronto Centre for the Arts

("TCA") in North York. Each theatre is managed on behalf of the City by a separate Board of Directors, appointed by City Council. The history, mandates, operating models, and programming of each civic theatre differ significantly. Each theatre is currently supported in part by an annual subsidy from the City (2011 Combined actuals: \$3.883M , 2012 Approved Budget: \$2.96M).

In May of 2011, the *Creative Capital Gains* report recommended that City Council "Find ways to increase efficiencies and make the Civic Theatres affordable for community cultural use." The report may be found at: <http://www.toronto.ca/culture/pdf/creative-capital-gains-report-august9.pdf>. Council endorsed in principle the recommendations of the Creative Capital Advisory Council for the City by adoption of report ED3.3 at its meeting of May 17, 2011.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2011.ED3.3>

The City of Toronto Core Service Review, completed in September 2011 by KPMG, identified as options "Consider the sale or lease of one or more theatre facility". The report can be found on pages 101-108:

<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-39626.pdf>. At its meeting of September 26, 2011, City Council directed that a Request for Expressions of Interest ("REOI") be issued regarding the future sale, lease or management of the theatres.

On September 29, 2011, the Mayor established a Task Force – Arts & Theatres. The Task Force examined the role that the civic theatres play in the city's culture, economy and community. It also recommended essential criteria for each of the three theatres for the REOI, along with other recommendations for consideration. A copy of the Mayor's Task Force Report is included as Attachment A.

COMMENTS

Summary of Submissions Received

The Request for Expressions of Interest No. 9101-12-7008 was prepared by staff from Economic Development and Culture, and Purchasing and Materials Management Division ("PMMD") with the assistance of Novita Interpares, a theatre consulting firm with expertise in theatre management and capital facility development. The REOI was issued by PMMD on May 28, 2012 and was made available on the City's Internet Website. In addition, PMMD notified 23 firms as well as the manager of each theatre. The media also provided coverage of the REOI. The stated purpose of the REOI was to gather creative, innovative, cost-effective and sustainable options related to the sale, lease, operation or other arrangement of one or more of the civic theatres. It was stated explicitly that "No one Respondent will be selected as a result of this REOI."

The REOI was in the market for 8 weeks and included voluntary site meetings at each theatre location to allow interested respondents to ask questions in regard to the REOI

and procurement process. Responses were received from nine firms which were opened by PMMD at the public opening on July 23, 2012.

Of the nine submissions received, five met the key mandatory criteria set out by the REOI that required that Respondents provide documentation from a third party in their submission that showed evidence the Respondent had owned or managed a business entity with minimum annual revenues of \$3.5M. The five eligible submissions were reviewed by a committee comprised of senior staff in the City Manager's Office, Economic Development and Culture, Finance, and the theatre consultant Novita Interpares.

The entire process was monitored by JD Campbell, an outside fairness monitor hired to ensure a fair, open, consistent and transparent procurement process. The fairness monitor's attestation report on the process is included as Attachment B.

The results of the REOI did not yield transformative options for the three civic theatres to operate without City support in the short to medium-term future. The proposed options reviewed by the committee were incremental in nature. As well, the three different theatres attracted separate and individual responses. There was only one submission that proposed combining the managements of all three theatres, although it included no significant annual savings for the City. There was no interest in the purchase of either the St.LCA or the TCA. Only the Sony Centre attracted interest in the transfer of assets, but with continued City subsidies factored in to the future revenues.

Summary of Options proposed by Respondents:

- 1) Maintain the status quo with regards to the operations of the St.LCA,
- 2) Transfer management of the St.LCA but maintain the operating subsidy,
- 3) Maintain the management of the TCA but review its operations to increase its use and accessibility with a sustainable subsidy,
- 4) Transfer management of the Sony Centre but maintain the subsidy,
- 5) Transfer the ownership of the building and land of the Sony Centre for a nominal sum, eliminate the operating subsidy required, but have the City assume the capital liabilities in the amount of (\$6.6M)
- 6) Transfer the management of all three theatres to a third party, but maintain the operating subsidies through management fees.

St. Lawrence Centre for the Arts

The St. Lawrence Centre for the Arts (St.LCA) was a centennial project of the City of Toronto that opened in 1970. It houses two venues, the 876-seat Bluma Appel Theatre, and the 497 seat Jane Mallett Theatre which functions primarily as a concert hall. The 43-year old facility was purpose-built for use by local organizations, and it continues to play a vital role for the City's non-profit arts and culture sector which creates, presents and produces Canadian work. The facility is the home to the following resident companies: Canadian Stage Company, Music Toronto, Opera in Concert, Toronto Operetta Theatre

and the Hannaford Street Silver Band. From 2008 to 2011 it was used by 41 not-for-profit arts organizations for their programs, 24 community organizations non-profit organizations, as well as 12 commercial arts organizations and 29 corporate clients. The St.LCA received little interest in the REOI by third party operators, and the few that were received did not propose radically different operating models without major redevelopment of the site. However, major real estate redevelopment is unlikely on the site for financial and City planning reasons. The site is constrained by a 23 metre (or 75 foot) height restriction in addition to an angular plane requirement of 44 degrees at 20 metres (or 65 feet). This would allow for approximately a 6 storey building. Further, the St. Lawrence Neighbourhood Urban Design Guidelines require that no new development in the vicinity of Berczy Park (situated directly across the street from the St. LCA) will result in undue new shadows on the park.

The review committee concurs with Recommendation 3.1 contained in the Mayor's Task Force Report, that without viable Expressions of Interest received through the REOI, "the St. Lawrence Centre for the Arts remain owned and operated by the City of Toronto." Based on the replies to the REOI and on the knowledge of the review committee, including the theatre consultant, the St.LCA cannot succeed without a subsidy from the City. In order to ensure that the citizens of Toronto are receiving the best value for this support, the review committee recommends that the Board and senior management of the St.LCA develop a five-year business plan and a long term strategic plan. These plans will allow the theatre to make strategic decisions for its operations and to determine performance measures that are appropriate for its functions. In order to obtain the approval of the five-year business plan by the General Manager of Economic Development and Culture, the Board and management of the St.LCA should ensure a creative, cost effective and sustainable operation that minimizes tax funding.

Toronto Centre for the Arts

The Toronto Centre for the Arts (TCA) opened in 1993. It houses three venues: the 1,850 seat Main Hall which was originally created for commercial theatre use by Livent; the 1,032 seat George Weston Recital Hall; and the 250-seat black box flexible Studio Theatre. Ontario Hydro owns all the land on which the facility was built, and the City has a 99-year lease with the landlord. The TCA also received little interest from third party operators due to the legal restrictions on the use of the facility, and attracted no responses interested in the purchase of the facility. This is consistent with past history. In 1999, a global Request for Proposals for the management, operations and programming of the TCA was issued, and the call did not receive any responses at that time.

The TCA serves resident community arts organizations in North York in the two smaller venues. Previous consultations with the residents and cultural community in North York have noted that the facility is a critical piece of cultural infrastructure in an area of the city that is underserved. The TCA has the following resident companies: Encore Entertainment (30 annual events), Teatron Jewish Theatre (36-48 annual events), Angelwalk Theatre (36-48 annual events), and the Harold Green Jewish Theatre Company (36-40 annual events). Collectively, the Studio Theatre and Recital Hall host

annual and multi-annual events for 37 different community arts and service organizations. The TCA also provides venues for programming series by the Toronto District School Board and Toronto Catholic District School Board including annual events for seven local schools. Without City support, the TCA cannot operate and therefore, since it is an important facility, the City should seek to maximize its role as a community cultural facility.

In its report, the Theatre Panel of the Mayor's Task Force recommended that "if no viable Expressions of Interest are received through the REOI process [...] the Boards of the Sony and the TCA be amalgamated so that the administration of both performing arts centres can be consolidated to achieve cost efficiencies and operational synergies in operations and programming" (Recommendation 3.2). However, as this report recommends the City pursue divestment of the Sony Centre, amalgamation of the Boards and administration is not compatible with that recommendation.

The review committee also considered the potential merits of amalgamating of the boards and managements of the St. LCA and the TCA. This may be explored further in the development of the theatres' respective five-year business plans. However, it is not recommended at this time both because the potential cost savings are not significant, and because North York community groups and residents are likely better served through an autonomous board for the TCA.

As with the St.LCA, the review committee recommends that the Board and senior management of the TCA develop a five-year business plan and a long term strategic plan that will improve the TCA's service to the community, determine performance measures that are appropriate to its primary function as a community cultural asset, and determine strategic directions for its operations. In order to obtain the approval of the five-year business plan by the General Manager of Economic Development and Culture, the Board and management of the TCA should ensure a creative, cost effective and sustainable operation that minimizes tax funding.

Sony Centre for the Performing Arts

The Sony Centre for the Performing Arts (Sony Centre) was originally built by industrialist E.P. Taylor, head of the O'Keefe Brewing Company, and opened in 1960. It was bought by Metro Toronto in 1978 and was the home of the Canadian Opera Company and the National Ballet Company until 2006. With the departure of these two flagship cultural institutions to the Four Seasons Centre for the Performing Arts, the Sony Centre has no resident companies. The REOI garnered the most interest in third party management and the only interest in the transfer of assets of this theatre.

The Sony Centre closed for renovations in June 2008 and the theatre reopened in October 2010. The interior renovations are complete, but some exterior work to fulfill the heritage easement agreement is to be completed by 2015 at a cost of \$2.3M. The renovations were funded largely through funds secured by the sale Sony Centre's air

rights and a portion of the Sony Centre lands to the developer of the 57 storey residential condominium development designed by Studio Daniel Libeskind. As a condition of the planning approval for that development, the Sony Centre was given heritage designation. More information on the reasons for the designation may be found at: <http://www.toronto.ca/legdocs/mmis/2008/pb/bgrd/backgroundfile-12085.pdf> The City advanced the Sony Centre a loan of \$6.6 Million for the capital project which is still outstanding. The total cost of the renovation project will be approximately \$32.3M when complete.

Due to the size and scale of the venue (3,191 seats), the Sony Centre is not a venue primarily used by local organizations or the not-for-profit community. For example, for the Sony's 2012-13 presenting season, none of the 8 shows presented are by companies based in Toronto. Its diverse, largely commercial programming consisting of popular music (Jack White, New Order, The Rat Pack tribute show); stand-up comedy (Louis CK, Robin Williams & David Steinberg), and spectacle (Cirque Éloize, Shaolin Warriors, and the Merchants of Bollywood) competes with other major commercial operators such as Mirvish Entertainment or Live Nation, who are not subsidized presenters or facility operators. The Sony Centre does however have charitable status, and as well, in order to avoid making payments in lieu of taxes in accordance with the Assessment Act, the Centre must be used for less than 183 days in the taxation year for commercial programming.

The viability of the Sony Centre in its current operating structure without ongoing operating subsidies is very questionable and deemed unlikely by the Review Committee. Toronto currently has a surplus of large theatre venues, many of which are underutilized. With the demise of Livent, Toronto's commercial theatre sector has faced a decline in both audiences and available product. Canada's preeminent commercial theatre presenter, Mirvish Productions, has also stated publicly that demand has been falling and that they plan to close the 2000-seat Princess of Wales theatre. According to the theatre consultant, Novita Interpares, the demographics of audiences for live performances are changing significantly. The youngest of the Baby Boom generation are now over 50 and the oldest are in their late 60s. Recent audience surveys reveal that this audience for live performance (dance, drama, ballet, opera and musical theatre) are not being refreshed by younger patrons who are much more segmented in their cultural participation, and prefer more intimate venues, clubs, and themed festivals. At 46%, the under-35 population segment is significant and they are looking for customized experiences that are not delivered in large, traditional venues.

Meanwhile, the number of major performing arts venues, most of which operate with some form of subsidy, has proliferated in the Greater Toronto Area. Since 2006, Brampton's Rose Theatre (1030 seats), Richmond Hill Centre for the Performing Arts (631 seats), the Burlington's Performing Arts Centre (943 seats), the P.C. Ho Theatre (626 seats) in the Chinese Cultural Centre of Greater Toronto, as well as the Royal Conservatory of Music's Koerner Hall (1,135 seats) and the Four Season's Centre for the Performing Arts (2,163 seats) have all opened. These have added over 6,500 seats to the available inventory in state of the art venues, many of them competing for a similar

market the Sony Centre seeks to serve. A list of the inventory of performing arts venues over 400 seats within the city of Toronto is attached (Appendix C).

The Review Committee concurs with the Recommendation 5 of the Mayor's Task Force: "in the case of the Sony, the City should aggressively pursue a third party purchaser, or a long term, subsidy and risk free, third party management agreement, with terms acceptable to the City. However worthy the cultural context, we are not satisfied the Sony should continue to program commercial operations in competition with other commercial operators while under City ownership and management."

The lack of a viable commercial plan for the Sony Centre indicated to the Review Committee that the potential best decision in the long term interests of the City is to pursue divestment. However, more work is needed to determine the feasibility of a sale or transfer of assets. Pursuing divestment of the facility requires further investigation into what is allowable on the site, especially given its heritage designation and its lack of existing air rights. It is possible the Sony Centre could be sold as a theatre, event and conference venue or for an adaptive reuse which preserves the heritage assets of the building.

Conclusion

At the conclusion of the REOI process, the consensus of the review committee was that both the St. Lawrence Centre for the Arts and the Toronto Centre for the Arts do not attract commercial interest. Their primary role is to serve the community and provide a venue for programming comprised largely of work, created and produced by the not-for-profit cultural sector. Further, the operations of these facilities must be subsidized sufficiently in order for them to fulfill their mandates. By reaffirming Council's commitment to these assets, the theatres' boards and managements will be better able to serve Toronto's citizens. The uncertainty of the current situation is causing a negative impact on the business operations of these theatres, their staff, and their main tenants. The five-year business plans will allow for longer planning horizons and time to implement longer-term initiatives. In return, the City should derive greater community benefits for its investment by increased usage and accessibility.

Given the Sony Centre's size and lack of resident companies, as well as the market they are competing for with their programming, the REOI process has also supported the recommendations of the Theatre Panel - Mayor's Task Force, to pursue divestment of the Sony Centre and cease subsidizing its operations.

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SIGNATURE

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City Manager

ATTACHMENTS

Attachment A – Mayor's Task Force – Arts and Theatres: Recommendations on the Theatres

Attachment B – Attestation Report by JD Campbell, Fairness Advisor

Attachment C – Inventory of Performing Arts Venues in Toronto with over 400 seats