

Design Exchange (DX) 2013 Report

Date:	February 12, 2013
To:	Economic Development Committee
From:	Michael H. Williams, General Manager, Economic Development and Culture
Wards:	All
Reference Number:	

SUMMARY

A development agreement with the TD Centre requires the developer to pay \$500,000 per year to the City until September 2013 for the purpose of running a design showcase/centre on the site of the former Toronto stock exchange. These funds are placed in a reserve fund to pay the DX grant, which is revenue neutral to the City. This report recommends that Council approve the Design Exchange 2013 flow through grant, and request that the DX report back to the Economic Development Committee in six months on its progress in implementing the new DX Strategic Plan and toward achieving self-sufficiency by the end of 2014.

The DX budgeted for a surplus before amortization of \$118,386 in 2012, as compared to a surplus of \$64,756 in 2011. But 2012 was a year of transition for the Design Exchange. With the adoption of a new strategic direction as a design museum and associated expenses, a deficit of \$246,647 is projected. The DX is working to increase revenues, expenses are being controlled and for 2013 the DX is projecting a surplus of \$31,602.

With assistance from the City, in 2011 the DX hired Lord Cultural Resources to set a new strategic direction and develop a more sustainable financial and organizational model to assure growth into the future. A new President was hired as of March 2012. The new strategic plan is being implemented targeting additional sources of funds, including increased program revenues, and investments from the public and private sectors to offset the expiry of the grant and ensure long-term sustainability of Design Exchange operations. The City will receive the final payment from the developer in September 2013, for a grant to the DX in 2014.

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends:

1. Council approve the Design Exchange flow through grant of \$500,000 plus accrued interest as per the terms of the City's grant agreement with the Design Exchange; and
2. Council request that the Design Exchange report back to the Economic Development Committee in six months on its progress in implementing the new strategic plan and toward achieving self-sufficiency by 2014.

Financial Impact

There are no financial impacts to the City as a result of the approval of this report. As a result of the redevelopment on the DX site, the City receives \$500,000 per year from the property owner/developer for the use and benefit of the occupant of the premises. These funds are placed in reserve fund XR3012 until transferred to the occupant (DX), making the payment revenue neutral to the City. At the present time the reserve fund has sufficient funds to pay the DX grant, which is included in the EDC 2013 operating budget approved by Council as both a revenue (transfer of funds from the developer) and an expense (transfer of funds to the DX).

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 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, now 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 costs related to the premises charged by the landlord, cleaning services, insurance premiums, security and maintenance services and related administration, to ensure the facility is kept in a state of good repair. The City will receive the final payment from the developer in September 2013, for a grant to the DX in 2014.

The Design Exchange is Canada's only museum dedicated exclusively to the pursuit of design excellence and preservation of design heritage. It is a registered charity, incorporated as a not-for-profit. The DX is managed by an independent Board of Directors, with Councillors Michelle Berardinetti and Mary Fragedakis serving as the City representatives on the DX 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. *Collaborating for Competitiveness: A Strategic Plan to Accelerate Economic Growth and Job Creation in Toronto* recognizes the importance of design for Toronto's economic growth. 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 promote design.

COMMENTS

DX Program Highlights

In 2012 the Design Exchange re-established itself as a design museum offering programming with broad public appeal. Since then, exhibition attendance has increased more than 1000%. 60 Years of Designing the Ballet & The Tutu Project, presented in partnership with the National Ballet of Canada, captured over 140 media hits and more than 350 people attended the opening. Vertical Urban Factory & Considering the Quake, presented by Urban Capital Development, resulted in features in key tourism and design magazines. Over 1000 guests attended the re-imagined DX fundraiser, Intersection, honouring Douglas Coupland. Other highlights included the Bravos exhibition, Marlis Saunders, Lynne Cohen, and Sons of Architecture: Tomas Koolhaas and Dion Neutra.

The Design Exchange hired Faulhaber Communications in 2012 to handle public relations, and engaged Bruce Mau Design to be their design agency of record for 2013. DX invested in mainstream media buys including The Globe and Mail, the Toronto Star, TTC streetcar exterior posters, The Grid, and much more. From March to December 2012 the DX had 588 media hits (Toronto, national and international) including media alerts, e-blasts, targeted pitching, event invitations and listings. Extensive media relations efforts resulted in more than 419 million impressions for DX for the same period. Highlights include the cover and two major features in the Globe and Mail Arts section, CBC Radio Q with Jian Ghomeshi, Global television, City TV, several full page pieces in the Toronto Star and the National Post, U.K.-based ICON magazine, and much

more. Social media friends and followers show 100-200% increases over 2011 and are climbing daily. The DX has 3075 Facebook Likes and 6300 Twitter followers.

For 2013, key exhibitions include: Stefan Sagmeister: The Happy Show, January 8 to March 3, which has had record attendance and media attention; Game of Thrones: an HBO initiative, March 8 to 18, that is expected to draw a large audience over March Break; and Christian Louboutin, June 20 to September 15. Coming from The Design Museum in London, where it attracted over 900 people per day, the Louboutin retrospective exhibit is expected to be a huge success in Toronto as well. Talks will include: C'Mon Get Happy, a cross-disciplinary panel discussion by the city's celebrated designers; and We Made This: Identity and Creativity - a panel of leading designers from Spain and Canada will discuss the importance of place in an ever-more connected global community, presented by the Spanish Embassy. On February 20 internationally celebrated designer Jonathan Adler will speak about collaboration and his colourful design philosophy, presented by Kohler. Other speakers and featured guests will include international design celebrities: Ron Arad, speaking on March 12 about his new collection inspired by Le Corbusier, animal vertebrae, his work and vision, presented by Karir; and on March 19, Guilio Cappellini, a legend in Italian furniture manufacturing, will speak about how he has helped evolve and nurture many of today's top furniture designers, presented by Azure.

The DX will be introducing several new initiatives in 2013. Project Piazza, presented by the DX together with the Association of Chartered Industrial Designers of Ontario and the City of Toronto, will expose thousands of people to good design. A new emerging designer competition will also be launched.

The DX aims to continue to grow its youth programming, including the High School Design Competition presented by Sears, now in its 18th year. This multi-disciplinary national competition is open to students at both the junior and senior levels. For the second year DX will present the Connect competition. Post-secondary students will be asked to submit projects within their field of study that exemplify universal design practices. With Spin Master™ Limited DX will present a March Break toy design camp, and DX's design-based summer camp program will offer two camps per week for designers aged 6 to 14.

New and returning funding and sponsorship partners include: the Ontario Government for the Connect Competition; the Ontario Cultural Attractions Fund and Holt Renfrew for Christian Louboutin; the TD Bank for DX Intersection, tours and workshops; Mini Canada and Sharpie Canada for Stefan Sagmeister: The Happy Show; Sears Canada for the High School Competition; Ikea and Flare magazine for DX Intersection; and more.

Financial Situation

Initial plans for the Design Exchange developed in the 1980s 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.

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. Since 2004, the DX has focussed its efforts to tightly control expenses, increase revenues and pay down its bank debt.

For 2012 the DX forecast a surplus before amortization of \$118,386, as compared to \$64,756 in 2011. But 2012 was a year of transition for the Design Exchange. With the adoption of a new strategic direction as a design museum and associated expenses, a deficit of \$246,647 is projected (see Table 1).

	2010 Approved Budget (\$000s)	2010 Audited Actuals (\$000s)	2011 Approved Budget (\$000s)	2011 Audited Actuals (\$000s)	2012 Approved Budget (\$000s)	2012 Projected Budget (\$000s)	2013 Approved Budget (\$000s)
1. Revenue	2,471.9	2,516.1	2,632.5	2,644.8	2,950.8	2,435.7	3,100.1
2. Expenses	2,463.0	2,501.5	2,621.2	2,580.1	2,832.4	2,682.3	3,068.5
3. Surplus/(Deficit) – (before amortization)	8.9	14.6	11.3	64.7	118.4	(246.6)	31.6
4. Amortization of Capital Assets	(360.6)	(371.9)	(365.2)	(374.4)	(368.6)	(371.5)	(387.5)
5. Reorganization Costs				196.9	104.6		
6. Net Operating Surplus/(Deficit)	(351.7)	(357.3)	(353.9)	(506.6)	(354.8)	(618.1)	(355.9)

When the new president started in March much of the programming for the year was in place. But limited time remained to secure related sponsorships and donations. Revenue was down in all areas except membership, which was above forecast for the year. To provide space for the larger shows being presented, DX's rental income has decreased. The DX monitored the situation carefully, and held 2012 expenditures below budget overall. The only significant increase was for marketing.

DX revenue for 2012 was below 2011 overall and in most categories, except membership and admissions/registrations, which were up – a sign the new strategy is working. Overall 2012 expenditures were slightly higher than 2011.

For 2013 the DX is projecting a small surplus of \$31,602. Revenue is forecast to increase in government grants, sponsorship, donations, admissions & registrations, and decrease in rentals. Memberships are expected to grow over time. Expenditures are forecast to

increase overall, with a decrease in rentals, and increases in administration, programs, marketing, fundraising & membership.

To achieve self-sufficiency, the Design Exchange plans to offset the loss of the developer's grant after 2014 with increases in admissions and registrations, sponsorships, government grants, donations and memberships. The budget will grow as increased revenue allows the DX to implement more of the strategic plan including hosting bigger and better exhibitions, launching the design festival, presenting pop-up exhibits, and expanding youth programs. Expenses are expected to stay in the same proportion, with the exception of increases in marketing as revenues permit. Detailed planning in the first quarter, based on updated results, will allow the Design Exchange to provide more detail about its financial projections to the City when it reports back in six months.

2012 Building Occupancy and Maintenance Costs

The City's grant agreement with the Design Exchange requires that the grant be used to pay operating costs related to the premises charged by the landlord, cleaning services, insurance premiums, security and maintenance services and related administration, to ensure the facility is kept in a state of good repair.

Table 2 – DX Building Occupancy and Maintenance Costs 2009-2013						
	2009 Actuals \$000s	2010 Actuals \$000s	2011 Actuals \$000s	2012 Budget \$000s	2012 Actuals \$000s	2013 Budget \$000s
1. Maintenance salaries & benefits	52.4	57.4	38.0	39.6	40.0	38.6
2. Rent & Building shared costs	442.4	450.6	455.5	454.1	459.5	458.8
3. Cleaning contract	46.3	42.2	39.5	43.0	45.3	43.0
4. Maintenance	26.2	20.5	23.9	32.1	28.1	29.4
5. Insurance	19.6	21.2	23.2	23.3	21.5	24.4
6. Total	586.9	591.9	580.1	592.1	594.4	594.2

As shown in Table 2, overall 2012 costs were very close to budget, and slightly higher than 2011 expenditures in all categories except insurance. DX's 2012 building occupancy and maintenance costs exceeded the amount of the City's grant by \$94,380 for the year. The DX forecasts a small decrease overall in total costs for 2013, with lower costs in most categories, except maintenance and insurance.

DX Capital and Maintenance Plan

The Design Exchange submitted an updated capital and maintenance plan as required by the grant agreement. Given the financial situation, no major capital improvements are planned at the current time.

In 2012 DX spent \$28,140 on maintenance, including general maintenance, painting, lighting maintenance and electrical repairs (see Appendix 1). \$26,250 was budgeted in these and additional categories. 2011 expenditures totalled \$16,326. Planned maintenance expenditures for 2013 are \$27,750 in the same categories, as well as equipment testing and repairs, safety fund, flooring maintenance, door repairs and Bay Street lighting maintenance.

2012 capital improvement projects totalled \$14,397, for exhibition system cases and a kitchen renovation. The DX had budgeted \$125,500 for these and nine additional projects. 2011 expenditures totalled \$50,989. Planned capital improvement expenditures for 2013 total \$14,500 for exhibit cases and elevator cab renovation.

In the Capital Maintenance and Improvement Plan submitted in 2006, the DX forecast expenditures of \$402,500 over five years on maintenance, and \$1,365,000 on capital improvements. Actual expenditures from 2006 to 2012 total \$180,485 for maintenance and \$262,115 for 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.

In accordance with the Grant Agreement, if the Design Exchange intends to make further alterations or improvements to the Premises, it will first obtain written approval from the General Manager of Economic Development and Culture. The City's approval is required prior to submitting the plans to the Landlord for approval.

Implementation of the new DX Strategic Plan

In March 2011, with \$50,000 provided by the City and matching funds from the DX, Lord Cultural Resources was hired to help develop a new strategic plan for the Design Exchange to address the issue of long-term sustainability. Lord was tasked to develop programming, governance, revenue and facilities strategies that would align with the new direction to help guide the organization over the next ten years.

Since 1994 when the Design Exchange opened to the public, design has changed dramatically. Extensive research and consultation was conducted, and Lord identified four key issues for the DX: Institutional positioning and mandate; Long-term financial sustainability; Building functionality; and Professional leadership.

Following a strategic planning board retreat, the following strategic direction emerged: *The DX will aim to be the national world-class design museum that boasts excellence in programming and offers one of the most innovative design festivals in the world. The DX will operate across the public realm and devote its resources to the implementation of*

this new strategic direction. The DX will leverage its strategic partnerships to meet industry-specific needs.

A draft strategy was presented to the DX Board on December 9, 2011 and approved. Strategic goals were set out as a series of critical steps over a period of 10 years and organized in short-term (years 0-3), medium-term (years 3-5) and long-term (years 5-10) increments.

In the short term the DX is working to build a solid operating model, securing DX leadership and strengthening and diversifying the DX Board. In 2012 a new president was hired, along with a fundraising professional, and a new Senior Vice President of Finance and Operations. Recent appointments to the DX Board include representatives from the business, real estate, arts and culture sectors. DX is working to generate \$500,000 net in additional revenue to replace the loss of the developer's grant. The facility rental business is being optimized to generate additional revenue. Options to contract out these operations were investigated, but determined not to be of benefit. Reallocating funds to programming together with higher quality major exhibitions will help contribute to DX's earned revenue potential, along with increased Board giving and membership revenues. DX is already seeing significant increases in admissions and registrations, sponsorship, government grants and memberships. Detailed plans for long-term operating funding are being developed. DX is conducting a real estate analysis of the facility, determining how it can operate most efficiently in its current location by reconfiguring, reclaiming and repurposing spaces - balancing programming space and revenue generating potential. A comprehensive programming plan with direct connections to marketing plans is being rolled out. DX is assessing its collection and developing a new/young patron strategy.

In the medium term DX plans to consolidate all resources and efforts, resolve the facilities issue, present the inaugural festival, be listed as a day-1 tourist destination, expand its national presence, pursue and secure 3 major partnerships, and create an endowment. Annual fund and major gift campaigns will be implemented. In this period DX should see an increase of approximately 50% in admission revenue due to the presentation of major exhibitions, with the increased attention attracting more corporate sponsors. Additional earned income and fundraising will result from the presentation of the inaugural festival.

In the longer term DX will expand its offerings, solidifying and broadcasting DX as a 'world class brand', ensuring the diversity and reach of the Board, operating from a 'new' home, whether a new building or refurbished existing facility, and draw money through an established and active foundation. In this third phase, the DX membership program will be expanded. DX's reputation as a leader in the design field will attract new members and sponsors nationally. DX's status as a leading cultural institution will position it to be considered for core funding from all three levels of government.

Staff reviewed the DX grant submission as per the grant agreement and recommend Council approve the 2012 grant request of \$500,000, plus interest accrued, and request

that the DX report back to the Economic Development Committee in six months on its progress in implementing the new DX Strategic Plan and toward achieving self-sufficiency by 2014.

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SIGNATURE

Michael H. Williams
General Manager
Economic Development and Culture

ATTACHMENTS

Attachment 1: DX Capital and Maintenance Plan 2006-2012

		1st Year 2006	Actual 2010	Actual 2011	Actual 2012	Budgeted 2013
Maintenance						
1	General Maintenance Fund	\$ 11,941	\$ 4,891	\$ 4,954	\$ 17,831	\$ 7,250
2	Equipment Testing and Repairs			\$ 874		\$ 1,500
3	Safety Fund		\$ 266	\$ 644		\$ 1,000
4	Painting	\$ 21,065	\$ 1,608	\$ 599	\$ 1,874	\$ 1,500
5	Millwork Repairs					
6	Flooring Maintenance		\$ 3,286	\$ 2,044		\$ 3,500
7	Bridge Maintenance					
8	Roof Top Chiller Maintenance					
9	Lighting Maintenance	\$ 2,689	\$ 4,075	\$ 5,266	\$ 7,025	\$ 6,000
10	Servery Kitchen Maintenance					
11	Door Repairs					\$ 1,500
12	Electrical Repairs		\$ 1,117	\$ 1,945	\$ 1,410	\$ 1,500
13	Bay Street Lighting Maintenance	\$ 2,476				\$ 4,000
14	HVAC Maintenance					
Maintenance Total		\$ 38,170	\$ 15,242	\$ 16,326	\$ 28,140	\$ 27,750
Capital Projects (New Improvements)						
1	Conservation Equipment					
2	Exhibition System Cases	\$ 9,691		\$ 10,663	\$ 12,572	\$ 12,000
3	New Bay Street Lighting					
4	Genie Lift					
5	Lobby Renovation					
6	North Door Canopy					
7	Exterior Signage					
8	Phones					
9	Café Washrooms					
10	Resource Centre Blinds					
11	House Lights					
12	Elevator Cab Renovation					\$ 2,500
13	Wayfinding / Signage					
14	New Security System	\$ 3,834				
15	Trading Floor Storage	\$ 2,500				
16	New Millwork					
17	Carpet Replacement					
18	Replace Wood Floor					
19	Office Furniture Refurb/Replace			\$ 4,001		
20	Audience Seating Replacement					
21	Designer Walk of Fame					
22	Tables			\$ 1,707		
	Sound system for Front desk					
	Sound system for Teknion Lounge - Wireless Mic					
	2nd flr kitchen reno				\$ 1,825	
	Boardroom Blinds					
	Lobby Bathrooms					
	Stacking Catering Ovens					
	Store Shelving & Display					
	Elevator Drain installation			\$ 2,154		
	Lighting			\$ 32,464		
	Hot water Tank		\$ 5,238			
	Permanent Electrical tie in					
	Fridge & Sink repairs in Studio space					
	Refinish Wood floors					
	Chairs for events					
Capital Projects Total		\$ 16,025	\$ 5,238	\$ 50,989	\$ 14,397	\$ 14,500