

Design Exchange (DX) 2012 Report

Date:	March 8, 2012
To:	Economic Development Committee
From:	General Manager, Economic Development and Culture
Wards:	All
Reference Number:	P:/2012/Cluster A/EDC/Econ Dev/March/ed1203-010

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 DX grant, which is revenue neutral to the City. This report recommends that Council approve the Design Exchange 2012 flow through grant, and request that the DX report back to the Economic Development Committee within one year on its progress in implementing the new DX Strategic Plan.

In 2011 the DX budgeted for a surplus before amortization of \$12,003, as compared to \$11,686 in 2010. The actual surplus is projected to be \$54,165. For 2012 the DX has forecast a surplus of \$118,386.

With assistance from the City, in 2011 the DX hired Lord Cultural Resources to help update their strategic plan. A new strategic direction and more sustainable financial and organizational model are required to address changing dynamics and assure growth into the future. A new President for the organization has been hired effective March 5, 2012. The new plan has been completed, targeting additional sources of funds, including increased program revenues, investments from the private sector, as well as the federal and provincial governments, 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 2013, for a grant to the DX in 2014.

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends that:

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 within one year on its progress in implementing the new DX Strategic Plan.

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 2012 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, and rent payable with respect to the basement, 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 national design museum, committed to establishing Canada as a design leader worldwide. It is a registered charity, incorporated as a not-for-profit. The DX is managed by an independent Board of Directors, with Councillors Shelley Carroll and Joe Mihevc 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. *Growing Toronto's Economy - Toward a Strategic Plan* 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 develop and promote design as a strategic tool for innovation.

COMMENTS

DX Program Highlights

In 2011 the Design Exchange welcomed thousands of students, academics, members of the design community and members of the public for an array of public programs that provided a platform to engage on issues pertaining to design, the economy and our socio-cultural landscape. Highlights included talks by Canadian Canoe Museum General Manager John Summers, German landscape architect Thilo Folkerts and internationally renowned architect Billie Tsien. The DX was proud to host a series of acclaimed panel discussions including *Design for the Future* with Roger Martin, Dean of the Rotman School of Business, Bruce Nussbaum, formerly of Business Week and Bill Buxton, Principal Researcher at Microsoft Research.

Over a dozen exhibits were hosted at the DX in 2011, including: *Out of Sorts: Print Culture and Book Design*; *Construction: Contemporary Norwegian Arts & Crafts*; *Guy Tillim: Avenue Patrice Lumumba*, part of the *Scotiabank Photography Festival*; and *Play>Nation: Canada's Outdoor Culture*; which explored ways in which our unique landmass has contributed to a national love of the outdoors and shaped our collective interest in outdoor sport and exploration.

The reach of DX youth programming continues to grow. In 2011 DX's *National High School Design Competition* had over 700 entries from across Canada. March Break and Summer Design Camps had more than 350 attendees. *Designers in the Classroom* reached 100 students in the GTA. DX launched a new post-secondary competition in 2011, challenging Ontario design students to address issues of accessibility with universal design. In partnership with the Toronto Foundation for Student Success, last year DX also launched *Beyond 3.0*. Targeting elementary schools in priority neighbourhoods, the program introduces students to fashion design-based projects, addressing issues like body image and working to find cost-effective solutions.

For 2012, in keeping with its new strategic plan, the DX will introduce high profile exhibitions and designers to a wider audience through more than 40 programs, in addition to hosting over 150 private events that fund the design work that is the DX's core business. On January 23rd the Resource Centre, home of the DX's permanent collection of Canadian industrial design, opened to the public to coincide with Design Week. Programming highlights will include *Stop, Drop Repeat: The Printed Work of Marlis Saunders* (March 7-April 23), *60 years of Designing the Ballet* (July 9-September 2), and *Vertical Urban Factory* (Autumn 2012). Continued growth is forecast in youth programs.

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

For 2011 the DX forecast a surplus of \$12,003, as compared to \$11,686 in 2010, and achieved a surplus before amortization of \$54,165 (see Table 1). Overall revenue was slightly below forecast, with decreases in Sponsorship and Donations, but an increase in Rentals. Revenue was higher in 2011 than 2010 in all categories except Sponsorship and Donations. 2011 expenditures were below budget overall and in most categories, except Rentals and Programs. Expenditures for 2011 were slightly above 2010 levels overall and in the following categories - Rentals, Programs and Fundraising & Membership. Due to short-term reorganization costs including legal fees, 2011 operations resulted in a net operating deficit of \$409,510 as compared to a forecast deficit of \$352,871.

Table 1 – Comparison of DX actual vs. budgeted figures for 2009-2012

	2009 Approved Budget (\$000s)	2009 Audited Actuals (\$000s)	2010 Approved Budget (\$000s)	2010 Audited Actuals (\$000s)	2011 Approved Budget (\$000s)	2011 Projected Actuals (\$000s)	2012 Approved Budget (\$000s)
1. Revenue	2,565.8	2,434.9	2,471.9	2,516.1	2,632.5	2,619.3	2,950.8
2. Expenses	2,555.7	2,422.7	2,463.0	2,501.5	2,621.2	2,565.1	2,832.4
3. Surplus/(Deficit) – (before amortization)	10.1	12.3	8.9	14.6	11.3	54.2	118.4
4. Amortization of Capital Assets	(356.1)	(369.4)	(360.6)	(371.9)	(365.2)	(371.9)	(368.6)
5. Reorganization Costs						92.3	104.6
6. Capital Contributions		1.1	1.1	1.1	1.1	0.5	
7. Net Operating Surplus/(Deficit)	(346.0)	(357.1)	(351.7)	(357.3)	(352.9)	(409.5)	(354.8)

2011 Building Occupancy and Maintenance Costs

The City's grant agreement with the Design Exchange requires that the grant be used to pay operating, cleaning, insurance, security and maintenance, to ensure the facility is kept in a state of good repair.

Table 2 – DX Building Occupancy and Maintenance Costs

	2008 Actuals \$000s	2009 Actuals \$000s	2010 Actuals \$000s	2011 Budget \$000s	2011 Actuals \$000s	2012 Budget \$000s
1. Maintenance salaries & benefits	55.4	52.4	57.4	48.9	38.0	39.6
2. Rent & Building shared costs	436.8	442.4	450.6	454.1	455.5	454.1
3. Cleaning contract	54.3	46.3	42.2	46.0	39.5	43.0
4. Maintenance	34.2	26.2	20.5	29.0	23.9	32.1
5. Insurance	20.5	19.6	21.2	23.2	23.2	23.3
6. Total	601.2	586.9	591.9	601.2	580.1	592.1

As shown in Table 2, overall the 2011 costs were 2% lower than 2010 expenditures, and 3.6% below budget. 2011 building occupancy and maintenance costs exceeded the amount of the City's grant by \$80,137 for the year. The DX forecasts a 2% increase in total costs for 2012, with slight increases in almost all categories.

DX Capital and Maintenance Plan

The Design Exchange submitted an updated capital and maintenance plan 2006-2012 as required by the grant agreement. This plan carries forward many items included in previous plans, but with a significant increase in spending proposed in 2012 for both maintenance and capital improvement projects.

2012 is a transitional year for the Design Exchange. With the new President starting in March, and implementation of the new Strategic Plan beginning, priorities may change, and these plans may require revision. 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. The City's approval is required prior to submitting the plans to the Landlord for approval.

In 2011 DX spent \$16,326 on maintenance, including General Maintenance, Equipment Testing and Repairs, Safety Fund, Painting, Flooring and Lighting Maintenance and Electrical Repairs (see Appendix 1). \$36,000 was budgeted in these and additional categories. 2010 expenditures totalled \$15,242 in many of the above categories. Planned maintenance expenditures for 2012 are \$26,250 in the same categories, as well as Door Repairs and Bay Street Lighting Maintenance.

2011 capital improvement projects totalled \$50,989, for Exhibition System Cases, Office Furniture, Tables, Elevator Drain Installation and Lighting. The DX had budgeted \$75,000 for these and four additional projects. 2010 expenditures totalled \$5,238. Planned capital improvement expenditures for 2012 total \$125,500.

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. Initial estimates have been decreased in subsequent years. Current expenditure forecasts from 2006 to 2012 are \$178,595 for maintenance and \$383,645 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.

Development of a new Strategic Plan for the Design Exchange

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.

Key Issues and Environmental Assessment

Since 1994 when its doors opened to the public, the Design Exchange has mounted hundreds of exhibitions and organized and presented countless lectures, seminars and educational programs aimed at both public and business audiences. But the world of design has changed dramatically since DX was established. The DX needs to reposition itself in the current landscape, focusing on a public or industry audience, and a mandate of cultural and educational or economic development programming. Alongside the impact of the changing environment, the DX is facing the end of the \$500,000 annual grant provided by the developer to offset operating and maintenance costs for the facility.

Extensive consultation was undertaken, including: research on 28 design-related institutions around the world; one-on-one interviews with industry experts and key stakeholders; interviews and surveys of the staff, Board and design associations; and a staff workshop. At the end of this phase Lord identified four key issues that encapsulate the DX's challenges:

- Institutional positioning and mandate;
- Long-term financial sustainability;
- Building functionality; and
- Professional leadership.

Two of the key findings of Lord's industry research are considered particularly relevant to the future of DX: design promotion centres are moving away from engaging the public through exhibitions, education and programming; and the festival and biennale format has emerged as an effective vehicle for audience attraction and development.

Strategic Direction and Goals

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.

The report on the draft strategy, entitled *Direction for a New Future, Design Exchange Strategic Plan*, was presented to the DX Board on December 9, 2011, and approved in principle. 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 will work to build a solid operating model, securing DX leadership and strengthening and diversifying the DX Board. DX will generate \$500,000 net in additional revenue and develop a detailed plan for long-term operating funding. DX will conduct a real estate analysis of the facility to determine its highest and best use. A comprehensive programming plan with direct connections to a marketing plan will be created. DX will assess its collection and develop a new/young patron strategy.

In the medium term DX will consolidate all resources and efforts, resolving the facilities issue, presenting 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.

In the long 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.

Governance Strategy

Detailed strategies were developed to align with the new strategic direction, based on the short, medium and long-term goals of the institution. The Governance Strategy calls for strong leadership that will steer the DX in its newly defined direction, including the hiring of a new President and a seasoned development professional, along with a review and re-focusing of the Board in the short term. In the following years DX will add a Festival Director along with additional staff as required and grow the Board. In the long term the DX will draw on its national network as it launches its planned giving campaign. The DX will attract leading staff based on its reputation.

Programming Strategy

The Programming Strategy includes development of a 3-year plan to allow staff to create exciting public programs in the short term, presenting a major exhibition and design festival in the medium term and a blockbuster exhibit in the long term, to allow DX to take its place among the great design museums in the world.

Facilities Strategy

The Facilities Strategy immediately requires the DX to determine how it can operate most efficiently in its current location by reconfiguring, reclaiming and repurposing spaces - balancing programming spaces and revenue generating potential. In the medium term a thorough evaluation of facility options will take place. Kicking off the third phase of DX's growth will be a grand re-opening and re-branding of the institution.

Revenue Strategy

The Revenue Strategy recognizes the need to optimize DX's facility rental business to generate \$500,000 net revenue in the short term. Reallocating funds to programming together with higher quality and major exhibitions will help contribute to its earned revenue potential, along with Board giving and increased membership revenues. Annual fund and major gift campaigns will be undertaken.

In the mid term DX should see an increase of approximately 50% in admission revenue due to the presentation of major exhibitions, with the increased attention attracting corporate sponsors. Additional earned income and fundraising will result from the presentation of the inaugural festival. Capital and endowment campaigns will be launched.

In the third phase, the DX membership program will be expanded. DX's solidified 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.

Change in Leadership

Effective as of March 5th, 2012, Shauna Levy is the new President of the Design Exchange. In 1998 Shauna co-founded, and has continued to direct, the Interior Design Show (IDS), Canada's largest contemporary design fair. IDS 2012, January 24-27, was an unequivocal success, with 50,000 visitors over 3.5 days as well as 461 media. In 2010 Shauna added Conversations in Design to the program, a one-day symposium which hosts luminaries from as far away as Sweden, Denmark and Italy. This year's show included the launch of IDS Platform, a week-long cultural design festival with events held in and around the trade show at venues including the Art Gallery of Ontario, Design Exchange, Institute without Boundaries, OCAD University and Textile Museum of Canada. Tim Gilbert, Chair of the DX said "Shauna is a remarkable entrepreneur and has a deep love of design." The contacts and skills Shauna has developed over the past 15 years at IDS will be a great asset as she works with the DX Board and staff to implement the new strategic plan at the Design Exchange.

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 one year on its progress in implementing its new strategic plan.

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SIGNATURE

Michael H. Williams, General Manager
Economic Development and Culture

ATTACHMENTS

Attachment 1: DX Capital and Maintenance Plan 2006-2012

DX Capital and Maintenance Plan 2006-2012

Appendix 1

		1st Year 2006	2nd Year 2007	3rd Year 2008	4th Year 2009	5th Year 2010	6th Year 2011	7th Year 2012	7 Year Total
Maintenance									
1	General Maintenance Fund	\$ 11,941	\$ 16,297	\$ 11,907	\$ 9,027	\$ 4,891	\$ 4,954	\$ 7,250	\$ 66,267
2	Equipment Testing and Repairs						\$ 874	\$ 1,500	\$ 2,374
3	Safety Fund			\$ 2,560	\$ 151	\$ 266	\$ 644	\$ 1,000	\$ 4,621
4	Painting	\$ 21,065	\$ 2,575	\$ 1,953	\$ 825	\$ 1,608	\$ 599	\$ 1,500	\$ 30,125
5	Millwork Repairs				\$ 200				\$ 200
6	Flooring Maintenance		\$ 2,635	\$ 550		\$ 3,286	\$ 2,044	\$ 3,500	\$ 12,015
7	Bridge Maintenance								\$ -
8	Roof Top Chiller Maintenance		\$ 3,903	\$ 2,466					\$ 6,369
9	Lighting Maintenance	\$ 2,689		\$ 11,334	\$ 4,499	\$ 4,075	\$ 5,266	\$ 6,000	\$ 33,863
10	Servery Kitchen Maintenance								\$ -
11	Door Repairs				\$ 188			\$ 1,500	\$ 1,688
12	Electrical Repairs		\$ 2,593	\$ 1,106	\$ 7,837	\$ 1,117	\$ 1,945		\$ 16,099
13	Bay Street Lighting Maintenance	\$ 2,476						\$ 2,500	\$ 4,976
14	HVAC Maintenance								\$ -
	Maintenance Total	\$ 38,170	\$ 28,003	\$ 31,876	\$ 22,728	\$ 15,242	\$ 16,326	\$ 26,250	\$ 178,595
Capital Projects (New Improvements)									
1	Conservation Equipment								\$ -
2	Exhibition System Cases	\$ 9,691		\$ 9,785			\$ 10,663	\$ 7,000	\$ 37,139
3	New Bay Street Lighting								\$ -
4	Genie Lift			\$ 24,798					\$ 24,798
5	Lobby Renovation		\$ 12,782	\$ 1,635				\$ 25,000	\$ 39,417
6	North Door Canopy								\$ -
7	Exterior Signage								\$ -
8	Phones								\$ -
9	Café Washrooms								\$ -
10	Resource Centre Blinds								\$ -
11	House Lights								\$ -
12	Elevator Cab Renovation				\$ 11,366			\$ 2,500	\$ 13,866
13	Wayfinding / Signage								\$ -
14	New Security System	\$ 3,834						\$ 8,000	\$ 11,834
15	Trading Floor Storage	\$ 2,500							\$ 2,500
16	New Millwork								\$ -
17	Carpet Replacement		\$ 5,000						\$ 5,000
18	Replace Wood Floor		\$ 88,483						\$ 88,483
19	Office Furniture Refurb/Replace				\$ 5,422		\$ 4,001		\$ 9,423
20	Audience Seating Replacement		\$ 16,195						\$ 16,195
21	Designer Walk of Fame								\$ -
22	Tables						\$ 1,707	\$ 2,000	\$ 3,707
	Sound system for Front desk								\$ -
	Sound system for Teknion Lounge - Wireless Mic								\$ -
	2nd flr kitchen reno						\$ 10,000		\$ 10,000
	Boardroom Blinds								\$ -
	Lobby Bathrooms						\$ 20,000		\$ 20,000
	Stacking Catering Ovens								\$ -
	Store Shelving & Display								\$ -
	Elevator Drain installation						\$ 2,154		\$ 2,154
	Lighting			\$ 10,427		\$ 32,464			\$ 42,891
	Hot water Tank				\$ 5,238				\$ 5,238
	Permanent Electrical tie in						\$ 6,000		\$ 6,000
	Fridge & Sink repairs in Studio space						\$ 3,000		\$ 3,000
	Refinish Wood floors						\$ 25,000		\$ 25,000
	Chairs for events						\$ 17,000		\$ 17,000
									\$ -
									\$ -
	Capital Projects Total	\$ 16,025	\$ 122,460	\$ 36,218	\$ 16,788	\$ 5,238	\$ 50,989	\$ 125,500	\$ 383,645