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2013 OPERATING BUDGET BRIEFING NOTE

Arts and Culture Funding – Phase In Plan

Background

At its meeting of Dec 12, 2012, the Budget Committee received three follow-up Briefing Notes as part of the Budget wrap-up: *Creative Capital Gains, Reaching \$25 per capita and Associated Benefits* answering requests #9 and #11; *Funding Local Arts Organizations (LASOs)* answering request # 12; and *Sign By-Law Unit and Third Party Sign Tax* answering request #22.

At its meeting of December 17th, Budget Committee recommended additional funding be included in the 2013 operating budget of \$200,000 for the two new LASOs.

The Budget Committee further requested information on Below Market Rents for arts and cultural organizations and for a full direct and indirect cost accounting of City support for arts and culture. This information is presented in a separate briefing note submitted to Budget Committee wrap-up on January 8th titled *Accounting of Arts and Culture Funding*.

This Briefing Note is to update the Budget Committee on matters relating to the one-time retroactive third party sign tax (TPST) revenue and to provide comments by the City Manager on funding considerations for Arts and Culture.

Update Information on Sign Tax Revenue

The Acting Deputy City Manager and Chief Financial Officer, through the third quarter operating variance report, reports that it is expected that the accumulated one-time funds that will result from the retroactive collection of sign tax revenue for the period 2009-2012 will be about \$22.5 million. In the spring of 2013, after the accounts for 2012 are closed and the financial audit is completed, staff will report out on the final year-end financial results for 2012 which will include a final and more detailed estimate of the one-time retroactive sign tax revenue.

City Manager's Comments

If Council chooses to increase support to arts and culture in Toronto, the following should be considered:

- The one-time retroactive sign tax revenue could be set aside in an arts and culture fund to assist with the process of increasing funding. The 3rd Quarter Operating Variance Report recommends that these monies be earmarked to fund a multi-year strategy to phase in an

increase to the City's per capita cultural funding pending final year-end audited results and a detailed multi-year strategy from the Deputy City Manager and Chief Financial Officer and the General Manager of Economic Development and Culture.

- Staff's recommendation is that an enhanced phased cultural plan and financing strategy be approved in 2013 to commence in 2014 following the audit and finalization of the City's 2012 financial results.
- However, if Council wishes to commence enhancements in 2013, it must be noted that funding is not available before July 2013 (given that the City's Audited 2012 Financial Statements are presented to Audit Committee and Council in July of 2013) and would require reserve funding to not impact the approved 2013 tax supported budget.
- Any significant new funding should be introduced in a phased manner to ensure that the funds are used in the best manner and achieve the desired impacts, potentially over a 5 year period
- Annual increases of \$5 million could be considered until the desired level is reached. Based on using Direct Support calculations, a figure of \$25 per capita was adopted by Council in 2010, and therefore a further total annual increase of \$17.5 million would be needed.
- The Deputy City Manager and Chief Financial Officer and the General Manager of Economic Development and Culture will report to Committee and Council in the Spring of 2013 recommending a more detailed multi-year strategy to phase in an increase to the City's per capita cultural funding. One possible scenario to reach this increased level is outlined in Table 1 below which achieves the contemplated increase in cultural funding by 2018. A final financing strategy and related culture plan will be reported to Committee and Council in the first half of 2013. The use of reserve funding allows the City to gradually shift funding to the tax base.

Table 1: Arts & Culture Funding Phased in Plan
(\$ millions)

	Reserve Funding (One-time TPST)	Tax Supported	Total Cumulative Increase
2013	\$2.5	\$0.0	\$2.5
2014	5.0	2.5	7.5
2015	5.0	5.0	10.0
2016	5.0	10.0	15.0
2017	5.0	12.5	17.5
2018	0.0	17.5	17.5

- The allocation of the increased funding should be guided by the priorities established in the *Creative Capital Gains Report*, unanimously endorsed by Council in May 2011.
- The co-chairs of the Report (Karen Kain, Robert Foster and Jim Prentice) should be asked to work with Economic Development and Culture Division staff to prepare a report for the

April meeting of the Economic Development Committee on specific allocations for the amount to be spent in 2013. This report should also include a suggested set of priorities for upcoming years. It should also include a set of criteria that should be used in weighing the alternatives. Criteria that could be considered include:

- Leverage – the new funds should attract at least three extra dollars per dollar of increased City funds (thus total funding to the arts would increase by at least \$70 mil annually in 2016 with the resulting significant economic and cultural impacts)
 - Geographic spread – the degree that the new funds support community-oriented programs across Toronto
 - Expert input – consideration should be given to the views of staff and Board at the Toronto Arts Council and to the key proponents from “beautifulcity.ca”
 - Monitoring – that the new funding be monitored for impacts and achievements
- Council may wish to consider also asking that the report to the Economic Development Committee in April include an evaluation of the \$25 per capita target taking into consideration indirect support as well as direct financial support.

Conclusion

The Operating Variance Report for the Nine-Month Period ending September 30, 2012 recommends that Council earmark up to \$22.5 million of the projected 2012 one-time Third Party Sign Tax retroactive revenue to fund a multi-year strategy to phase-in an increase to the City's per capita cultural funding. This funding is subject to the final year-end audited results and a detailed multi-year strategy from the Deputy City Manager and Chief Financial Officer and the General Manager of Economic Development and Culture. Given that the City's 2012 financial accounts / results will not be finalized and audited until half way through 2013 (July 2013), it is staff's recommendation that an enhanced phased cultural plan and financing strategy be approved in 2013 to commence in 2014.

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Date: January 7, 2013