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2013 OPERATING BUDGET BRIEFING NOTE

Accounting of Arts and Culture Funding

Issue/Background:

- At its meeting on December 3, 2012, Budget Committee requested a briefing note from the General Manager of Economic Development and Culture which includes a full accounting of the below cost rent included in the per capita calculation (Motion 14).
- Further, at its meeting of December 10, 2012, Budget Committee requested, via Motion 1 a(o), that the Deputy City Manager and Chief Financial Officer to provide a briefing note with a true accounting of the per capita for arts and culture funding to include:
 - i. direct subsidies
 - ii. indirect subsidies
 - iii. ancillary City services for festivals/parades
 - iv. true market rent/below cost rents
 - v. municipal buildings of interest
 - vi. any other amounts deemed to support arts and culture

Key Points:

- The intention of the motions is to provide a broad accounting of direct and indirect support for Arts and Culture across all City Divisions.
- **Direct support** includes program specific funding as follows:
 - 1(a) Grants related to live performing arts; visual and media arts, crafts and designs; museums and heritage; cultural development; special events and multi-disciplinary activities; creative and cultural industries; and general administration related to arm's length delivery of cultural grants.
 - 1(b) Operating budget expenditures on live performing arts; visual and media arts, crafts and designs; museums and heritage; cultural development; special events and multi-disciplinary activities; creative and cultural industries; and general administration related to municipal cultural service delivery.
 - 1(c) Capital budget expenditures on City-owned cultural facilities; cultural districts; and public art, other art purchases; and public art maintenance costs.
 2. Ancillary support for festivals/parades where there is program specific funding for such ancillary support.
 3. Property tax rebates for charities and similar organizations which are provided for through the operating budget.

- Direct support in the amount of \$47,676,000 was previously reported to Council, resulting from the report "Municipal Cultural Investment in Five Large Canadian Cities" by Hill Strategies. (Report is posted at http://www.hillstrategies.com/docs/Municipal_cultural_investments_5cities.pdf.)
- **Indirect support** can occur through a variety of ways. Staff have identified forms of such support occurring by way of:
 4. provision of below market rent space in City facilities, including Municipal Capital Facilities.
 5. Property tax exemption by way of statutory exemption or Private Members' bills for cultural organizations meeting the Culture Division's definition of arts and culture.
 6. Property tax exemption by way of statutory exemption or Private Members' bills for ethno-cultural and other arts and culture organizations that do not meet the Culture Division's definition of arts and culture.
 7. Section 37 agreements for arts and cultural infrastructure funding.
 8. Line of credit guarantees, loan guarantees and direct loans.
- Staff have used **best efforts** in the limited time to identify such direct and indirect support of arts and culture, and it is likely this list is not fully inclusive at this time.
- Part of the difficulty is in defining what constitutes arts and culture. For example, are organizations that are concerned about the teaching of music or providing literary programs arts organizations? Should art schools outside of colleges and universities be considered an arts organization? In the cultural area, there are organizations whose purpose is blurred between providing a cultural theme with education and religion, and distinguishing support to such organizations becomes somewhat subjective.
- In previous reporting, the City's Culture Division have not included organizations such as universities, colleges, private professional training institutions, religious organizations and ethno-specific cultural organizations, in their calculation of per capita funding.
- For the purposes of this briefing note, staff have included on a best efforts basis as many organizations that were identified as playing a role in the overall cultural mosaic of the City and/or promotion of arts. Such inclusions have not generally been included in past per capita reporting and comparisons with other cities.
- Where possible, staff have cross-referenced the Canada Revenue Agency categorization and other sources to be objective to the extent possible that the organizations identified provide cultural activities and/or the promotion of the arts.
- Where cultural organizations did not appear to meet the Culture Division's definition for direct support (defined in Item 1(a) through (c), 2 and 3), they were grouped into the category of Indirect Support, or if the funding was not recurring or through alternate sources (e.g. from developers), into the category of Other Cultural Related Support.

Summary of Municipal Support for Arts and Culture:

The following summarizes the direct and indirect funding identified for arts and culture for 2012 by the City of Toronto. Further explanation is provided in the following sections.

DIRECT SUPPORT			
Category of Support	Estimated Number of Benefiting Organizations and/or Properties	Estimated 2012 Municipal Support	Per capital level of support (2.6 million population)
1) Direct	471 organizations, 221 projects, and 237 individuals		
a) Grants		\$19,389,000	\$7.46
b) Operating		\$21,306,000	\$8.19
c) <u>Capital</u>		<u>\$6,981,000</u>	<u>\$2.69</u>
Sub-total		\$47,676,000	\$18.34
2) In-kind City Services for festivals & parades	3 organizations	\$786,000	\$0.30
3) Other Support -Property Tax Rebate for Charities and Similar Organizations	99 organizations	\$ 328,000	\$0.13
Total of Direct Support		\$48,790,000	\$18.77

INDIRECT SUPPORT			
Category of Support	Estimated Number of Benefiting Organizations and/or Properties	Estimated 2012 Municipal Support	Per capital level of support (2.6 million population)
4) Below market and nominal rent leases - Municipal Buildings of Interest	21 organizations in 23 properties	\$1,151,000	\$0.44
5) Other Support – Property Tax Exemptions and Private Members' Bills	22 properties – that meet the Culture Division's definition for arts and culture	\$7,896,000	\$3.04
Total of Indirect Support		\$9,047,000	\$3.48

OTHER CULTURAL RELATED SUPPORT			
Category of Support	Estimated Number of Benefiting Organizations and/or Properties	Estimated 2012 Municipal Support	Per capital level of support (2.6 million population)
6) Other Support – Property Tax Exemptions and Private Members' Bills	27 properties – Cultural in nature but not meeting the Culture Division's definition for arts and culture	\$6,216,000	\$2.39
7) Other Support – Section 37 funds for culture infrastructure	Varies from year to year - 13 projects in 2012	\$2,800,000 (3-year average)	\$1.08
Total of Other Cultural Related Support		\$9,016,000	\$3.47
Total		\$66,853,000	\$25.72

DIRECT SUPPORT

Direct support reflects support for arts and culture provided for through specific program budgets.

1. Direct Grants, Operating and Capital budgets:

- Economic Development and Culture Administers 10 annual grant programs that go to arts and culture organizations. These include two annual grants that fund the Toronto Arts Council's operations and their recipient organizations: Major Cultural Organizations, Local Arts Services Organizations, the Royal Winter Fair Museums, Artscape, the Glenn Gould Foundation Award and the Music Garden. Culture Build is a program of EDC but it has not received a budget allocation for the past four years due to budget constraints.
- In 2012, the total arts and culture grants budget was \$19,389,200. All recipients of grants are incorporated, not-for-profit organizations whose activities support the objectives of the City's adopted Culture Plan.
- In 2011, the arts and culture grants funded approximately 471 arts organizations, 240 projects and approximately 237 individual artists.
- In 2011, funding supported over 15,000 arts and cultural events with total attendance of approximately 18.2 million people, and engaged civic participation with over 32,000 volunteers contributing over 800,000 volunteer hours
- 2012 Operating support (estimated) totalling \$21.306 million includes the following Services:

- Cultural Services (EDC) \$14.985 million
 - Film Office (EDC) \$1.008 million
 - Heritage Preservation (City Planning) \$1.286 million
 - Theatres (Sony, St. Lawrence, TCA) \$3.713 million
 - Heritage Toronto \$0.312 million
- 2012 Capital costs include \$6.9 million for Restoration / Preservation of Heritage Elements, Major Maintenance, Cultural Infrastructure Development (incl. Fort York Visitors Centre) and Public Art acquisition and maintenance.

2. In-kind support for festivals/parades:

- Support for festivals and parades include in-kind services by solid waste management, Toronto Fire services, EMS, TTC, and through waving of permit fees.
- The City provides in-kind services to 3 major cultural events (Caribbean Carnival, Pride and Nuit Blanche), with a 2012 operating budget provision of \$786,000.

3. Other Support - Property Tax Rebate for Charities and Similar Organizations:

- The *City of Toronto Act, 2006* (as well as the *Municipal Act*) mandates municipalities to adopt a property tax rebate program for registered charities that own or occupy space in the commercial or industrial property classes. Such a program must provide a tax rebate of not less than 40% of total property taxes paid, of which the province shares its cost in education property taxes. Municipalities can adopt programs that provide a rebate of up to 100% of property taxes, and can include "similar organizations" as may be identified in the municipality's by-law.
- The City of Toronto's program provides for a 40% tax rebate to registered charities in commercial and industrial spaces.
- In 2012, there were 893 eligible applications received from registered charities, for which the City will rebate \$5.683 million in municipal taxes.
- Of these, staff have identified approximately 99 organizations of an arts and culture nature, for which the municipal taxes rebated is approximately \$328,000.

INDIRECT SUPPORT

Indirect support reflects support for arts and culture, as included in the Culture Division's definition, that does not have specific program budgets, but rather represents opportunity costs, foregone revenues, and/or contingent liabilities.

4. Below Market Rent Leases (BMR):

- Below market rent or nominal rent leases represent an opportunity cost/foregone revenue opportunity for the City.

- It has been estimated that the City leases space to 93 non-profit organizations providing community and cultural services.
- Of these, 23 properties/spaces have been leased at BMR or nominal leases to 21 organizations that are concerned with arts and culture programs that meet the City's cultural objectives as approved by Council in the Culture Plan.
- Typically, under such leases, the tenant is responsible for all operating costs and any property taxes assessed on it.
- The Facilities and Real Estate Division administer the BMR program and estimates the value of such leases to the tenants at \$ 1.15 million per year to arts and cultural organizations.
- The estimated value of the property to the tenant does not necessarily equate to foregone rent revenue to the City. Some of the properties were underutilized or vacant prior to the introduction of the culture use under a BMR lease. For two of the properties, the City provided the tenant with a derelict property in which significant investments in site improvements were required of the tenant (Wychwood Car Barns and the Don Valley Brickworks), and for these two properties, no value was ascribed to the lease.
- Economic Development and Culture staff have not been able yet to collect comprehensive information that would permit a like to like comparison of indirect expenditures on Below Market Rent by the other four key cities cited in the *Municipal Cultural Investment in Five Large Canadian Cities* study. The Report did note that all other cities do provide indirect support for arts and culture in ways similar to that of Toronto, including nominal rent leases. The chart below indicates that lease rates are comparable amongst these jurisdictions, so the value of this indirect support should be comparable.
- Average Lease Rate 2012 (per square foot net)

	Toronto	Vancouver	Montreal	Ottawa	Calgary
Industrial	\$5.14	\$7.58	\$5.00	\$7.87	\$8.20
Commercial	19.11	29.23	20.03	21.10	25.50
Office-Class A	20.14	22.32	18.72	20.64	25.44

Sources: TREB, Cushman & Wakefield, CBRE

5. Property Tax Exemptions and Private Members' Bills:

- Tax exemption represents a foregone revenue opportunity to the City, albeit it is by way of Province enacting property specific statutory legislation. In some cases, the Private Members' Bills provide for the City to cancel taxes, and in other cases, it simply exempts them from taxation. Such legislation dates back to the late 1800's and there may be around a thousand such pieces of legislation in Ontario alone.
- Staff have identified at least 46 properties owned and occupied by organizations in Toronto of an Arts and Culture nature and with exemptions by way of Private Members' bill, resulting in foregone municipal tax revenue estimated at over \$14 million per year. Included in this figure are nine organizations that receive tax exemption or cancellation of 100% of property taxes under the City Ethno-Cultural Tax Relief program as made available through Private Members' bills.

- 19 of these 46 properties relate to organizations meeting the Culture Division definition of cultural organizations, including three major ones totalling approximately \$7.9 million of estimated forgone revenue. Approximately 40% of this amount relates the exemption on the Art Gallery of Ontario.

OTHER CULTURAL RELATED SUPPORT

6. Property Tax Exemptions and Private Members' Bills (ethno-cultural and other organizations not included in Culture Division's definition):

- 27 of the 46 organizations identified through Private Members' bills relate to ethno-cultural or other organizations, such as the Royal Ontario Museum, which is not included in the Culture Division definition of cultural organizations, totalling \$6.2 million of forgone revenue. Approximately 70% of this amount relates the exemption on the Royal Ontario Museum.

7. Other Support – Section 37 Payments for Arts and Cultural Infrastructure:

- In the planning and development approval process, in exchange for additional density than would otherwise be permitted, Section 37 and Section 45 funding may be negotiated with the developer for community benefits.
- In 2012, a total of \$486,843 in Section 37 disbursements were made to 3 organizations. Another 10 agreements were entered into towards art or cultural projects with a value of \$3.6 million, however, there is no guarantee these funds will be received if the development does not proceed, nor when the funds will be received, which is typically at building permit. For this reason, it is included in this 'Other Cultural Relate Support' Category.
- The availability of such funding Section 37 and 45 agreements can vary widely from year to year. For this reason, the Chart identifies the potential funding average over the past three years (for Section 37 and 45 agreements entered into between 2010 and 2012), estimated at \$2.8 million averaged over 3 years.

8. Line of Credit/Loan Guarantees:

- Issuance of loan guarantees is considered to be a financial commitment of the City, and recorded as a contingent liability. There is no financial cost to the city unless the benefitting organization defaults on its obligation and the City cannot recover the funds. For this reason, this item has not been included in the Chart, nor can an average per capita value be ascribed to it.
- Council has approved the Policy for the Provision of Line of Credit and Loan Guarantees for Cultural and Community-Based Organizations that have a financial relationship with the City. The Capital Loan and Line of Credit Guarantee Policy is limited to an aggregate of \$125 million and the Operating Loan and Line of Credit Policy is limited to an aggregate of \$10 million that can be issued by the City to these organizations. At December 31, 2011 the City had provided capital loan guarantees to

certain third parties amounting to \$64.45 million and operating loan and line of credit guarantees of \$4.3 million.

- Lines of Credit and Loan Guarantees allow arts and cultural organizations to access commercial credit. In some instances, the City has made direct loans to its agencies, such as the Toronto Centre for the Arts (TCA) (formerly NYPAC).
- Non-profit organizations that have little to no assets often require a city guarantee in order to obtain credit necessary to deal with operating cash flow fluctuations that occur during the year. In other cases, when a non-profit cultural or other non-profit organization requests financing from a financial institution for a capital asset or an operating line of credit, the lender may require a third party to act as a guarantor prior to extending credit. When the City acts as a guarantor, the organization usually receives a more advantageous interest rate and credit terms.
- Staff have identified 4 lines of credit guarantees (totaling \$4.3 million), 7 capital loan guarantees (totaling \$10.85 million) to external arts and cultural agencies under this policy. Outside of the current policy, as a result of a decision by a pre-amalgamation municipality, there is one direct loan in the amount of \$10 million to a City agency – TCA (formerly NYPAC).

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