

## **Design Exchange (DX) 2014 Report**

<b>Date:</b>	February 10, 2014
<b>To:</b>	Economic Development Committee
<b>From:</b>	Michael H. Williams, General Manager, Economic Development & Culture
<b>Wards:</b>	All
<b>Reference Number:</b>	AFS #18514

### **SUMMARY**

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As part of the redevelopment of the former Toronto Stock Exchange (TSE) site at 234 Bay Street, the City secured a long-term lease for space to accommodate a design showcase/centre. A development agreement with the TD Centre required the developer to pay \$500,000 per year to the City until 2013 for the use and benefit of the occupant of the design showcase/centre. This showcase/centre has been provided by the Design Exchange (DX) since the agreement was signed. When the developer's payment is received by the City, in September each year, the funds are placed in a reserve fund to pay the occupant (DX) grant in the following calendar year, i.e. the funds received in 2013 are to be paid out in 2014. The process is revenue neutral to the City.

The DX forecast a modest surplus before amortization of \$31,600 for 2013, as compared to a deficit of \$297,687 in 2012. But higher than projected costs to mount the Christian Louboutin blockbuster, and a decrease in venue rental income resulted in a projected deficit for 2013 of \$187,400 on revenues of \$3.1 million. This exhibit put DX on the international cultural map, and met its targets for attendance, sponsorship and grants, resulting in unprecedented media and PR coverage. For 2014 DX is working with guest curators to develop new shows at lower costs and to balance revenue and programming streams, and is projecting a small surplus, before amortization, of \$3,727.

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. The Design Exchange re-established itself as a design museum offering programming with broad public appeal, and in 2012 a new President was hired. 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 DX operations.

This report recommends that Council approve the Design Exchange 2014 flow through grant of \$500,000, and as this grant is the final developer flow-through payment, Council also request the General Manager, Economic Development & Culture, to assist the DX in its efforts to secure additional sources of funding and report back in May 2014, on a sustainability strategy for the Design Exchange, in time for consideration of any direct City support as part of the City's 2015 budget process.

## **RECOMMENDATIONS**

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**The General Manager, Economic Development & Culture recommends that City Council:**

1. 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. request the General Manager of Economic Development & Culture to report back to the Economic Development Committee on a sustainability strategy for the Design Exchange in May 2014 for consideration of any direct City support as part of the City's 2015 budget process.
3. request the Design Exchange and its Board of Directors to provide the General Manager, Economic Development & Culture with all the information required on its sustainability strategy and progress in securing other public and private sector funding; and
4. request the General Manager, Economic Development & Culture to continue to work with the Design Exchange to provide assistance as required, review DX's progress and assist the DX Board in its efforts to secure other sources of funding.

### **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 2014 operating budget approved by Council as both a revenue (transfer of funds from the developer) and an expense (transfer of funds to the DX).

This report recommends that a sustainability strategy for the Design Exchange be reported to the Economic Development Committee in May 2014 to allow consideration

of direct City support to the DX in the 2015 Operating budget submission. No source of funding has been identified at this time.

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 renewal of the grant agreement with the Design Exchange. 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>

In ED20.3, on April 3 and 4, 2013, Council requested the staff report back to EDC on DX's progress in implementing the new strategic plan, toward achieving self sufficiency, and regarding DX's eligibility to receive City funding. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ED20.3>

At its meeting on January 29, 2014, Council adopted Motion 11, Item EX37.1, requesting the General Manager, Economic Development & Culture report to the Budget Committee through the Economic Development Committee in time for the 2015 budget on a sustainability strategy for the Design Exchange. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.EX37.1>

## **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 received the final payment from the developer in September 2013, for a grant to the DX for 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 Mary Fragedakis and John Parker 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. According to George Yabu of Yabu Pushelberg, an international interior design firm with studios in Toronto and New York, with today's global savvy consumer, "... , design is not a vanity industry. Such intellectual activity provides an essential goalpost for Canada to lead and provide for a better-functioning world".

*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 2013 Program Highlights**

2013 programming highlights included: Stefan Sagmeister's Happy Show from ICA Philadelphia, January 9–March 3, 2013, with 10,000 attendees; Game of Thrones, March 9-16, 26,000 attendees; Christian Louboutin from Design Museum London, June 21–September 15, 25,000 attendees; and Hermes Festival Des Metiers, October 2-6, 7,000 attendees. The Festival Des Metiers Gala was chosen one of 2013's best galas. Related programming was developed for the major exhibitions, including a series of panel discussions featuring design luminaries. Additional 2013 talks included Ron Arad (March 12), Guilio Cappellini (March 19), India Hicks (April 23), and Marcel Wanders (May 4) with average audiences of 250. This high profile series of programming has resulted in unprecedented public interest. DX sold more tickets to its annual fundraising gala than ever. Overall DX 2013 attendance was 81,000. Media impressions for the year are estimated at 636,862,522. Corporate sponsorships related to programming totalled \$521,000. An additional offering of corporate patronage has generated \$70,000 to date. The Christian Louboutin exhibit received \$175,000 in provincial tourism grants and youth programming received \$125,000.

DX membership is up 20% over 2012, at 529. DX has 135 volunteers working with the organization. DX had: 863 entries from across the country to the High School Competition, presented by Sears; 34 entries for the Post-Secondary Competition presented with support from the province of Ontario; and almost 100 entries nationally for the Emerging Designer Competition, supported by RBC Foundation, with an esteemed jury including Douglas Coupland, Heather Reisman and Marcel Wanders. No entry fees are charged for the competitions, and free learning resources are provided to students and teachers. Winners receive monetary prizes, and are included in public exhibitions at the Design Exchange.

DX offers fully subsidized exhibition tours & workshops to schools and community groups in need, funded through a partnership with TD Bank. Of the 982 students who

attended in 2013, almost 200 were subsidized to do so. There were 393 attendees at DX's 2013 Summer and March Break Camps. The DX is able to offer a number of camp sponsorships to children who may not otherwise have the means to attend. Each sponsorship covers camp fees, TTC transportation and healthy snacks.

In 2013 DX launched a new Community Outreach program, offering design workshops to children in community centres in high priority neighbourhoods. Two programs were held at the Cabbagetown Youth Centre, with a total of 60 participants. Global Television's "Making a Difference" broadcast interviews from one of the sessions at Kaleidoscope Kids in the Pape/Cosburn corridor, where a total of 40 students designed their dream city, gaining an understanding of how design can help make people healthier, happier and more successful.

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.

## **2014 Programming**

This is Not a Toy is the world's first exhibition featuring a collection of contemporary sculptures, figurines and artworks created by international artists including Takashi Murakami, KAWS, FriendsWithYou, Coarse, Huck Gee and Frank Kozik. Curated by John Wee Tom and DX Associate Curator Sara Nickelson, with Guest Curator Pharrell Williams, this will be the largest exhibition the DX has produced to date. Additional programming will include Family Sundays, a series of special evenings with sponsored refreshments and entertainment, and free Friday lunch tours. DX President Shauna Levy says, "What I love about this show is that it's so inclusive." In her review for the Toronto Star, Jeanne Beker said the designs on display "...are bound to speak volumes to the inner kid in all of us." The show runs February 7- May 18, 2014.

My Favourite Thing, presented by DX, ACIDO and City of Toronto, will create design awareness for the public, via a mobile booth where experts and passersby are interviewed on video about their favourite object. Answers will be shared via social media and major screening of a short film to follow.

Shaping Beautiful Cities is a community outreach series of family workshops focussed on Toronto's priority neighbourhoods, presented with TAS, a Toronto-based developer. Led by DX instructors, the program launched January 25 in association with the Toronto Design Offsite Festival, and covers community building in all design disciplines.

Additional programs planned for this year include: Pecha Kucha Talk on Collecting, April 1; Paper Archives, a mini DX Permanent Collection exhibition April 16-May 18; Unscripted, a new speaker series pairing two creatives representing different disciplines, including an intimate dinner and video series capturing the talk; Style & Substance talk, June 2014; The Politics of Fashion | The Fashion of Politics, September 18–December 7,

which will explore some of the ways fashion has helped ignite political awareness and how politics have dictated style through the decades, presented by international fashion icon Jeanne Beker, with related programming including a fashion workshop and monthly talks; The RBC Emerging Designer Competition Exhibit, February 20-April 1, celebrating the future of Canadian design with selected works by the winner, the Caesarstone People's Choice Winner and the winner in each category; DX Talks including Dr. Kenneth Montague in conversation with Omer Arbel on February 19 and Netherlands interactive designer Dan Roosegarde on May 8; March Break Camp and Summer Camps July 7-August 29; Connect, a provincial post-secondary design competition exploring accessible design May 29-June 8; High School Competition, to promote study and awareness of design in schools across Canada, with prizes in industrial, fashion, costume, interior and graphic design as well as architecture/landscape architecture June 13-22; a new Halloween Workshop on costume design for children 9-12; and DX School Tours & Workshops, funded by TD Bank Group, including free teacher preview evenings, introduction to design, chair design and toy design workshops, and a series of full-day themed programs offered in partnership with Canadian Stage Theatre & Design; and well as the DX Intersection annual fundraiser November 7.

## **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 Design Exchange's funding base of \$3.1 million is diverse and includes rentals, sponsorships, donations, memberships, admissions and registrations as well as the \$500,000.00 annual flow through developer's grant approved by City Council. For 2013 the DX forecast a modest surplus before amortization of \$31,600, as compared to a deficit of \$297,687 in 2012. Revenue was very close to budget overall, with government grants above budget and rentals below. But expenses were higher than projected overall, with increases most notably in programs & events and administration, although they were lower in other areas such as rentals, marketing and fundraising. Limitations in the DX facility contributed to higher than expected installation costs for the Christian Louboutin blockbuster, resulting in a projected deficit for 2013 of \$187,400.

**Table 1 – Comparison of DX actual vs. budgeted figures for 2011-2014**

	2011 Approved Budget (\$000s)	2011 Audited Actuals (\$000s)	2012 Approved Budget (\$000s)	2012 Audited Actuals (\$000s)	2013 Approved Budget (\$000s)	2013 Projected Actuals* (\$000s)	2014 Approved Budget (\$000s)
<b>1. Revenue</b>	2,632.5	2,644.8	2,950.8	2,413.2	3,100.1	3,076.7	3,416.9
<b>2. Expenses</b>	2,621.2	2,580.1	2,832.4	2,710.9	3,068.5	3,264.1	3,413.2
<b>3. Surplus/(Deficit) – (before amortization)</b>	11.3	64.7	118.4	(297.7)	31.6	(187.4)	3.7
<b>4. Amortization of Capital Assets</b>	(365.2)	(374.4)	(368.6)	(376.9)	(387.5)	(368.8)	(368.7)
<b>5. Reorganization Costs</b>		196.9	104.6				
<b>6. Net Operating Surplus/(Deficit)</b>	<b>(353.9)</b>	<b>(506.6)</b>	<b>(354.8)</b>	<b>(674.6)</b>	<b>(355.9)</b>	<b>(556.2)</b>	<b>(365.0)</b>

\*Draft figures for period ending December 31, 2013

Since 2011 the DX has seen strong revenue growth of 16%, indicating that the strategic plan is working. Donations and sponsorships are up 73%; registration fees and admissions are up 330%; government grants are up 217%; and memberships are up 19% over the same period. To provide space for exhibits and programming in line with the new strategic direction, rentals and commissions have dropped 40%.

Expenditures increased 27% overall to implement the new strategic plan. Programs and exhibitions have increased 52%, marketing 430%, over 2011. There has been a 59% drop in rental expenditures. While expenditures have outpaced revenues, the annual shortfall is decreasing, from \$297,687 in 2012 to \$187,400 in 2013.

For 2014 the DX is projecting a small surplus of \$3,700. Revenue is forecast to increase in all categories, including rentals, admissions & registrations, contributions & sponsorships, government grants, memberships and donations, with an overall increase of approximately 10%. Expenditures are forecast to increase approximately 10% overall, with decreases in communications, professional services, and event expenses, and increases in all other categories. For 2015 the DX will continue its focus on balancing the budget. For 2016 conservative growth is forecast for revenues, expenses hold steady, and a modest surplus of \$54,981 is projected. More information about the DX's sustainability strategy will be presented in the next report.

### **2013 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.

<b>Table 2 – DX Building Occupancy and Maintenance Costs 2010-2014</b>						
	2010 Actuals \$000s	2011 Actuals \$000s	2012 Actuals \$000s	2013 Budget \$000s	2013 Actuals \$000s	2014 Budget \$000s
1. Maintenance salaries & benefits	57.4	38.0	40.0	38.6	91.2	52.7
2. Rent & Building shared costs	450.6	455.5	459.5	458.8	459.0	459.0
3. Cleaning contract	42.2	39.5	45.3	43.0	63.2	68.5
4. Maintenance	20.5	23.9	28.1	29.4	11.7	12.6
5. Insurance	21.2	23.2	21.5	24.4	24.7	24.7
6. Total	<b>591.9</b>	<b>580.1</b>	<b>594.4</b>	<b>594.2</b>	<b>649.8</b>	<b>617.5</b>

As shown in Table 2, overall 2013 costs were 10% above budget due to higher costs associated with programming, and higher than 2012 expenditures in several categories. Installation of larger exhibits accounts for much of the increase in maintenance salaries & benefits and cleaning. Fewer event rentals have resulted in fewer repairs required. Overall DX's 2013 building occupancy and maintenance costs exceeded the amount of the City's grant by almost \$150,000 for the year. The DX forecasts a decrease overall in total costs for 2014, with staff doing office cleaning to lower maintenance salaries & benefits costs.

### **DX Capital and Maintenance Plan**

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

In 2013 DX spent \$18,485 on maintenance, including general maintenance and equipment testing and repairs (see Appendix 1). \$27,750 was budgeted in these and additional categories. 2012 expenditures totalled \$28,140. For 2014, \$6,300 in general maintenance expenditures are planned.

2013 capital improvement projects totalled \$26,564, for exhibition system cases, a new security system, wireless network installation and a new glass door in the lobby. The DX had budgeted \$14,500 for exhibition system cases and elevator cab renovation. 2012 expenditures totalled \$14,397. Planned capital improvement expenditures for 2014 total \$31,544 for new Bay St. lighting, the security system, library renovations and a new ice machine for events.



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 2013 total \$198,970 for maintenance and \$288,679 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 & 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 2011, with assistance from the City, the Design Exchange hired Lord Cultural Resources to develop a new strategic plan to address the issue of long-term sustainability. With DX's chosen focus as a design museum, the new plan includes short-, medium-, and long-term strategies for programming, governance, revenue and facilities, to help guide the organization over the next ten years.

The DX Board quickly began implementing the new plan. Following the 2012 hiring of a new president and interim general manager, in 2013 DX hired a new general manager and an associate curator. A series of appointments have been made to strengthen and diversify the Board. DX is working to generate \$500,000 net in additional revenue to replace the developer's grant, which ends in 2014. The facility rental business is being optimized to generate additional revenue. Higher quality major exhibitions, together with comprehensive programming and marketing plans are helping contribute to DX's earned revenue potential. These initiatives have already generated significant increases in admissions and registrations, sponsorship, memberships, and project support from other orders of government.

For 2014 DX will build on the successes achieved in 2013, working with guest curators including Pharrell Williams and Jeanne Beker, who have large followings and great public awareness. The development of in-house exhibitions is part of DX's strategic plan, to work with partners that can bring resources to the DX, increasing attendance and helping to balance revenue and programming streams. For 2015 the DX will be working with Marie O'Mahony on a textile, technology and sport exhibition in association with the Pan Am games. There is interest in travelling this show to international locations.

In the medium term DX is forecasting further increases in admission revenue, more corporate sponsors and additional revenue from the presentation of the inaugural design festival. In the longer term DX will draw added money through fundraising. Its reputation as a leader in the design field will attract new members and sponsors nationally.

In the meantime the Design Exchange will have challenges meeting its 2015 operating costs. DX requires financial support from the public sector to help facilitate the transition

and enable it to achieve its goals. According to the research conducted by Lord in preparing the strategic plan, for other museums "...government funding typically accounts for 40%-50% of revenue; DX receives only 1%." DX's earned income activities competes and conflicts with mission-related programs with respect to resources and space allocations, and with public perceptions. Members of the DX Board of Directors have been meeting with senior staff and politicians at all three orders of government to discuss opportunities for ongoing funding.

It is imperative that the Design Exchange Board of Directors make every effort to secure support from federal and provincial partners, while continuing to grow private sector contributions. Without such support DX will be unable to succeed in its efforts to develop a more sustainable financial and organizational model to assure growth into the future.

Staff reviewed the DX grant submission as per the grant agreement and recommend: Council approve the 2014 grant request of \$500,000, plus interest accrued; request that the Design Exchange Board provide all the information on its sustainability plan and success in securing additional sources of funding; request that the General Manager of Economic Development & Culture report back in May 2014, for the 2015 budget, on a sustainability strategy for the Design Exchange; and assist DX with its efforts to secure additional sources of funding.

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## **SIGNATURE**

Michael H. Williams  
General Manager  
Economic Development & Culture

## **ATTACHMENTS**

Attachment 1: DX Capital and Maintenance Plan 2010-2014

	2010 Actual	2011 Actual	2012 Actual	2013 Budgeted	2013 Actual	2014 Budgeted
<b>Maintenance</b>						
1.General Maintenance Fund	4,891	4,954	17,831	7,250	10,636	6,300
2.Equipment Testing and Repairs		874		1,500	7,849	
3.Safety Fund	266	644		1,000		
4.Painting	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	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				4,000		
14.HVAC Maintenance						
<b>Maintenance Total</b>	<b>15,243</b>	<b>16,326</b>	<b>28,140</b>	<b>27,750</b>	<b>18,485</b>	<b>6,300</b>
<b>Capital Projects (New Improvements)</b>						
1.Conservation Equipment						
2.Exhibition System Cases		10,663	12,572	12,000	3,915	
3.New Bay Street Lighting						4,500
4.Genie Lift						
5.Lobby Renovation						
6.North Door Canopy						
7.Exterior Signage						
8.Phones						
9.Cafe Washrooms						
10.Resource Centre Blinds						
11.House Lights						
12.Elevator Cab Renovation				2,500		
13.Wayfinding/Signage						
14.New Security System					8,867	9,000
15.Trading Floor Storage						
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				
23.Sound System for Front Desk						
24.Sound System for Teknion Lounge –Wireless Mic						
25.Second Floor Kitchen Reno			1,825			
26.Boardroom Blinds						
27.Lobby Bathrooms						
28.Stacking Catering Ovens						
29.Store Shelving & Display						
30.Elevator Drain Installation		2,154				
31. Lighting		32,464				
32.Hot Water Tank	5,238					
33.Permanent Electrical Tie In						
34.Fridge & Sink Repairs In Studio Space						
35.Refinish Wood Floors						
36.Chairs for Events						
37.Wireless Network Installation					10,681	
38.New Glass Door in Lobby					3,102	
39. Library Renovations						13,044
40.New Ice Machine for Events						5,000
<b>Capital Projects Total</b>	<b>5,238</b>	<b>50,989</b>	<b>14,397</b>	<b>14,500</b>	<b>26,565</b>	<b>31,544</b>