

Design Exchange (DX) Sustainability Strategy & Funding

Date:	May 6, 2014
To:	Economic Development Committee
From:	Michael H. Williams, General Manager, Economic Development & Culture
Wards:	All
Reference Number:	

SUMMARY

City Council provides financial support to major cultural organizations that are recognized as essential cultural ambassadors for the City and whose programs have a significant impact on the regional economy by playing a major role in tourism attraction through the development of Toronto as a worldwide cultural destination. The Design Exchange (DX) is well on its way to being one of the most important cultural institutions in the City of Toronto.

With a revitalized strategic direction and refined mandate, to promote the relevancy and experience of design to as large a number of people as possible, the DX is now exclusively a Design Museum offering exhibits from prestigious cultural institutions across the globe; a new city-wide cultural component with a greater focus on educational experiences for both youth and adults, as well as a rollout of in-house programming that will extend across the country.

The DX is currently undergoing a significant expansion that will strengthen Toronto's reputation on the international cultural map. Located in the historic Toronto Stock Exchange, for the past twenty years the DX has hosted exhibitions, competitions and educational programming dedicated exclusively to the pursuit of design excellence. They have demonstrated sound financial management and are working towards a diverse and growing funding base. The DX has requested \$200,000 in financial support from the City, starting in 2015, to help transition from receiving an annual grant of \$500,000 from a private developer for the last few decades and which ended in 2014.

RECOMMENDATIONS

The General Manager of Economic Development and Culture recommends that City Council:

1. Request the Design Exchange (DX), through its Board of Directors and President, to submit a comprehensive strategic and business plan to the General Manager, Economic Development & Culture by July, 2014, describing the sustainability of the organization into the future and the value contribution to Toronto that together would be considered in a grant application;
2. Direct the General Manager, Economic Development & Culture to prepare a business case, based on the information provided in the comprehensive strategic and business plan submitted by the Design Exchange (as requested in Recommendation 1 above), to be included in the 2015 budget submission for City Council, whether to consider providing annual support to the DX up to \$200,000, and whether to designate DX as a Major Cultural Organization;
3. Direct that funding in the amount of \$100,000 continue to be held by the City in the DX Reserve Fund (XR3205) for capital expenditures or extraordinary maintenance and repairs for the term of the sublease; and
4. Direct the General Manager of Economic Development & Culture to continue to work with the Design Exchange to provide assistance to support the DX to fulfill its Strategic Plan, to review DX's progress and to assist the DX Board in its efforts to secure other sources of funding.

Financial Impact

There are no 2014 financial implications associated with this report.

DX will have challenges meeting its 2015 operating cost requirements without government support. Should City Council authorize a \$200,000 grant to the DX, it would represent approximately 5% of the DX's annual operating budget and is consistent with the City's contribution levels to other Major Cultural Organizations.

A request for funding in the amount of \$200,000 and the proposed funding sources will be included for consideration as part of the 2015 Operating Budget submission for Economic Development & Culture Division. The source of additional funding has not 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

In ED20.3, on April 3 and 4, 2013, Council requested staff report back to Economic Development Committee on DX's progress in implementing the new strategic plan and toward achieving self sufficiency, and regarding DX's eligibility to receive City funding. <http://www.toronto.ca/legdocs/mmis/2013/ed/backgroundfile-56286.pdf>

On June 25, 2013, in ED23.5, the General Manager, Economic Development & Culture, advised the Committee that the report on DX's eligibility for City funding would be provided in the fall. <http://www.toronto.ca/legdocs/mmis/2013/ed/bgrd/backgroundfile-59467.pdf>

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 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>

At its meeting on April 1, 2014, in ED29.6, Council requested the General Manager, Economic Development & Culture to report to the May 21, 2014 meeting of the Economic Development Committee on a sustainability strategy for the Design Exchange for consideration of any direct City support as part of the City's 2015 budget process. <http://www.toronto.ca/legdocs/mmis/2014/ed/bgrd/backgroundfile-66931.pdf>

ISSUE BACKGROUND

The City secured a long-term lease of space at 234 Bay Street, now occupied by the Design Exchange (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 at \$1 per year.

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.

The developer agreed to make annual payments of \$500,000 to the City for last couple of decades, until and including the year 2013, for the use and benefit of the design

showcase/centre occupant of the premises, subject to conditions set out in the development agreement. This process was revenue neutral to the City. The City's grant agreement with the Design Exchange required that the grant be used to pay operating costs related to the premises to ensure the facility is kept in a state of good repair. In 2013 these costs totalled \$649,800. The City received the final payment from the developer in September 2013 which was then issued as a grant to the DX in April 2014.

Under the City's grant agreement with the DX, a \$100,000 reserve fund was created for capital expenditures or extraordinary maintenance and repair costs. Staff are recommending the City continue to hold the reserve fund for the term of the sublease. These funds would be available for use by the DX for capital expenditures or extraordinary maintenance and repair costs, provided that the General Manager, in consultation with the Deputy City Manager and Chief Financial Officer, has first reviewed the proposed use of such funds and that the use of the funds has been approved by Council. If funds are provided to the DX, the reserve fund shall be replenished from any future grant funds provided to the DX, in accordance with a repayment schedule approved by the City. The DX shall be entitled, upon request, to a yearly statement respecting the reserve fund.

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, the U.K. Design Council and the Design Management Institute in the U.S. have all recognized the link between design, innovation, commercialization and prosperity. The DX and the City share a common mandate to promote design.

COMMENTS

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 for the DX. 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 its new president, Shauna Levy, 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. The facility rental business is being optimized to generate additional revenue. Higher quality major exhibitions (such as the very successful *This is Not a Toy*, a exhibition currently on display showcasing contemporary art and collectible design), 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 senior orders of government.

Current Financial Situation

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, many venue-related, and a decrease in venue rental income, resulted in a deficit for 2013 of \$223,282 on revenues of \$3.1 million. The historic building, while it has its operational challenges, is also an asset. It is a source of important rental revenue supporting the operating needs of the organization. The DX is committed to remaining in its current location for at least the next five years. The Louboutin 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 to balance revenue and programming streams and is projecting a small surplus, before amortization, of \$3,727. For the first quarter of 2014 DX operations are close to forecast. Revenues are slightly below overall, with rental and commissions slightly ahead, and the variance in donations, contributions and sponsorships resulting partly from timing. Expenditures are below budget overall, with variances partly related to timing as well.

Program Highlights & Results

The *Christian Louboutin 20 Year Retrospective* from the Design Museum London, June 21-Sept. 15, 2013, the exclusive North American presentation, garnered 47,458,202 media impressions - 22,000 attended. *Hermès Festival des Métiers*, Oct. 2-6, 2013, was attended by 7,000. *Playing Favourites Part I: Light & Sound*, Mar. 25-July 28, 2013 and *Part II: Geometry (Textures)*, Oct. 26-Jan.3, 2014, featured works from the DX's permanent collection alongside pieces from contemporary Canadian designers. *100% TOBEUS, 100 Designers for 100 New Toy Cars*, Nov. 16-Feb. 9, 2014, co-sponsored by the Italian Cultural Institute, received 14,205,513 media impressions. *This is Not a Toy, An Exhibition of Contemporary Art & Collectible Design*, guest curated by Pharrell Williams, Feb. 7-May 19, 2014, is the largest exhibition produced to date by the DX. It has received over 388 million media impressions in over 360 publications and record attendance to date. *Tapas: Spanish Design for Food*, June 12-Aug. 10, 2014, will be co-

sponsored by the Government of Spain. *The Politics of Fashion/Fashion of Politics*, Sept. 18, 2014 – Jan 25, 2015, will be guest curated by the international fashion icon Jeanne Beker with projected attendance of 25,000. *Press Start: Enter the New Age of Fabrication*, Mar.–June 2015, will be guest curated by Prototype Design Lab. *Pan Am 2015: Sportswear Exhibition*, will be curated by Marie O'Mahony, June-Dec. 2015. The DX is the only major museum provided funding to create a special exhibition for the games.

This high profile series of programming has resulted in unprecedented public interest. Related programming is well subscribed. In 2013 DX sold more tickets to its annual fundraising gala than ever – more than 800 attended. Four Grand Soirées presented by Grand Marnier during the Louboutin exhibit each attracted 450, targeting a younger patron demographic. In the 2013-2014 school year, tour and workshop attendance doubled to more than 2,000, with subsidized workshops offered in partnership with TD Bank. Registrations for *DX March Break* and *Summer Camps* continue to increase. As of April 28, 80% of *DX Summer Camps* were already filled. In 2014, more entries were submitted in *DX's Connect: Enabling Change Post-Secondary Design Competition* than in the previous 2 years combined and provincial sponsorship for the 2015 competition has already been confirmed. *DX's High Priority Neighbourhood Program* kicked off in Jan. 2014. DX has led 10 workshops with community organizations to date. In 2014, DX launched the inaugural *Emerging Designer Competition* in partnership with RBC Foundation, the first national competition of its kind, and received 314 entries.

Overall DX exhibition attendance increased from 13,630 in 2010 to 81,000 in 2013. Corporate sponsorship/patronage/membership increased 40% to \$626,000 in 2013. Project grants increased from \$28,600 in 2010 to \$300,000 in 2013.

Plan 20/20, DX Sustainability Strategy

The Design Exchange has created a new revenue strategy to be implemented alongside efforts to increase government support to 20% of revenues by 2020. Special events revenue is forecast to increase 10% per year. Exhibition attendance will grow 15% per year. The number of major exhibitions hosted will be increased to 3 per year in 2017. An annual sponsorship/membership growth rate of 5% is projected. Admissions are forecast to grow at 15% per year. Management will continue to focus efforts on corporate sponsorship tied to programming. New diversified fundraising projects will be created, also tied to programming. Together with the Board, management will work to grow operational sponsorship and corporate patronage. Efforts will continue to secure support from foundations and individuals who have demonstrated cultural philanthropy. In 2018 the DX will launch a new design festival.

While government grants for projects are expected to remain stable, the DX will work to secure operational funding from all three orders of government. A government relations

consultant has been hired to assist at the federal level. A number of discussions have taken place at senior levels with the Province and the City. The DX Board has created a new Government Relations Committee to assist in these efforts, under the leadership of a new Board member with more than 10 years of related experience.

The Design Exchange is looking to grow total revenue from \$3.3 million in 2014 to \$3.8 million in 2015, and requesting a total of \$800,000 in operating funding from government - \$200,000 from the City, and \$300,000 each from the provincial and federal governments. Securing this support from the City now will be helpful in securing funding from other orders of government.

Consideration for Support as a Major Cultural Organization

For many years, City Council has provided financial support through the Cultural Services operating budget to enhance major cultural organizations that are recognized as essential cultural ambassadors and infrastructure for the City, and for cultural attractions that have a significant impact for the benefit of Torontonians and towards cultural tourism enhancement. These organizations play a major role in enhancing a local cultural ecology, and in developing Toronto as a worldwide cultural destination. The Major Cultural Organizations funding category includes the Art Gallery of Ontario; Canadian Opera Company; National Ballet of Canada; National Ballet School; Toronto Symphony Orchestra; George Gardiner Museum of Ceramics; Pride Toronto; Festival Management Committee (Caribana); Toronto International Film Festival; Luminato; and Artscape.

In 2013, the City provided \$6,894,960.00 to the eleven major cultural organizations listed above. On average, these Major Cultural Organizations receive between 4 and 5 per cent of their operating revenue from the City. In considering whether the DX is a major cultural organization it needs to be evaluated under the major cultural organization's program criteria.

The following criteria are used to determine which cultural organizations are considered major cultural organizations for the purposes of city funding:

- a) Major cultural organizations are recognized as essential cultural ambassadors for the City and whose programs have a significant impact on the regional economy by playing a major role in tourism attraction through the development of Toronto as a world-wide cultural destination;
- b) Toronto-based major cultural organizations with operating budgets in excess of \$2,500,000 annually and/or audiences of 250,000;
- c) Cultural organizations that are non-profit and have demonstrated:
 - o a consistent level of professional standards

- artistic excellence
- international achievement
- a sound financial management system
- diverse funding base
- board accountability and
- are not fully self-supporting through private donations and self-generating income.

The Design Exchange is Canada's only museum dedicated exclusively to the pursuit of design excellence and preservation of design heritage. As a registered charity created in 1988, the DX's mandate is to effectively show and tell Canadians how design has an impact on their daily lives and to demonstrate what the possibilities are. As expressed by George Yabu of Yabu Pushelberg, an international interior design firm with studios in Toronto and SoHo, 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".

With regards to international achievement, the DX recently finished in 2013 an exhibition that was curated by the Design Museum London which celebrated the iconic French shoe designer Christian Louboutin's twenty year career of designs and inspiration, revealing the artistry and theatricality of his shoe design from stilettos to lace-up boots, studded sneakers and bejewelled pumps which are described as a magical journey of style, glamour, power, femininity and elegance.

From an artistic excellence perspective, 2013 saw *Stefan Sagmeister's Happy Show* from the Institute of Contemporary Art - Philadelphia at the DX. Sagmeister is known for not only testing the boundary between art and design, but often transgresses it through his imaginative implementation of typography. The *Happy Show*, a thematic exhibition of film, print, infographics, sculpture, and interactive installations offers visitors the experience of walking into the designer's mind as he attempts to increase his happiness via mediation, cognitive therapy, and mood-altering pharmaceuticals.

2014's *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 Curator Sara Nickelson, with guest curator Pharrell Williams, this is the largest exhibition DX has produced to date. The show is achieving record attendance and press, with over 388 million impressions to date from over 360 publications, including national and international media.

The DX's funding base of \$3.1 M (2013) is diverse and includes rentals, sponsorships, donations, memberships, admissions and registration. With their new president and good progress in implementation of their strategic plan, The Design Exchange is certainly on

its way in demonstrating its status as one of Toronto's Major Cultural Organizations. But in the meantime DX requires financial support from the City to help facilitate the transition and enable it to achieve its goals as outlined in the December 2011 Design Exchange Strategic Report prepared by Lord Cultural Resources.

DX will have challenges meeting its 2015 operating cost requirements without government support. The Design Exchange is requesting \$200,000 in operating funds from the City. Should City Council authorize a \$200,000 grant to the DX, that would represent approximately 5% of their annual operating budget, which would be consistent with the City funding provided to other Majors. The Design Exchange Board of Directors is implementing a plan to secure funds 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. The General Manager, Economic Development & Culture is recommending direction to prepare a business case for the City to provide annual support to the Design Exchange in the amount of \$200,000, for inclusion in the 2015 Operating Budget submission, including consideration by City Council of including DX as a Major Cultural Organization.

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SIGNATURE

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