



## STAFF REPORT ACTION REQUIRED

### Design Exchange (DX) Operations & Funding Update

<b>Date:</b>	October 26, 2015
<b>To:</b>	Economic Development Committee
<b>From:</b>	General Manager, Economic Development and Culture
<b>Wards:</b>	All
<b>Reference Number:</b>	AFS 21610

#### SUMMARY

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In April 2015, the Design Exchange (DX) requested and received transitional operating support from the City in the amount of \$200,000 for the current fiscal year. Council further directed the General Manager of Economic Development and Culture to submit an increase to the Division's grants program to provide ongoing support to the DX in 2016, and to report back to the Economic Development Committee in six months with an update on the status of the Design Exchange, including a business plan that addresses its future sustainability. This report is the six-month update on the status of the DX as requested by Council with a review of the submitted business plan.

#### RECOMMENDATIONS

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

1. City Council request the Design Exchange and its Board to report back to the General Manager of Economic Development and Culture with audited financial statements and an annual report on the most recently completed year with its request for funding in 2016; and
2. City Council direct the General Manager of Economic Development and Culture to continue to provide assistance to the Design Exchange to fulfill its Strategic Plan and its efforts to secure other sources of funding to achieve sustainability.

## **Financial Impact**

The Design Exchange was allocated \$200,000 in one-time transitional funding in 2015 towards its operating expenses, which was absorbed in Economic Development and Culture Division's 2015 Council Approved Operating Budget through revising other priorities. The contribution has been completely disbursed.

Economic Development and Culture has submitted a business case for an ongoing annual operating grant to the Design Exchange in the amount of \$200,000 as part of the EDC's 2016 Requested Operating Budget. The funding will be part of the planned overall increase to the City's cultural investment to \$25 per capita by 2017. Pending City Council approval of the Budget, there will be no further financial impact.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

## **DECISION HISTORY**

In May 2015 City Council authorized the allocation of one-time transitional funding of \$200,000 to the Design Exchange to be absorbed by the Economic Development and Culture 2015 Approved Operating Budget. The General Manager, Economic Development and Culture was directed to submit an increase to the grants program to provide an ongoing grant in the amount of \$200,000 for the DX starting in 2016. Council also requested the General Manager, Economic Development and Culture report to the Economic Development Committee in six months with an update on the status of the Design Exchange, including a business plan that addresses its future sustainability.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.ED3.7>

At its meeting of June 10, 11, 12 and 13, 2014, City Council requested the Design Exchange to submit a comprehensive strategic and business plan, and directed the General Manager of EDC to prepare a business case for ongoing support to the DX through its grants programs. It further directed the General Manager, EDC, to provide continued assistance to the organization to find other sources of funding and achieve a sustainable business model.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.ED31.4>

## **ISSUE BACKGROUND**

The DX is a cultural institution that champions creative thinking, inspiring problem solving and celebrates the innovative design talent of the best in Canada and internationally. It is the definitive voice for design in Canada. Its success to date is partially as a result of a real estate agreement between the City of Toronto and Cadillac Fairview which provided the historic Toronto Stock Exchange and adjoining space to the DX for hosting design exhibitions and special events. The developer agreed to make annual payments of \$500,000 for 24 years, for use by the occupant. The City received the final payment in September 2013, for a 2014 grant to the DX.

The contribution of \$200,000 from the City in 2015 provided the DX some stability as they reached out to other levels of government and the private sector to try to replace the \$500,000 funding from Cadillac Fairview. With increases in rental revenue, corporate sponsorship, membership and public-sector project funding, combined with the successful Dinner by Design, inaugural Design Auction, and upcoming DXI annual fundraiser, DX anticipates being very close to a balanced budget for the year. Plans are underway for new programming to increase sponsorships and revenue to ensure future sustainability.

The DX has provided the City with: a copy of their Strategic Plan, Direction for a New Future (2011), and an update on their progress implementing the plan; an updated copy of their Business Plan: Plan 20/20, including financial projections to 2019; their plan for EDIT, a new Expo for Design, Innovation and Technology to launch in 2017; their latest quarterly financial statements ending August 31, 2015; and DX's 2014 Audited Financial Statements. City staff have been working with the DX on their long-term plans for sustainability.

## **COMMENTS**

Established in 1994, the Design Exchange is a registered charitable not-for-profit cultural organization and is Canada's only museum dedicated exclusively to the pursuit of design excellence and preservation of design heritage. At the crossroads of multiple disciplines, from furniture and architecture to graphics and fashion, DX exhibitions and DXTalks reflect the popular zeitgeist and contemporary culture, while demonstrating the relevance of design to everyday life to all people. The DX is managed by an independent Board of Directors, with Councillors Mary Fragedakis and Mary-Margaret McMahan serving as the City's representatives on the DX Board.

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, for the use and benefit of the occupant of the premises, subject to conditions set out in the development agreement. The City received the final payment in September 2013, for a flow-through grant to the DX for 2014.

In 2015, to help the Design Exchange to deal with cash flow challenges, the General Manager of Economic Development & Culture allocated \$200,000 to the DX as one-time transitional funding. This funding was absorbed by the 2015 Approved Economic Development & Culture Operating Budget. The Design Exchange anticipated that an additional \$300,000 in funding could be raised from other levels of government and the private sector in order to collectively replace the \$500,000 funding from Cadillac Fairview that had finished as per the terms of the Section 37 Agreement. Council also directed the General Manager of Economic Development & Culture to submit an increase to the grants program to provide an ongoing grant in the amount of \$200,000 for the DX starting in 2016.

The DX program is not eligible under the Major Cultural Organizations but the Division will ask DX to comply with general program guidelines of that program and the Division will report back to the City.

### **Progress to Date**

The DX has successfully implemented Phase 1 (2012-2015) of its Strategic Plan by securing new leadership, strengthening and diversifying the DX Board, generating an additional \$500,000 in net revenue and developing a plan for long-term operational funding. A real estate analysis undertaken by DX determined the best use of the facility included adopting a satellite strategy for exhibitions, using the space for other DX design programs and events, and generating additional rental income to support DX programming. In 2015 two major DX exhibits were held offsite, taking design to the public. The collection was assessed and DX re-established a Permanent Collection presence in the lobby, providing for free public access. A comprehensive programming plan with direct connections to the marketing plan was developed. Work to implement a new/young patron strategy is underway. Two new fundraisers were launched, and both the Dinner by Design and the DX Auction generated significant financial returns for DX.

2015 key DX exhibitions included the *Politics of Fashion*, *3DXL*, and *Smarter. Tougher. Faster*, the latter two held offsite. All received press and social media attention, and included related programming and events. However, attendance was lower than projected and they did not meet their revenue targets. Subsequent decreases in budgets resulted in decreased attendance. Other cultural organizations lose money on exhibitions but rely on public sector funding and membership for a viable economic model. DX must generate rental income to offset its lack of funding from other orders of government. Although there are challenges finding appropriate venues in advance and securing adequate funding, DX is committed to the nomadic experience, focusing on shows that connect to a larger brand/cultural awareness to bring in visitors. DX will seek smaller, privately-owned public spaces to create interesting installations that could attract sufficient interest with sponsorship to cover the total cost of installation and execution.

New programming has been launched, including a series of design workshops with Etsy. DX has had higher than expected sales of the catalogue from DX's 2014 **This Is Not a Toy** (TINAT) exhibition. A grant was secured to expand the Permanent Collection. TD increased its support for DX's Community Outreach Program. A new part-time Development professional was hired to help with sponsorship and fundraising. DX held two new successful fundraising events in 2015 - the **Dinner by Design** and inaugural **Design Auction**. Heightened targets have been set for this year's annual fundraiser **Design Exchange Intervention** (DXI). Taking place November 7<sup>th</sup>, DXI 2015 will honour George Yabu and Glenn Pushelberg of Yabu Pushelberg.

## Financial Update

<b>Table 1 – Design Exchange (DX) Plan 20/20 2013-2019</b>							
	2013 (\$000s)	2014 (\$000s)	2015* (\$000s)	2016* (\$000s)	2017* (\$000s)	2018* (\$000s)	2019* (\$000s)
<b>1. Revenue</b>	3,145.2	3,158.6	3,375.2	3,132.2	3,332.5	3,549.2	3,783.5
<b>2. City Funding as % of Revenue</b>	0%	0%	6%	6%	6%	6%	5%
<b>3. Expenses</b>	3,368.5	3,244.3	3,375.8	2,993.4	3,186.0	3,388.0	3,600.0
<b>4. Surplus/(Deficit) – (before amortization)</b>	(223.3)	(85.7)	(0.6)	138.8	146.6	161.2	183.6
<b>5. Amortization of Capital Assets</b>	373.5	288.2	46.9	46.9	46.9	46.9	46.9
<b>6. Net Operating Surplus/(Deficit)</b>	<b>(596.8)</b>	<b>(373.9)</b>	<b>(47.5)</b>	<b>91.9</b>	<b>99.7</b>	<b>114.3</b>	<b>136.7</b>

\*Forecast

Higher net rental income was secured through the satellite approach, along with increased: membership revenue; board contributions; corporate sponsorship; and public-sector project funding. DX has not yet been successful in securing operating funding from other orders of government. DX forecasts a net operating deficit of \$47,500 for 2015.

DX will have lower rental costs effective November 1, 2015, having returned the basement space to Cadillac Fairview. This will provide almost \$100,000 in annual savings going forward. The satellite approach has also lowered DX occupancy and facility labour costs. Cash flow is tight, but DX is confident this will be resolved following the DXI fundraiser. DX anticipates being very close to a balanced budget for the year.

The DX accumulated deficit as at August 31, 2015 stands at \$863K. Plans are underway for additional new programming to increase sponsorships and revenue, allowing DX to reduce the accumulated deficit and ensure future sustainability. With ongoing funding of \$200,000 from the City, the DX Board believes they are sustainable.

## Moving Forward

DX is currently implementing Phase 2 of the Strategic Plan (2016-2017). The Board has agreed to continue the DX Satellite strategy in 2016 - not holding traditional exhibits in their main location, but instead focusing on design interventions in public spaces and other types of

interactive design experiences, along with rental exhibitions. The cost savings will allow DX to achieve a budget surplus, expand its design projects and programming including: the rotating permanent collection display in the lobby, tours, workshops, design camps, design competitions, talks, symposia, lectures, etc.

At its meeting of October 15, 2015, the DX Board agreed to begin work on its inaugural festival titled "EDIT: Expo for Design Innovation + Technology." EDIT will be a 10-day annual festival that celebrates the intersection of design, innovation and technology as a solution to addressing global issues facing us today. The objectives are to inform, entertain and inspire all people, while also developing professional and business opportunities. Guest-curated by contemporary cultural leaders, EDIT will be a world-scale festival that includes interactive projects, immersive experiences, architectural installations, educational programming and product innovation showcases. Launching June 2017, in Toronto, EDIT is expected to attract 50,000 attendees, plus hundreds of thousands more via digital campaigns and programs.

EDIT is intended to increase DX's visibility; expand its national presence; attract tourism; create a new platform for local design, architecture and innovation sectors; and secure major new partnerships. Conversations with potential private and public sector sponsors indicate significant interest and opportunity for DX.

## **Conclusion**

Economic Development and Culture staff will continue to support the efforts of the DX to achieve a sustainable business model and secure other sources of funding. The operations of the organization will continue to be monitored by staff through observer status at DX Board Meetings, an annual review of exhibitions and programs, a review of financial statements and projected budgets, and receipt of regular progress reports on the DX Strategic Plan.

## **CONTACT**

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## **SIGNATURE**

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Economic Development and Culture