

Staff Report



Development Services Department

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REPORT TO: Special Council

DATE OF MEETING: May 13, 2024

SUBMITTED BY: Cory Bluhm, Executive Director of Economic Development
519-741-2200 ext. 7065

PREPARED BY: Andrea Hallam, Manager of Arts & Creative Industries
519-741-2200 ext. 7084

WARD(S) INVOLVED: Ward 10

DATE OF REPORT: May 9, 2024

REPORT NO.: DSD-2024-229

SUBJECT: Interim Support for THEMUSEUM

RECOMMENDATION:

That the Chief Administrative Officer be authorized to enter into an agreement with THEMUSEUM of Ideas Transcending Objects (“THEMUSEUM”) to provide THEMUSEUM with up to \$300,000 to support cash-flow requirements until October 31, 2024, in accordance with report DSD-2024-229, to the satisfaction of the City Solicitor, subject to the following conditions being met absent which the City may withhold the transfer of funding:

- i) That THEMUSEUM shall provide the City with monthly cash-flow statements/projections in a format acceptable to the Chief Financial Officer, and that funding shall only be advanced where required to maintain a positive cash-flow position, up to the following sub-limits:
 - a. Upon execution of the agreement – up to \$50,000 if required
 - b. On June 15, 2024 – up to \$100,000, cumulatively if required
 - c. On July 15, 2024 – up to \$200,000, cumulatively if required
 - d. On August 15, 2024 – up to \$300,000, cumulatively if required
- ii) That THEMUSEUM Board and staff shall endeavour to act with financial prudence during this time, such as limiting discretionary spending, to minimize the need for cash-flow support;
- iii) That THEMUSEUM shall endeavour to ensure all community commitments, including summer camps and venue rentals, are honoured; and
- iv) That THEMUSEUM Board and staff shall enter into a meaningful, collaborative and best-effort process by June 1, 2024 to consider, analyze and evaluate fundamental changes to THEMUSEUM’s business model with a goal of achieving a new, sustainable business model.

REPORT HIGHLIGHTS:

- The purpose of this report is to provide interim funding support for THEMUSEUM, a Key Cultural Institution within the City of Kitchener, in response to their request for assistance.
- The key finding of this report is THEMUSEUM is experiencing significant financial challenges which threaten their ability to operate and require interim financial support while THEMUSEUM undertakes work to identify a sustainable operating model.
- The financial implications are that THEMUSEUM's operating grant would be increased by \$300,000 representing a budget over-expenditure which will form part of the City's overall year-end budget variance.
- Community engagement included posting this report to the City's website.
- This report supports **Creating an Economically-Thriving City Together: Focuses on growing an agile, diverse local economy powered by talented entrepreneurs, workers & artists; creating opportunities for everyone and a resilient future that propels our city forward.**

BACKGROUND:

THEMUSEUM was established in 2010, after originally opening as The Waterloo Regional Children's Museum in 2003. Over the years, THEMUSEUM has brought many national-level exhibitions to Downtown Kitchener, that would typically be seen in large urban centres like Toronto, Montreal or Vancouver. These have included Chimpanzees: The Remarkable World of Jane Goodall, Andy Warhol's Factory, Titanic: The Artifact Exhibit, Treasures of China: The Dazhu Rock Carvings and, in more recent years, The Rolling Stones: UnZipped and Murdoch Mysteries: The Exhibition.

In 2010, the City, together with the Region of Waterloo and the City of Waterloo, identified THEMUSEUM as one of three Key Cultural Institutions (KCI) in Kitchener. Each KCI was provided with an annual operating grant. In 2024, THEMUSEUM received \$306,240 from the City of Kitchener (\$166,156 in cash, \$109,857 budgeted for facility repairs, \$30,777 for parking). In 2023, THEMUSEUM received \$728,573 in total combined funding (cash and in-kind) from the City of Kitchener, City of Waterloo, and Region of Waterloo.

In 2019, THEMUSEUM indicated that it was experiencing financial challenges. The City of Kitchener supported an organizational review which provided a series of recommendations for THEMUSEUM to improve their financial position. In the early years of the pandemic, THEMUSEUM was able to improve their financial position. However, post pandemic, THEMUSEUM is again experiencing financial strain.

The City of Kitchener owns the building at 10 King Street West which is occupied by THEMUSEUM and supports the major facility systems and components (eg: roof, elevator, plumbing, HVAC, etc.) independent of program needs. THEMUSEUM operates the facility which includes oversight of all program related requirements (eg: exhibits, events, janitorial, etc.).

REPORT:

THEMUSEUM has been an anchor institution for the City and Downtown, attracting 75,000 – 100,000 visitors each year. Over the past 15 years, THEMUSEUM has presented major cultural exhibits, provided experiential learning for children and youth, provided educational experiences for local school boards, hosted successful community events and more. THEMUSEUM has been a champion and driver of creativity and innovation within our community.

In 2019, THEMUSEUM acknowledged they were experiencing perpetual annual deficits. In collaboration with the City of Waterloo and Region of Waterloo, staff supported a comprehensive organizational review undertaken by Angela Birdsell Arts Management Consulting. As part of that review, foundational changes were recommended, and a conditional funding agreement was put in place to see THEMUSEUM could achieve a balanced annual budget. While THEMUSEUM was able to satisfy the conditional funding agreement, the organization has not been able to achieve long-term sustainability and the foundational operating model of THEMUSEUM has remained fundamentally intact.

In April 2024, THEMUSEUM notified the City that it no longer has the financial liquidity to weather annual deficits which represents an imminent risk to their ability to continue operations. THEMUSEUM has requested up to \$300,000 in emergency operating supports to continue operations through to the Fall of 2024. This window would allow THEMUSEUM's Board time to explore substantial changes to their operating model to achieve sustainability, while honouring existing commitments for summer camps and event rentals. Financial support from the City would also allow time for THEMUSEUM to engage key funders and supporters.

Request of THEMUSEUM

THEMUSEUM has requested the following financial supports:

\$50,000/month for each of May and June
\$100,000/month for each of July and August

Key Considerations

In considering the request of THEMUSEUM, staff assessed the following factors and offer the following observations:

Impact to the Community

THEMUSEUM has a significant impact on the community. If THEMUSEUM were not in Kitchener, in addition to the loss of core programming (exhibits, educational learning, etc.), the community would lose the following:

- The loss of foot traffic and associated spinoff spending (ex: downtown restaurant purchases);
- The loss of tourism traffic and associated spinoff spending;

- The loss of summer camps;
- The loss of community events such as The Brush Off; and,
- The loss of signature exhibits (ex: Unzipped).

These benefits warrant supporting THEMUSEUM as it pursues a path to sustainability. As observed during the sudden closure of the KW Symphony, the sudden closure of any cultural institution prevents the community (donors, funders, supporters, etc.) from rallying behind the organization.

Post-Pandemic Challenges within the Cultural Sector

Numerous major cultural organizations across Canada have experienced significant impacts in the wake of the pandemic, rising inflation costs and other factors. The Toronto International Film Festival lost its major sponsor and announced staffing layoffs in December. Just for Laughs cancelled their 2024 festival amid creditor protection. Major Fringe and Folk festivals across Canada have announced cancelations or are reducing their offerings. Sudbury's Place des Arts and the Shaw Festival ran significant deficits in 2023. Toronto's Harbourfront Centre has been forced to reduce staff and expenses in light of rising costs. Locally, the KW Symphony declared bankruptcy in 2023.

While a generalization, it would appear that most Canadian cultural organizations are facing financial pressures requiring many to consider significant changes to their operations to achieve sustainability. THEMUSEUM's situation is not unique and, like other organizations, may require significant changes to achieve financial viability in today's economic climate. Approving THEMUSEUM's request for financial support would provide the Board with time to attempt to identify a sustainable path forward.

Status of Federal Provincial Funding

THEMUSEUM has applied for and received various grants from the Federal and Provincial government. Should THEMUSEUM cease operating, it is unlikely that the City could access many of the same funding programs that THEMUSEUM would be eligible for. It is in the public interest to take efforts to maintain these cultural funding channels.

Willingness to Consider Major Fundamental Changes

Over the past 5 years, except for 2021 and 2022, the annual expenses of THEMUSEUM have exceeded annual revenues by at least \$160,000 (before factoring in investment income). From 2011 to 2018, revenues exceeded expenses each year between \$266,000 and \$548,000 (before factoring in investment income). In light of this non-sustainable financial model, the Board will need to consider significant changes to the operations of THEMUSEUM. Considerations may include a reduction in staffing costs, reducing the operating footprint, utilizing a hybrid delivery model to reduce building occupancy expenses, etc. Staff are prepared to work with THEMUSEUM over the next several months to explore potential co-located uses in the building that would reduce their annual overhead.

Financial Analysis Section

Revenue

Overall, government grants and funding to THEMUSEUM has declined in the past 2 years. In 2022, this represented 52% of core revenues, declining to 41% in 2023. Fundraising, sponsorship and earned revenues are also declining:

Year	2022	2023	2024 (YTD)	2024 (Projected)
Fundraising & Sponsorships	\$200,142	\$130,592	\$59,723	\$79,631
Grants & Government Funding	\$2,021,527	\$1,337,220	\$697,992	\$697,992*
Earned Revenue	\$1,645,771	\$1,819,141	\$1,168,524	\$1,558,032
Total Core Revenues	\$3,867,440	\$3,286,953	\$1,926,240	\$2,355,655

*Only includes cash revenue, does not include in-kind support

The following table provides annual grant funding amounts from 2019 to 2024.

Year	ROW	Waterloo	Kitchener	Total
2019	\$385,662	\$45,000	\$269,207	\$699,869
2020	\$385,662	\$45,000	\$274,322	\$704,984
2021	\$385,662	\$45,000	\$277,065	\$707,727
2022	\$385,725	\$45,000	\$282,329	\$713,054
2023	\$385,725	\$47,250	\$295,598	\$728,573
2024	\$385,725	\$51,266	\$306,240	\$743,231
Percentage Increase 2019-2024	0.02%	13.92%	13.76%	6.2%

The revenue areas that are achieving projected targets to date in 2024 include programming revenues for family and education, and third-party rentals.

Expenses

THEMUSEUM's financials show an increase in areas that would be commonly expected during times of high inflation, such as General and Administrative (bank and merchant, professional, contracted consultants) and Facilities.

As expense controls appear to be in place, and due to the impacts of the COVID-19 pandemic, it is challenging to assess the expense lines of THEMUSEUM due to significant fluctuations from year-to-year. It is presumed that this is due to the varying costs associated with acquiring and presenting exhibits. For example, from 2022 to 2023, Salaries and Benefits increased by \$236,000 while Marketing expenses decreased by \$287,000. Likewise, in 2022, Exhibit expenses were \$854,163 with Marketing expenses totaling \$570,054, compared to 2019 when the same expenses were \$281,054 and \$218,954 respectively. However, earned revenue in 2019 was just \$1,001,222 in 2019 versus \$1,819,141 in 2022.

As a result, the only reliable comparable is Revenues Over Expenses. With the exception of 2021 and 2022, THEMUSEUM's expenses have exceeded revenues by \$160,000 to \$548,000 per year. This would suggest that THEMUSEUM has been challenged to find a viable ratio of acquisition costs (Exhibits, Marketing, etc.) to earned revenues.

Cashflow

The City's Financial Services staff reviewed THEMUSEUM's cash position and concur with projections that, based on their budget, THEMUSEUM would reach a negative cashflow position in May of 2024. While THEMUSEUM has very limited unrestricted reserve balances to draw on, these reserves would be exhausted in the near future. This could be mitigated by stronger gate revenues. Should THEMUSEUM exhaust its operating reserves, and in absence of receiving additional funding, it would be forced to draw on its line-of-credit, challenging the ability of the organization to meet liabilities in the future.

Reliance on Tax-Based Funding

THEMUSEUM currently receives approximately \$745,000 (cash and in-kind) collectively from the Cities of Kitchener and Waterloo and the Region of Waterloo. As part of their 2024 budget deliberations, Regional Council discussed reducing their financial contribution by \$253,000. Significant funding cuts would challenge the THEMUSEUM's ability to develop a sustainable model.

Conclusion

Based on the foregoing, it has been demonstrated that THEMUSEUM offers significant value to the community and the Downtown. However, the business model in place at THEMUSEUM since 2011 has not proven to be sustainable. As such, staff concur with THEMUSEUM Board that the organization must consider substantial changes to their operating model. As an example, in 2019, Angela Birdsell Arts Management Consulting recommended significant decreases to their full-time staff compliment in favour of a part-time/occasional staffing model that could be scaled annually to match budget projections. Similarly, THEMUSEUM could consider a significant reduction in their exclusive footprint to reduce overhead expenses. In such an instance, the City could explore new partnerships for the remaining spaces. Exploring these, and other opportunities, will require significant effort on the part of THEMUSEUM's Board including the identification and analysis of new business models.

Based on the considerations listed previously in this report - such as the value THEMUSEUM offers the community, the potential loss of external funding, and the potential impact to summer camp registrants and rental customers (eg: weddings) - staff recommend providing operating funding to support THEMUSEUM as requested, for a window of time, subject to the following:

1. Protect Community Interests - THEMUSEUM would honour existing commitments, including summer camp registrations and venue rentals until the Fall of 2024;

2. Creation of a New Sustainable Operating Model - THEMUSEUM staff and Board would enter into best efforts with City staff to explore major fundamental/structural changes to their operating model.
3. Financial Prudence – given their current financial situation, THEMUSEUM staff and Board should endeavour to act with financial prudence during this time, such as limiting discretionary spending, to minimize the need for cash-flow support.
4. Undertake an Orderly Shutdown if Needed - should THEMUSEUM Board determine that no viable, sustainable model be found, they would ensure an orderly shutdown including covering all outstanding liabilities. To this end, City staff would also prepare a contingency for 10 King St W in the event that THEMUSEUM is not able to identify a sustainable operating model.

Staff recommend advancing funding requests as required to satisfy cash-flow requirements. THEMUSEUM would be required to provide regular cash-flow statements to prompt the release of funds. Funding request for July and August (\$200,000 total) would be subject to THEMUSEUM successfully honouring items 1 and 2 above.

STRATEGIC PLAN ALIGNMENT:

This report supports **Creating an Economically-Thriving City Together: Focuses on growing an agile, diverse local economy powered by talented entrepreneurs, workers & artists; creating opportunities for everyone and a resilient future that propels our city forward.**

FINANCIAL IMPLICATIONS:

Capital Budget – The recommendation has no impact on the Capital Budget.

Operating Budget – The recommendation would require an increase to the City of Kitchener’s annual operating grant to THEMUSEUM by up to \$300,000, which would form part of the City’s overall year-end budget variance.

COMMUNITY ENGAGEMENT:

INFORM – This report has been posted to the City’s website with the agenda in advance of the council / committee meeting.

PREVIOUS REPORTS/AUTHORITIES:

DSD-20-040 Collaborative Municipal Funding for Key Cultural Institutions 2019/2020 Summary

APPROVED BY: Dan Chapman, Chief Administrative Officer

ATTACHMENTS:

Attachment A – Letter from Frank Boutzis, Chair of the Board of Directors

