

Staff Report



Development Services Department

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REPORT TO: Committee of the Whole

DATE OF MEETING: April 7, 2025

SUBMITTED BY: Cory Bluhm, Executive Director, Economic Development, 519-783-8262

PREPARED BY: Andrea Hallam, Manager, Arts & Creative Industries, 519-783-8269

WARD(S) INVOLVED: Ward 10

DATE OF REPORT: April 2, 2025

REPORT NO.: DSD-2025-082

SUBJECT: THEMUSEUM Models for Consideration

RECOMMENDATION:

That the Chief Administrative Officer be authorized to execute a conditional 3-year funding agreement to provide up to \$300,000 of additional annual funding to THEMUSEUM, to align with THEMUSEUM's next three fiscal years commencing July 1, 2025 and ending June 30, 2028, including financial and operational expectations in accordance with report DSD-2025-082, to the satisfaction of the City Solicitor; and,

That, subject to THEMUSEUM Board and the City executing a 3-year funding agreement, that _____ be appointed to THEMUSEUM board, and that a member of the City's Economic Development Division be appointed as a non-voting member of THEMUSEUM board with said appointment determined by the City's Executive Director of Economic Development, effective on the date of the signing of the 3-year funding agreement, as outlined in report DSD-2025-082; and,

That the City extends the timeframe within which THEMUSEUM could renovate and expand into 2 King Street West by one year to December 31, 2031; and further,

That the City's Chief Administrative Officer be authorized to permit future extensions to the timeframe for 2 King Street West, in accordance with report DSD-2025-082.

REPORT HIGHLIGHTS:

- The purpose of this report is to provide conditional funding support for THEMUSEUM, a Key Cultural Institution within the City of Kitchener, following the review of their organizational model.
- The key finding of this report is that THEMUSEUM is continuing to experience significant financial challenges, which requires an increase in financial support.

- The financial implications are that THEMUSEUM is requesting that the City would enter into a conditional funding agreement to provide up to an additional \$300,000 in funding annually for 3 years. A portion of this commitment would be funded through unallocated budget within Economic Development Grants, with any balance of funding representing a budget over-expenditure which will form part of the City's overall year-end budget variance.
- Community engagement included posting this report on 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 2003 and offers innovative experiential exhibitions, partners with local school boards to offer educational visits for elementary students, hosts a wide range of events, provides summer camps to youth and operates a maker studio. THEMUSEUM attracts approximately 75,000 visits to Downtown Kitchener each year. Approximately one-third of visitors come from out of town, generating \$2.2 million to \$3.2 million in tourism-based economic impact. THEMUSEUM makes a significant cultural and economic contribution to the Kitchener community.

In 2010, the City identified THEMUSEUM as one of three Key Cultural Institutions (KCIs) in Kitchener. Each KCI was provided with an annual operating grant. In 2023, THEMUSEUM received a total of \$728,573 in combined funding (cash and in-kind) from the City of Kitchener, the City of Waterloo, and the Region of Waterloo. THEMUSEUM currently operates out of the City-owned facility at 10 King Street West. In 2024, THEMUSEUM received \$306,240 from the City of Kitchener (\$166,156 in cash, \$109,857 budgeted for facility repairs, and \$30,777 for parking).

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 its financial position through government assistance tied to the pandemic. However, post-pandemic, THEMUSEUM is again experiencing financial strain.

In May 2024, THEMUSEUM presented to Council on the financial challenges they are facing and requested emergency funding. As a condition of the provision of funding, Council directed staff to work with THEMUSEUM to develop business model options, with the goal of achieving sustainability.

REPORT:

Since May 27, 2024, staff have been meeting biweekly with THEMUSEUM working group to discuss and evaluate potential models for achieving sustainability. These discussions were complemented by monthly check-ins involving both the Mayor and the Chief

Administrative Officer. During these meetings, staff consistently guided THEMUSEUM working group to explore as many avenues for sustainability as possible.

Through this process, 5 preliminary models were identified. 3 of these models were short-listed for a more comprehensive evaluation. 1 model was selected for a more detailed financial analysis.

STAGE 1 - Preliminary Models

Based on key themes communicated during initial meetings, City staff and THEMUSEUM working group collaboratively identified five models to consider:

1. Sustainable Funding by Municipalities
2. Expansion into 2 King West
3. Change Programming / Different Use of Space
4. Reducing Costs to the Greatest Extent Possible
5. Closure

Model #1 – Sustainable funding from municipalities and the Region

Under this model, THEMUSEUM would leverage additional municipal funding to increase revenue in the following ways: a) additional staff resources to secure corporate sponsorship, philanthropy and non-governmental revenues; and b) increased marketing to improve gate revenues. Based on financials provided by THEMUSEUM, an investment of \$300,000 per year could enable an increase in non-governmental funding of \$500,000 over 3 years and increased gate revenue of \$250,000+ over 3 years as well.

While THEMUSEUM may prefer increased funding in perpetuity, staff recommend an investment approach. Historically, THEMUSEUM's average annual deficit is approximately \$300,000. Under this model, staff would recommend directing THEMUSEUM Board to focus on utilizing medium-term funding (3 years) to grow sustained revenues by \$600,000. In concept, once this level is achieved, THEMUSEUM would have sufficient funding to cover the additional staffing and marketing costs – as supported by the medium-term funding – plus funding to cover their annual deficit.

This financial model would allow the organization to maintain a positive social and economic impact, make optimal use of its assets, and increase public hours, resulting in more people downtown. It ensures continued high-quality exhibitions and events, while also providing access for low-income guests and schools.

Key Finding:

This model would create the most stability for the organization. It allows forward planning and the ability to fully execute the mission and work towards the vision, while continuing to deliver programs and services to the community. If treated as a medium-term investment, it would limit the municipal contribution to a 3-year period.

Model #2 – Expansion into 2 King West

Currently, when THEMUSEUM transitions between exhibitions, they often need to close the entire facility to facilitate the transition. This results in a loss of gate revenue and an inability to provide their members with continuous access to their services. Additional floor space

would allow THEMUSEUM to maintain a continuity of programming by utilizing the additional space to support their static exhibits. The expansion could also allow for multiple revenue-generating events to take place simultaneously and increase partnerships. This growth creates opportunities for a broader range of industry partners and donors, as well as expanded opportunities for digital content creators. The project could add animation and new visual interest to a key downtown intersection, providing students with both familiar and new learning activities.

Such an expansion would require significant capital investment, necessitating the need for a capital fundraising campaign and/or securing Provincial or Federal funding. A comprehensive business case would need to be completed to Council's satisfaction.

Key Finding:

Given the capital investment required and THEMUSEUM's current financial situation, it would not be financially prudent to explore this option as an immediate solution at this time.

Model #3 – Changing the Program/Rental or Lease of 4th Floor

This model would involve eliminating the 4th floor from THEMUSEUM's operation, with said space to be leased to a third-party organization. THEMUSEUM would experience a reduction in operating costs and the potential for the City or THEMUSEUM to increase revenues through a new lease. THEMUSEUM would shift solely to family-oriented experiences throughout the remainder of the facility and utilize the atrium primarily for event rentals.

In reviewing the financial implications of this model, the following challenges were observed:

- The operational savings would be incremental only and not substantially decrease overall costs;
- The reduction in educational and artistic content would limit grant opportunities;
- Support from individuals and foundations may decline due to the change in the organization's scope and mandate; and,
- Eligibility for provincial tourism grants, such as OCAF and Celebrate Ontario, may be reduced.

In addition, the remaining family-focused space will result in fewer evening events, and there would be logistical challenges with tenants related to insurance, security, and access. THEMUSEUM's focus would also shift toward outbound education for schools, rather than offering an exploration-based experience.

Most notably, the reduction in offerings would likely lead to dramatically reduced memberships and gate revenue. Such a model would only prove beneficial if the user of the 4th floor also attracted an audience that aligned with the offerings of THEMUSEUM.

Key Finding:

The operational cost savings of this model would be outweighed by a potential significant loss in revenues across multiple sources. This model could be considered in the future if opportunity arises to co-locate an organization with a similar offering type.

Model #4 – Reducing costs to the greatest extent possible

This model would involve a series of budget reductions to create as lean an operation as possible while making critical programming changes to reduce costs. For example, this could include extending the exhibitions on the 3rd and 4th levels for multiple years. Other cost cutting examples could include:

- Eliminating non-revenue-generating activities, such as *At First Light*;
- Eliminating the free accessibility pass program with KPL;
- Reduced opening times; and,
- Scale back on evening and weekday programming.

THEMUSEUM noted that these changes would shift the organization's focus from a cultural destination to an attraction-based experience. Programming that results in a net overall financial loss would be reconsidered or eliminated. THEMUSEUM predicts these changes would result in a loss of revenue from gate fees, memberships, retail, and rentals because of static exhibitions and reduced hours.

To eliminate the current average annual deficit of \$300,000, THEMUSEUM would need to reduce expenses by \$300,000 plus any forecasted revenue reductions. It is THEMUSEUM's position that this level of cost-cutting cannot be achieved.

This model partially aligns with the strategy currently being deployed by THEMUSEUM for both the 2023/2024 and 2024/2025 budget years. Those budgets still result in a deficit position for the organization.

Note: As part of the evaluation of this model, staff reviewed THEMUSEUM's budget and profit-and-loss statements. While staff have suggested areas of reductions, it is difficult for staff to properly assess cost savings without full understanding of the daily and annual operations of THEMUSEUM. As such, staff are relying on the recommendations of THEMUSEUM staff and board.

Key Finding:

It is THEMUSEUM's position that cost reductions will lead to a reduction in service offerings which will, in-turn, result in lost revenue. Additional municipal funding would still likely be required, yet the community would receive a reduced level of service.

Model #5 – Closure

This plan would involve THEMUSEUM winding down operations by June 30, 2025. This would include paying off any outstanding debts and providing severance for staff.

Key Finding:

This option was not fully explored. Staff would revisit the implications for the building should closure become an outcome.

STAGE 2 - Short-listed Models

Following initial evaluation, THEMUSEUM focused on the three most viable concepts:

- Model #1 – Sustainable funding from municipalities and the Region
- Model #3 – Changing programming or utilizing the space in different ways
- Model #4 – Reducing costs to the greatest extent possible

Staff reviewed the details and financials for the three selected models and, in turn, sent a list of questions to THEMUSEUM regarding each model. To assist in the decision-making process, THEMUSEUM staff provided the City with a financial summary chart that layered the 2023 and 2024 income statements against the projected financials for the three models being considered. This process reflected the ongoing efforts to assess and ensure the long-term sustainability of the organization, with a focus on financial viability and strategic planning.

Summary of Financial Models

One factor to consider when analyzing the sustainable funding models is the timing of THEMUSEUM’s fiscal budget cycle. Specifically, THEMUSEUM’s fiscal budget year starts on July 1st and ends on June 30th of the following year. In terms of cash flow, payments from government grants typically occur at the start of the City or Region’s fiscal cycle (e.g., January or February), whereby THEMUSEUM can start a fiscal period without any guarantee of receiving government grants. The risk of not knowing government grant funding at the start of a fiscal period is impactful due to budgetary planning and financial prudence.

The following 1-year overview chart below summarizes the difference between the three financial models in the 2025/2026 budget year.

1-Year Overview (Models #1, #3, and #4)*

2025/2026 In Dollars (\$)	Model #1 Municipal Funding	Model #3 Vacate 4th Floor	Model #4 Cost Reduction
Revenues	3,373,668	2,366,842***	2,078,824
Expenses	3,424,528	2,460,689	2,429,883
Estimated Surplus (Deficit)**	(4,860)	(93,847)***	(313,059)

**Financial forecasts developed and provided by THEMUSEUM.*

***Accounts for investment income.*

****Assumes \$100,000 in revenue for rental of the 4th floor*

Financial projections were developed by THEMUSEUM working group for the three models as contained in Appendix A. Given the forecasted deficit positions after year 1, it was decided to only explore Model #1 further. THEMUSEUM’s board has also supported pursuing Model #1.

STAGE 3 – Further Analysis of Model #1

As noted previously, the focus of this model is to utilize additional City funding to increase non-governmental funding and gate revenues, with the goal of reducing the overall annual deficit. The chart below illustrates a 5-year financial forecast for Model #1 as provided by THEMUSEUM. It is important to note the shift in conditional funding from \$200,000 to \$300,000. The \$200,000 in 2024/25 comes from the timing of payment of emergency funding granted by Council in May 2024. The \$300,000 of conditional funding in 2025/26 represents the requested amount in the new sustainable funding model. KCI funding is

separate from conditional funding, and the assumption acted on by THEMUSEUM working group is that KCI funding would only be impacted by inflationary increases.

On the revenue side, for example, THEMUSEUM'S forecast shows a revenue increase in non-government funding of \$500,000 from 2023/24 to 2028/29. On the expense side, this forecast includes annual increases to overall expenses ranging from 2.9 to 6.8%. Based on these projections, THEMUSEUM would continue to experience a \$300,000 annual deficit.

Financial Forecast of Model #1 (July 1 to June 30)

Revenues (\$)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Earned	1,934,445	1,705,729	1,773,229	1,842,761	1,917,466	1,994,494
Non-Gov't	114,830	427,554	513,065	564,371	592,590	622,219
KCI (All)	659,709	603,133	607,481	611,917	616,441	621,055
Conditional	100,000*	200,000*	300,000**	300,000**	300,000**	0
Fed	150,414	86,084	86,084	86,084	86,084	86,084
Prov	44,411	93,809	93,809	93,809	93,809	93,809
Investment	75,312	60,000	46,000	33,000	20,000	20,000
Total	3,079,121	3,176,309	3,419,668	3,532,942	3,626,389	3,437,662

Expenses (\$)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
HR	1,811,111	1,982,818	2,027,544	2,073,452	2,120,580	2,168,968
Programming	204,821	266,019	279,320	293,286	307,950	323,348
Exhibitions	502,945	171,538	235,115	246,871	259,214	272,175
Marketing	149,782	272,950	357,590	372,402	387,955	404,285
General	362,888	512,767	524,960	546,510	559,391	572,631
Total	3,031,547	3,206,092	3,424,528	3,532,521	3,635,089	3,741,407

% Increase of Expenses			6.81%	3.15%	2.9%	2.92%
Surplus(Deficit)	47,574	(29,784)	(4,860)	421	(8,700)	(303,745)

Note: The above financial projections were developed and provided by THEMUSEUM.

*As per DSD-2024-229, \$200,000 of the total \$300,000 in emergency funding was allocated to THEMUSEUM's 2024/2025 fiscal year. (\$100,000 was applied to 2023/24 fiscal.)

**New Conditional funding request of \$300,000 per year.

The chart below illustrates two alternate rates of increases to expenses. For each scenario, revenue growth remains consistent with the above chart. Expenses are shown using inflation rates of 2% and 3% applied to all expenses with the exception of Marketing, which would see a significant initial increase in 2025/26 with said increase retracting in 2028/29:

Expenses (\$)	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
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Resultant Surplus/Deficit @ 2.9% to 6.8%	47,574	(29,784)	(4,860)	421	(8,700)	(303,745)
Resultant Surplus/ (Deficit) @ 3%			40,942	52,854	41,898	(126,349)
Resultant Surplus/ (Deficit) @ 2%			70,273	116,559	141,679	0

Based on the above, if THEMUSEUM could achieve the forecasted revenues while maintaining lower annual operating expenses, it is possible that a sustainable budget could be achieved. THEMUSEUM has provided the following comments:

- THEMUSEUM’S board is committed to achieving a breakeven budget for fiscal 2028/29 and beyond (without the need for an additional \$300,000 in 2028/29);
- The Revenue amounts set out in Model #1 are conservative and THEMUSEUM believes that with the deployment of the additional \$300,000 in funding that revenues may exceed the model’s projections;
- THEMUSEUM does not believe that a hard cap with respect to expense growth should be a condition of funding as the ultimate goal of a breakeven budget can be achieved by increased revenues, expense reductions or a combination thereof; and,
- The impact of the additional \$300,000 of funding on revenue line items will take some time to achieve. As such, while reviewing financial performance constantly is important, THEMUSEUM believes that it is likely that the true impact of such funding on financial performance may not be visible until 12 – 18 months after the funding is provided. This anticipated delay in impact should be taken into account in reviewing annual financial performance.

Funding Option Risks

The following are the potential risks and constraints of a reduced investment level. While the requested conditional funding amount from THEMUSEUM is \$300,000 annually, THEMUSEUM working group wanted to present a more fulsome overview of what a lower level of funding would mean to the organization. THEMUSEUM working group suggested that any funding less than \$300,000 annually could potentially impact operations in the following ways:

- Loss of staff;
- Loss of Board members;
- Change in vision of THEMUSEUM;
- Static exhibitions;
- Loss of innovative and creative programming;
- Reduced educational program delivery;
- Reduced support from third party rentals; and,
- Reduced membership.

Implications for Downtown Kitchener

Historically, many businesses in Downtown Kitchener have been dependent on ~16,000 residents who would come to work in the core each day. As a result of the pandemic and the shift of office workers to hybrid work arrangements, Downtown has experienced a significant drop in daytime foot traffic. In Q4 of 2024, CBRE reported a 40% vacancy rate in Downtown Kitchener office space. While residential development has offset some of this loss, businesses are still challenged to replace this scale of customer loss.

THEMUSEUM attracts approximately 72,000 visitors per year. Prior to the pandemic, THEMUSEUM attracted 95,000+ visitors in 2018/19. As such, THEMUSEUM is a key major attractor of foot traffic, alongside places like Centre In The Square, the KW Art Gallery, the Kitchener Market, and annual festivals and events. Loss of THEMUSEUM would only further decrease downtown foot traffic.

As a result of the decrease in office users, perceptions of the downtown have been negatively impacted. Given the City's goal of building a vibrant downtown, the closure of THEMUSEUM would negatively impact the perception of the core to residents, investors and prospective retail/office businesses.

Recommendation - Conditional Funding Agreement

Staff recommend creating a Conditional Funding Agreement that is separate from THEMUSEUM's annual operating grant and outside of the Key Cultural Institutions process. The Conditional Funding Agreement would outline the terms under which THEMUSEUM will receive financial support from the City for up to a three-year period, with phased funding allocations from July 1, 2025, to June 30, 2028. This agreement would be separate from existing funding mechanisms and would come with specific financial and operational conditions. The overall purpose of the agreement aims to ensure financial sustainability and operational accountability for THEMUSEUM while securing stable funding from the City under strict conditions. Key Components of the agreement would include:

1. Funding Structure – a 3-year term.
2. Financial Target – THEMUSEUM would be required to achieve a breakeven or surplus budget by 2028/29.
3. Reporting Requirements – THEMUSEUM would be required to provide regular financial statements (i.e., quarterly variance reports) and report on key performance indicators, such as gate attendance.
4. Financial Conditions – THEMUSEUM board would be required to actively work to achieve a year-end annual surplus, with a portion of the surplus returned to the City depending on the amount of surplus achieved. Certain spending limitations may be included. A goal would be set for the board to achieve a \$600,000 net increase of revenue over expenses by the end of the 3-year term to eliminate the need for the City to provide funding beyond the term of the agreement. THEMUSEUM would not be permitted to request any additional funding from the City during this time.

5. Governance & Oversight – the City would be granted two seats on THEMUSEUM board, including 1 voting member of Council and 1 ex-officio staff member, to ensure adherence to the terms of the agreement and continued focus on sustainability.
6. Key Performance Targets – THEMUSEUM would be expected to achieve specific performance targets, such as increased walk-up gate attendance, maintaining or growing school visits, summer camps, etc.
7. Operational Review & Sustainability Measures – ongoing review by the board of THEMUSEUM’s operations, staffing levels, key performance indicators and expenses to identify ongoing opportunities to achieve sustainability.

Rationale for Supporting a 3-year Funding Agreement

While it would have been staff’s preference to see THEMUSEUM achieve sustainability without the need for increased funding (i.e., through cost cutting measures), based on the work completed by THEMUSEUM’s working group, additional funding appears to be the most viable option. Staff support providing funding over a 3-year term for the following reasons:

1. Loss of a Key Cultural Institution – Closure of one of the community’s largest cultural institutions would significantly impact the cultural landscape in the region. In particular, the inability for elementary students and young children to participate in educational visits, summer camps, etc., would be a significant loss.
2. Impact to Downtown Kitchener – As noted in this report, as a result of the pandemic and the shift of office workers to hybrid work arrangements, Downtown has experienced a significant drop in daytime foot traffic. Loss of THEMUSEUM would only further decrease downtown foot traffic and may impact confidence levels of prospective businesses and real estate investors.
3. Economic Impact to the region – Based on the Province’s ‘Tourism Regional Economic Impact Model’, THEMUSEUM visitors spend an estimated \$2.3 million to \$3.2 million each year as part of their trips. With an estimated 24% to 37% of total attendees coming from out of town, this spending would include hotel stays, spinoff restaurant spending, spinoff shopping, etc.

Based on the foregoing, staff concur that short-term funding is needed to ensure the ongoing operations of THEMUSEUM. However, given that the total annual funding provided to THEMUSEUM would be almost double that given to other Key Cultural Institutions, staff recommend the funding be limited in time, and meant to enable THEMUSEUM board to increase revenues to a sustainable level, in order to return to current funding levels in 3 years time. Should there be a need for modest additional funding beyond year 3, such requests would be considered as part of the City’s Key Cultural Institutions annual granting process.

2 King Street West

In 2020, the City acquired 2 King Street West and agreed to provide THEMUSEUM with a 10-year window to undertake the necessary business case development and fundraising to support expansion of their footprint. In 2022, the City launched the SDG Idea Factory, and THEMUSEUM agreed not to proceed with an expansion until at least August 2025. Given the success of the SDG Idea Factory and the current challenges of THEMUSEUM, THEMUSEUM has agreed to extend this window to August 2026, but has requested that their timeframe for renovation also be extended by one year until 2031.

In subsequent years, should THEMUSEUM still not be in position to expand, both timeframes could continue to be extended accordingly, subject to the approval of the City's Chief Administrative Officer. By doing so, this maintains THEMUSEUM's ability to contemplate expansion while providing the City with the ability to provide greater certainty and longevity to the tenants of the SDG Idea Factory.

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 annually for a three-year period covering the following three fiscal years for THEMUSEUM: 2025/2026, 2026/2027 and 2027/2028). As THEMUSEUM operates on a fiscal budget that begins July 1, the City's contributions may be spread over the City's budget years between 2025 and 2028, with exact timing of contributions to be determined as part of the 3-year funding agreement. For 2025, the funding can be accommodated through unallocated grant funding within Economic Development Grants of the City's operating budget. For the 2026 to 2028 budgets, staff would allocate the specific grant amount within Economic Development Grants. This would reduce the amount of unallocated funding available for other new granting opportunities.

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-24-229 Interim Support for THEMUSEUM
- DSD-22-058 Proposed Use of 2 King Street West
- DSD-20-041 Acquisition of 2-8 King Street W, Kitchener
- DSD-20-040 Collaborative Municipal Funding for Key Cultural Institutions 2019/2020 Summary

APPROVED BY: Dan Chapman, Chief Administrative Officer

ATTACHMENTS:

Attachment A – Budget Projections

Attachment B – Economic Impact Information