

Standing Committee Report

REPORT NUMBER 295-2025-Corporate Services-

DATE

PREPARED

September 22, 2025

FILE

STANDING

COMMITTEE

October 14, 2025

MEETING DATE

SUBJECT

Art Gallery Additional Contribution

PURPOSE

WITH RESPECT to Report 295-2025-Corporate Services, we request endorsement of the Standing Committee to forward the following recommendations to City Council:

WE RECOMMEND THAT an additional \$2.5 million be allocated to the Thunder Bay Art Gallery for the capital costs associated with construction of the new Art Gallery facility;

AND THAT the sources of financing for this additional contribution be as follows:

Municipal Accommodation Tax Reserve Fund	\$0.75 million
Municipal Accommodation Tax Reserve Fund	\$0.50 million (2026 Budget)
Renew Thunder Bay Reserve Fund	\$1.25 million;

AND THAT the release of any additional municipal funding be conditional upon confirmation of all other funding sources required to achieve partial opening;

AND THAT the Mayor and City Clerk be authorized to sign the funding agreement and any subsequent agreements or amendments between The Corporation of the City of Thunder Bay and Thunder Bay Art Gallery relative to this project;

AND THAT any necessary by-laws be presented to City Council for ratification.

EXECUTIVE SUMMARY

At its August 25, 2025 meeting, City Council referred the Thunder Bay Art Gallery's request for additional funding to Administration, asking for information on timelines, financial impacts, recommended funding sources, and conditions for release. Administration is recommending an additional \$2.5 million contribution. A balanced financing approach is proposed, with \$1.25 million drawn from the Municipal Accommodation Tax Reserve Fund (\$0.75 million in 2025 and \$0.50 million in 2026)

and \$1.25 million from the Renew Thunder Bay Reserve Fund. Combined with the original \$5.0 contribution financed by debenture, the total financial contribution towards construction of the new Art Gallery Facility would be \$7.5 million.

Given the financial risks that remain with the project, Administration further recommends that no additional municipal funds be released until all other funding sources required to achieve partial opening are confirmed to the satisfaction of the City Treasurer. This approach protects the City's interests while supporting the advancement of a major cultural infrastructure project for the community.

KEY CONSIDERATIONS

In April 2017, City Council approved a financial contribution of \$5.0 million to be financed through debenture. City Council directed that the funding contribution only be released upon the realization of additional funds from other levels of government as this is a community initiative. This decision aligns with the City's Debt Management Strategy, which considers additional debenture financing for capital projects that are new, non-recurring projects with significant infrastructure requirements; large legacy and special projects that benefit multiple generations of citizens and/or will generate significant long-term economic growth.

The Art Gallery successfully leveraged the municipal commitment to secure \$41.4 million in Federal and Provincial funding, along with \$5.0 million through fundraising.

The Art Gallery's project budget/estimate has increased from \$49.9 million to \$74.7 million, creating a significant funding shortfall. The projected shortfall represents a significant challenge for the Art Gallery, which continues to pursue Federal and Provincial funding opportunities, along with private donors and philanthropic support.

At the August 25, 2025 Committee of the Whole Meeting, the Thunder Bay Art Gallery delivered a presentation providing a progress update on their project, identified the successes and financial challenges the project is facing and a potential path forward, and requested the City to consider additional funding.

The Art Gallery is exploring a phased approach that would allow the facility to achieve a partial opening while continuing fundraising efforts to reach full completion. The estimated cost to achieve this partial opening is \$64.2 million, leaving a requirement for an additional \$12.1 million beyond funds already committed. A further \$10.5 million is estimated to be required to fully complete the project.

City Council referred the request for additional funding to Administration, asking for a report back by the end of October 2025 with information on timelines, financial impacts, recommended funding sources, and how the funds could be released if approved.

Additional Contribution

In general, Administration does not recommend providing additional funding to projects led by external organizations when costs exceed the original budget. However, in this case there are extenuating circumstances that warrant consideration:

- Inflationary pressures stemming from the pandemic and ongoing supply chain constraints
- Significant funding commitments from other levels of government
- Extensive remediation requirements on City-owned land.

Administration acknowledges the significant effort that has gone into advancing this project, including the successful fundraising campaign and the ability to leverage substantial Federal and Provincial contributions. These achievements demonstrate strong community support and a commitment to enhancing cultural infrastructure in the City.

The City's original contribution of \$5.0 million represented approximately 10% of the project budget. With the project estimate now approaching \$75.0 million, it would be reasonable for the City's share to increase proportionately. Accordingly, Administration recommends an additional contribution of \$2.5 million, bringing the City's total financial commitment to \$7.5 million and maintaining a 10% share of the project estimate.

Financing Options

The City has limited resources with which to provide additional financing:

Special Debenture

The rationale used to support the original \$5.0 million contribution also applies to the additional funding; it is a large legacy project that will benefit multiple generations of citizens. However, it would increase the City's overall debt position, albeit with a modest impact on future borrowing capacity. In addition, assuming a 10-year term and 4% interest rate, a \$2.5 million debenture would result in annual debt servicing costs of approximately \$350,000 (year 1), placing additional pressure on the operating budget.

A balanced approach, combining the existing debt commitment with additional contribution from reserve fund(s), could offer a way to support the project while avoiding overextension of the City's finances.

Municipal Accommodation Tax Reserve Fund

The current uncommitted balance in the Municipal Accommodation Tax Reserve Fund is approximately \$0.9 million. Annual contributions are estimated at about \$2.0 million, though a significant portion is already contemplated for inclusion in the 2026 Operating and Capital Budgets.

In accordance with the Reserve Fund By-law 220-2023, withdrawals from the Municipal Accommodation Tax Reserve Fund are limited to Corporation projects/programs that promote tourism and benefit residents and visitors. While this is not a “Corporation” project, it is aligned with the Corporation’s Waterfront Masterplan. Considering this unique circumstance, Administration would support using the Municipal Accommodation Tax Reserve Fund as a source of financing.

Renew Thunder Bay Reserve Fund

The current uncommitted balance in the Renew Thunder Bay Reserve Fund is approximately \$8.0 million. Withdrawals are limited to projects that meet the following criteria:

1. Provide economic growth/benefits to the City including direct and indirect job creation.
2. Be aligned with Federal and Provincial funding/economic stimulus programs resulting in the Corporation's contribution being highly leveraged (i.e. City share not to exceed 50% of total capital cost on an individual project basis).
3. Provide community synergies and promote community partnership opportunities.
4. Be distinct from projects included in the Corporation's existing asset management plans.
5. Improve the quality of life on a City-wide basis.
6. Be highly visible and broadly supported by the community.
7. Be affordable to Thunder Bay taxpayers in terms of both the initial capital investment and impact on future operating budgets.

Based on these criteria, the Art Gallery project would be considered eligible to receive funding from the Renew Thunder Bay Reserve Fund.

Financing Strategy

Administration recommends a 50/50 funding split between the Municipal Accommodation Tax Reserve Fund and the Renew Thunder Bay Reserve Fund to support the additional \$2.5 million contribution.

Given the current Municipal Accommodation Tax Reserve Fund balance, Administration recommends committing \$750,000 immediately, with the remaining \$500,000 to be included in the 2026 Operating Budget for Council’s consideration.

If City Council approves this approach, the City’s contribution to the Art Gallery facility would be:

Debenture	\$5.00 million
Municipal Accommodation Tax Reserve Fund	\$1.25 million
Renew Thunder Bay Reserve Fund	<u>\$1.25 million</u>
Total Contribution	\$7.50 million

Release of Funds

Given the financial risks that remain with the project, structuring any additional contribution to safeguard the City's interests will help ensure that taxpayer dollars are used prudently. Therefore, Administration recommends that no additional funds be released until all other funding sources required to achieve partial opening are secured to the satisfaction of the City Treasurer. For greater clarity, the current estimated cost to achieve partial opening is \$64.2 million. If this estimate increases, the secured funding required prior to releasing the municipal contribution would also rise accordingly. This condition ensures the project is financially positioned to reach this critical milestone before any further municipal funds are disbursed.

FINANCIAL IMPLICATION

Administration is recommending an additional financial contribution to the construction of the new Art Gallery facility in the amount of \$2.5 million, bringing the total contribution to \$7.5 million.

The additional \$2.5 million would be financed as follows:

Municipal Accommodation Tax Reserve Fund	\$0.75 million
Municipal Accommodation Tax Reserve Fund	\$0.50 million (2026 Budget)
Renew Thunder Bay Reserve Fund	<u>\$1.25 million</u>
Total	\$2.50 million

BACKGROUND

In August 2025 (Report 266/2025 – Corporate Services), City Council directed Administration to release the \$5.0 million; 50% upon execution of a funding agreement and 50% upon execution of the required land lease amendments.

Also in August 2025, City Council referred the Art Gallery's request for additional funding to Administration, asking for a report back by the end of October 2025 with information on timelines, financial impacts, recommended funding sources, and how the funds could be released if approved.

In April 2017 (Report No. 55/2017 - Community Services), City Council approved a \$5.0 million contribution to the Art Gallery for the capital costs associated with construction of the facility. The source of financing for the contribution was to be by a debenture. No funding associated with the capital cost was to be released until Federal and Provincial funding for the Art Gallery project was confirmed.

REFERENCE MATERIAL ATTACHED

None.

REPORT PREPARED BY

Keri Greaves, CPA, Commissioner – Corporate Services & City Treasurer

REPORT SIGNED AND VERIFIED BY

Keri Greaves, CPA, Commissioner – Corporate Services & City Treasurer

10/06/2025 (MM/DD/YEAR)