

City Council Report

REPORT NUMBER 334-2025-Corporate Services-Finance

DATE

PREPARED

October 16, 2025

FILE

CITY COUNCIL
MEETING DATE

November 4, 2025

SUBJECT

Art Gallery – Additional Contribution

RECOMMENDATION TO CITY COUCIL

WITH RESPECT to Report 334-2025-Corporate Services-Finance, 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 in two phases of \$1.25 million each, corresponding to the partial and full opening of the facility;

AND THAT the source of financing for the first phase of additional funding in the amount of \$1.25 million be as follows:

- Municipal Accommodation Tax Reserve Fund \$0.75 million
- Municipal Accommodation Tax Reserve Fund \$0.50 million (2026 Budget);

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

AND THAT the source of financing for the second phase of additional funding in the amount of \$1.25 million be as follows:

- Renew Thunder Bay Reserve Fund \$1.25 million;

AND THAT the release of the second phase of additional funding be conditional upon achieving a partial opening and confirmation of all other funding sources required to achieve full 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, to be allocated in two phases:

- The first \$1.25 million would be contingent on achieving the necessary funding for the partial opening of the art gallery
- The second \$1.25 million would be contingent on achieving a partial opening and securing the necessary funding for the complete opening of the facility.

The first phase would be funded from the Municipal Accommodation Tax Reserve Fund (\$0.75 million in 2025 and \$0.50 million in 2026), and the second phase would be funded 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 a partial opening have been confirmed to the satisfaction of the City Treasurer.

A separate release of funds for the full opening should only occur once all remaining funding requirements for that phase have also been satisfied. This approach protects the City's interests while supporting the advancement of a major cultural infrastructure project for the community.

DISCUSSION

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 original project budget. With the current project estimate at \$64.2 million for the partial opening and potentially up to \$75.0 million for full completion, it would be reasonable for the City's contribution to increase proportionately. Accordingly, Administration is recommending an additional contribution of \$2.5 million, to be allocated in two phases.

- The first \$1.25 million would be contingent on the Art Gallery securing the necessary funding for the partial opening.
- The second \$1.25 million would be contingent on the Art Gallery securing the necessary funding for the complete opening of the facility.

This would bring the City's total potential financial commitment to \$7.5 million, maintaining roughly a 10% share of the overall project cost.

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 that the additional \$2.5 million contribution be funded equally from the Municipal Accommodation Tax Reserve Fund and the Renew Thunder Bay Reserve Fund.

- The first \$1.25 million, to support the partial opening of the Art Gallery, would be funded from the Municipal Accommodation Tax Reserve Fund, with \$750,000 committed immediately and the remaining \$500,000 to be included in the 2026 Operating Budget for Council's consideration.
- The second \$1.25 million, to support the complete opening of the facility, would be funded from the Renew Thunder Bay Reserve Fund.

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

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

Release of Funds

Given the financial risks that remain with the project, structuring the additional contribution to protect the City's interests will help ensure that taxpayer dollars are used prudently. Accordingly, Administration recommends that the City's additional contribution be released in two phases:

- The first \$1.25 million would be released only once the Art Gallery has secured all other funding necessary to achieve the partial opening, to the satisfaction of the City Treasurer.
- The second \$1.25 million would be released only after the Art Gallery has achieved the partial opening and secured the remaining funding required to achieve the full opening of the facility.

For clarity, the current estimated cost to achieve the partial opening is \$64.2 million, and the total project cost is estimated at up to \$75.0 million. Should either estimate increase, the amount of secured funding required prior to the release of the municipal contribution would increase proportionately. The release of any municipal contribution will be subject to the terms and conditions of the applicable funding agreement. These conditions ensure that the project is financially positioned to reach each key milestone before any municipal funds are disbursed.

CONSULTATION

In response to City Council's referral to consider an additional financial contribution to the Art Gallery facility, Administration presented a report to the Finance & Administration Standing Committee on October 14, 2025, recommending that an additional \$2.5 million be approved, financed on a 50/50 basis between the Municipal Accommodation Tax (MAT) Reserve Fund and the Renew Thunder Bay Reserve Fund. Release of these funds would be contingent upon the Art Gallery demonstrating that sufficient funding sources are in place to enable a partial opening of the facility.

A robust discussion took place regarding the proposed additional contribution. Key points raised by Committee members included:

- The rationale used to determine the proposed \$2.5 million amount.
 - With the total project cost increasing from \$50 million to \$75 million, the City's proportional share could reasonably increase. The proposed \$2.5 million contribution reflects this adjusted proportional share.

The Standing Committee discussed whether the City's additional contribution should be adjusted to remain proportional to the partial opening budget of \$64.2 million, rather than the full opening budget of \$75 million. Under this approach, the City's contribution would be \$1.25 million, representing an increase of roughly 25% over the original allocation.
- Remedies available under the lease should the project not be successful.
 - While the lease provides certain remedies for the City, Administration has not yet engaged in substantive discussions regarding this potential outcome. The focus to date has been on supporting the Art Gallery in achieving a successful project.
- Appropriateness of the City assuming a leading role in committing additional funding.
 - The City could commit additional funding, with strict conditions on the release of funds to ensure they support a partial opening and safeguard the City's investment.

There was also discussion regarding the City's continued support for the Art Gallery project. It is important to note that while the City's direct financial contribution is modest relative to Federal support, the City has provided additional assistance, including access to prime waterfront land and the designation of the facility as a Municipal Capital Facility (MCF), which exempts it from property taxation.

Following discussion, the Standing Committee did not endorse the proposed \$2.5 million contribution. The Chair then called for a re-vote, and prior to that vote taking place, an amendment was introduced to reduce the contribution amount to \$1.25 million. The amendment was also defeated. While the Standing Committee did not support either motion, there appeared to be a general willingness amongst most (a slight majority) but not all Standing Committee members to provide some level of financial support, with the key consideration being the appropriate level of financial support.

Based on input from the Standing Committee, Administration has modified its original recommendation, which proposed the full \$2.5 million contribution tied to the partial opening phase, to instead recommend two separate financial contributions corresponding to the partial and full opening phases of the project:

1. A contribution of \$1.25 million from the MAT Reserve Fund, with release contingent upon the Art Gallery demonstrating that it has secured the necessary funding to achieve a partial opening of the facility; and
2. A contribution of \$1.25 million from the Renew Thunder Bay Reserve Fund, contingent upon the Art Gallery achieving a partial opening and demonstrating that sufficient funding has been secured to achieve a full opening of the facility.

To further support its funding request, the Thunder Bay Art Gallery has provided Administration with a Briefing Note which it wishes to share with Council. It has been included as Attachment A.

FINANCIAL IMPLICATION

Administration is recommending an additional financial contribution of \$2.5 million toward the construction of the new Art Gallery facility, to be provided in two phases, bringing the City's total contribution to \$7.5 million. The additional \$2.5 million would be financed as follows:

Phase 1 – Partial Opening

Municipal Accommodation Tax Reserve Fund	\$0.75 million
Municipal Accommodation Tax Reserve Fund	<u>\$0.50 million</u> (2026 Budget)
	\$1.25 million

Phase 2 – Full Opening

Renew Thunder Bay Reserve Fund	<u>\$1.25 million</u>
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Total	\$2.50 million
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BACKGROUND

On October 14, 2025 (Report 295/2025 – Corporate Services), Administration consulted with the Finance and Administration Standing Committee on the Art Gallery’s request for additional funding.

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

Attachment A – Thunder Bay Art Gallery Briefing Note – Case for Additional City Funding Support

REPORT PREPARED BY

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

REPORT SIGNED AND VERIFIED BY

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

10/27/2025 (MM/DD/YEAR)