

## Property Redevelopment Feasibility

<b>Date:</b>	September 21, 2015
<b>To:</b>	Toronto Public Library Board
<b>From:</b>	City Librarian

### SUMMARY

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At the meeting on May 25 2015, the Toronto Public Library Board considered a presentation on the capital budget which included strategies to address its growing state of good repair (SOGR) backlog for buildings. The Board adopted a motion requesting staff to report back on the feasibility of redeveloping Toronto Public Library (TPL) properties in order to generate excess capital funding, which could be specifically directed to rebuild and improve branches in neighbourhood improvement areas and help address the state of good repair backlog.

This report:

- summarizes past TPL redevelopment activities and discussions, focusing on Build Toronto and City Real Estate Services;
- explains the impact of the City's *Principles of a Real Estate Strategy* on the treatment of proceeds from redevelopment;
- presents potential models for property redevelopment;
- presents parameters for a successful redevelopment;
- presents the City-Wide Real Estate Review; and
- recommends that TPL staff, working with City and Build Toronto staff, proceed with developing a business case for a pilot redevelopment project and report to the Board with updates and to seek appropriate approvals.

While the current City process may constrain the Board's plans for redevelopment to address its SOGR backlog, TPL, City and Build Toronto staff have met and are collaborating to explore redeveloping specific library properties. In parallel, the City-Wide Real Estate Review will consider lessons learned through this collaboration. If the parameters for redevelopment as listed in this report are met, then a TPL redevelopment project would be feasible.

## RECOMMENDATIONS

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### **The City Librarian recommends that the Toronto Library Board:**

1. approves Toronto Public Library staff, in consultation with the City Manager, Deputy City Manager and Chief Financial Officer, and other City and Build Toronto staff, to develop a business case for a pilot project to redevelop a Toronto Public Library property with the objective of rebuilding a library on site and generating funding which could be used to address the state of good repair backlog for branches in neighbourhood improvement areas; and
2. directs staff to report to the Board with status updates and to seek approvals as required.

## FINANCIAL IMPACT

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This report has no financial impact beyond what has been approved in the 2015 approved operating budget. Once a business case is developed, it will include an estimate of the cost and the financing sources to proceed with a pilot development proposal.

Redevelopment of TPL properties is intended to provide a non-city funding source to help address the SOGR backlog by rebuilding branches and generating excess funding which could be directed to branches in neighbourhood improvement areas.

The Director, Finance & Treasurer has reviewed this financial impact statement and is in agreement with it.

## DECISION HISTORY

At the meeting on May 25 2015, the Library Board considered a presentation on the capital budget which included strategies to address its growing SOGR backlog for buildings, and adopted the following motion:

*That the Toronto Public Library Board:*

1. *requests staff to report back on the feasibility of redeveloping Toronto Public Library properties through strategic partnerships in order to generate excess capital funding, which could be specifically directed to rebuild and improve branches in neighbourhood improvement areas and help address the State of Good Repair backlog; and*
2. *receives the Capital Budget Process verbal report for information and directs staff to proceed with Option 3 as outlined in the verbal report to address the state of good repair backlog.*

This report responds to the feasibility of developing TPL properties. The status of the capital budget submission is provided in the *2016 – 2026 Capital Budget and Plan – Update*, which is a separate report to the Board.

## ISSUE BACKGROUND

Of the 100 branches and two service buildings operated by TPL, ownership of the lands is as follows:

- in 51 locations, TPL owns the land;
- in 35 locations, the City owns the land;
- in one site the City and TPL own different portions of the land;
- in 12 mall locations, TPL is a tenant;
- in one location, the land is owned by the Toronto Transit Commission and the City;
- in one location, the land is owned by the Toronto District School Board; and
- in one location, the land is currently owned by the City, with partial ownership to be transferred to the two School Boards.

The Public Libraries Act requires Council approval before the Library Board can perform real estate transactions. Council has delegated limited authority to the Library Board to lease properties for use or for tenants.

At its meeting on October 29, 2008, Council considered *EX24.1 New Model to Enhance Toronto's Economic Competitiveness* and adopted a recommendation to create two new corporations:

- Invest Toronto whose mandate is to engage the private sector in marketing and promotion activities to increase business investment and create desirable jobs in Toronto; and
- Build Toronto whose mandate is to unlock the value in under-utilized lands and use the available City and agency and corporation land base to attract targeted industries, stimulate the creation of desirable employment, and regenerate neighbourhoods through the following activities:
  - developing City and agency and corporation surplus lands and excess real estate with development potential;
  - working with other sectors in urban regeneration;
  - remediating brownfields;
  - catalyst development;
  - recommending to the City optimal use of City real estate holdings; and
  - using financial incentive tools as provided by the City.

One of the recommendations from the report directed the Chief Corporate Officer (CCO) to develop a City-wide real estate strategy for City divisions, agencies and corporations, and to begin an audit of city real estate assets to identify properties with potential for private development. In connection with the real estate audit, Library staff met with representatives from the office of the CCO to begin preliminary discussions around potential surplus lands or opportunities for redevelopment. As TPL has no surplus lands, the focus was primarily on redevelopment opportunities, whereby there would be a continuing interest for an improved library on site. In TPL's case, where title is not transferred to Build Toronto, then a negotiated Turnover Agreement would give Build Toronto the opportunity to work with TPL to determine the appropriate development and intensification of a property, and may eventually lead to a sale or transfer (Transfer Agreement) to Build Toronto or other third parties of specific site interests, such as air rights or a stratified portion of a property. It was

noted that each location had challenges for redevelopment, and that further discussion and Library Board approval would be required, including negotiated Turnover Agreements, before any plans for redevelopment could proceed.

At the March 23, 2009 Library Board meeting, the *Build Toronto and City Real Estate Strategy* report explained the role of Build Toronto and the City Real Estate Strategy, and identified two properties which were being discussed with the CCO for possible redevelopment, 40 St. Clair Avenue East (Deer Park Branch) and 1303 Queen Street West (Parkdale Branch), both owned by TPL.

At the meeting on May 25, 2009, Council adopted the *Principles of a Real Estate Strategy* (Attachment 1), and approved the sale/transfer or turnover of a number of properties to Build Toronto, including 40 St. Clair Avenue East (Deer Park Branch) and 1303 Queen Street West (Parkdale Branch). As part of the process to transfer or turnover properties to Build Toronto, Council declared the properties surplus, subject to the retention of required interest from TPL, which is to remain on site with a rebuilt and improved library.

At the meeting on June 15, 2009, the Library Board considered the *Build Toronto – Potential Redevelopment Sites* report and adopted the recommendation to declare the properties located at 40 St. Clair Ave. East and 1303 Queen St. West surplus, subject to the continuing need for a library at both locations, for the purpose of negotiating a Turnover Agreement with Build Toronto, which will include the requirement for appropriate replacement buildings capable of delivering modern library services. The report to the Board noted that both Parkdale and Deer Park are large, busy, vital and well used (first quartile) neighbourhood branches with strong and varied programs and services.

The library facility at Deer Park is 33,022 square feet over four floors of which 16,558 square feet are used for library branch services and staff, with the remainder of the space leased to tenants. Parkdale is 24,083 square feet over two floors and includes space for a long-standing community partner, Neighbourhood Information Post. Public use of community meeting space in both locations is strong. As a result, any replacement facilities for either of these branches will need to maintain or exceed the current size and in a manner that facilitates the delivery of modern library services.

Over 2009 and 2010, meetings were held with City Real Estate and Build Toronto to discuss the two sites, but interest was primarily focused on Deer Park. No redevelopment proposal has been presented by Build Toronto to the Library Board for approval.

## **COMMENTS**

### **Model for Redevelopment**

TPL staff has met with staff from the City, Build Toronto and Waterfront Toronto to discuss a potential model for redevelopment which would generally include:

- hiring a consultant through a Request for Proposal (RFP) to oversee the complete redevelopment process;
- using City resources and/or with the assistance of consultants, determine which TPL property is to be developed. An appraisal from an external consultant may be appropriate;
- other consultants may be engaged such as a fairness adviser, a financial consultant to help with the evaluation of the bids or legal counsel;
- consultation with City Planning, Real Estate Services, Build Toronto, Finance, Legal, the CCO and local Councillor;
- once the property has been determined then, with the support of a consultant, prepare a request for proposal (RFP) or request for qualifications (RFQ) to redevelop the property, which would be the first of a two-step procurement process;
- the redevelopment proposal, which would include a sale of the development rights under a stratified ownership agreement, and the construction of a new library, the title of which would remain with TPL or the City based on the original ownership of the land and building. Evaluation criteria would be set to ensure that the right partner is selected for the project;
- the RFP would include details of the retained stratified ownership and the requirements for the new library, including the size, physical location, ceiling heights, glazing, floor load-bearing requirements, parking, and other physical and operational requirements. More detailed requirements could also be included in the second round of Request for Proposals;
- in accordance with the current City process for handling surplus properties, the proposed property would be circulated through the Property Management Committee in order to identify any other municipal interests that would need to be accommodated before proceeding to declare the property surplus;
- once the municipal interests have been considered, including the fair market value of the property, the CCO could declare the property surplus and determine the process for disposal or redevelopment;
- the responses to the RFP or RFQ for the redevelopment would be considered and a short-list of preferred proponents would be determined;
- a second-step RFP for the short listed proponents would be prepared, seeking a technical and financial proposal, and detailing TPL's needs and other municipal needs, if any;
- once the successful proponent is selected, a purchase and sale development agreement is negotiated, which specifies timelines, team members, financials, deliverables, etc.; and
- City staff and the local Councillor would need to be involved to determine the value of Section 37 payments. Ideally, Section 37 payments should be directed towards construction of the new library.

Because of the limited size of TPL properties and the continuing need for a library on site, the likely scenario is for a residential condominium above a rebuilt library. TPL has significant tenant rental revenue at two branch locations, and consideration should be given to replacing, or providing where none exists currently, tenant rental space to generate operating funds. If no tenant space is provided, then an operating budget adjustment will be required from the City to make TPL whole.

The financial terms of the development would include the value of rebuilding a library, which would include any tenant rental or parking spaces, and a cash payment. There could be an allowance for a further cash payment contingent on the developer receiving additional density approvals. The Board has expressed its preference that the cash payments be specifically directed to rebuild and improve branches in neighbourhood improvement areas and help address the SOGR backlog. This allocation would be undertaken in consultation with City Finance staff as part of the annual budget process.

### **Parameters for Redevelopment**

For a successful redevelopment project, the following parameters must be met:

- site must be desirable to developers;
- a rebuilt library must be provided that meets TPL’s Service Delivery Model and Branch Development Strategy, and responds to changing service needs;
- redevelopment will occur through the sale of development rights, with TPL or the City retaining title to the rebuilt library, in accordance with original ownership of the land and building, preferably as freehold;
- an operating agreement must be executed, which protects TPL’s interests and minimizes costs;
- favourable financial terms must be negotiated for TPL;
- excess funds from the redevelopment must be directed to TPL’s SOGR backlog, in consultation with the City Manager, Deputy City Manager and Chief Financial Officer;
- consultation with the public, local Councillor and City stakeholders must be taken into account;
- consideration of other municipal interests must be incorporated into the process; and
- for some sites, provision of tenant rental space for TPL’s operating revenue will be required as a component of the redevelopment agreement, or an adjustment by the City to make TPL’s operating budget whole.

### **Principles of a Real Estate Strategy**

The *Principles of a Real Estate Strategy* supports making the most effective and efficient use of all City and Agency properties to meet the needs of programs and in some cases, involving intensification or disposition. Principle 3 the Corporate Real Estate Strategy states:

*3. ABCDs can release corporate real estate assets through the PMC (Property Management Committee) as part of a business case, utilizing the “value in use” of the asset, to offset project costs in their 10-year Capital Program.*

Principle 3 requires the release of any surplus land through the Property Management Committee, with the Agency or Division receiving only the “value in use”, which can then be used to offset other project costs in the 10-year capital program. The premise is that the excess value (beyond the “value in use”) from redeveloping or selling off property should go to the City for corporate priorities, and should not accrue to the agency or division. If the TPL wishes to direct excess proceeds from redevelopment – by placing them into a reserve – to its own capital SOGR needs, Council approval would be required to be exempt from Principle 3 and for the creation of the reserve.

Furthermore, if TPL wishes to proceed with a property redevelopment outside of the established City process, the Board will need to seek Council approval.

### **City-Wide Real Estate Review**

The City of Toronto is undertaking a review of its real estate operations and portfolios across relevant City divisions, agencies and corporations. Recent studies commissioned under the City’s service review program and value-for-money audits conducted by the Auditor General have identified opportunities to improve the delivery of the City’s real estate functions. At its May 2015 meeting, City Council adopted the report, Consolidated Real Estate Framework, and directed the City Manager to develop a business case for implementation options to coordinate or consolidate real estate operations and/or portfolios City-wide. City Council also authorized the City Manager to establish an Expert Advisory Panel, composed of public and private real estate professionals, to participate in the procurement process to retain a third party consultant to undertake this work. It is anticipated that the results will be reported to Executive Committee and City Council in the first half of 2016.

Expected outcomes of the review include:

1. identifying the most effective service delivery model to align to City strategic objectives;
2. leveraging City real estate assets to meet the City Building priorities of Council;
3. investigating barriers to optimize City real estate and recommend methods to overcome those barriers;
4. developing the appropriate business processes and technology to support the business delivery model. i.e. centralized real estate inventory; and
5. finding and recommending operational efficiencies.

TPL staff attended a kick-off stakeholder meeting on July 8, 2015, and the City is currently undertaking a procurement process for the consultant.

### **CONCLUSION**

Given TPL’s growing SOGR backlog and the City’s limited ability to address the backlog due to funding restrictions, the recommendation is to proceed with developing a business case for a pilot project for a property redevelopment. Working with City of Toronto staff, the business case will further refine the redevelopment opportunities, quantify the potential costs

for the project, and identify the necessary approvals needed to proceed with the redevelopment and to direct the excess proceeds for TPL SOGR needs.

While the current City process may constrain the Board's plans for redevelopment to address its SOGR backlog, TPL, City and Build Toronto staff have met and are collaborating to explore redeveloping specific library properties. In parallel, the City-Wide Real Estate Review will consider lessons learned through this collaboration. If the parameters for redevelopment as listed in this report are met, then a TPL redevelopment project would be feasible.

## **CONTACT**

Larry Hughsam; Director, Finance & Treasurer; Tel: 416-397-5946;  
E-mail: [lhughsam@torontopubliclibrary.ca](mailto:lhughsam@torontopubliclibrary.ca)

## **SIGNATURE**

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Vickery Bowles  
City Librarian

## **ATTACHMENTS**

Attachment 1: Principles of a City Real Estate Strategy