

City-Wide Real Estate Review

Date:	September 26, 2016
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

On July 12, 2016, City Council adopted in principle the directions to move to a centralized real estate operating model as described in *EX16.4 City Wide Real Estate Review*, <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.4> ensuring the City is effectively positioned to strategically leverage its real estate portfolio and maximize operating efficiencies. A new centralized real estate entity would consolidate all core real estate and facilities management operations and functions over the next two to four years.

This report describes the City's proposed process to establish the centralized real estate entity and the recommendations in the report establish the principles for Toronto Public Library's (TPL's) participation in the initiative.

RECOMMENDATIONS

The City Librarian recommends that the Toronto Public Library Board:

1. endorses the City's centralized service delivery for real estate and the following principles for the Toronto Public Library's participation:
 - a. Toronto Public Library Board governance and authority be recognized;
 - b. implementation of centralized service delivery for real estate should result in improved services or be cost neutral to Toronto Public Library and provide a net financial benefit;
 - c. current service levels for real estate, including associated procurement and project completion rates, be maintained or improved and a service level agreement be put in place, which is satisfactory to the Toronto Public Library Board;

- d. recognition of Toronto Public Library's branches as important public infrastructure, which are highly valued by the community, well used by residents, effectively and efficiently supported by Toronto Public Library facilities operations, and integral to achieving service delivery objectives of the Toronto Public Library Board;
- e. Toronto Public Library be active participants in the development and implementation of the transition plan for centralized service delivery with on-going status reports provided to the Toronto Public Library Board;
- f. Toronto Public Library will proactively engage with the new real estate entity and achieve consensus on matters that affect Toronto Public Library's core business requirements, capital projects, services, established partnerships and strategic priorities; and
- g. recognition of Toronto Public Library Foundation's role as the fundraising body for Toronto Public Library, which includes fundraising for capital projects.

FINANCIAL IMPACT

This report has no financial impact beyond what has been approved in the 2016 approved operating budget.

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

The financial impact statement from the City Manager's *EX16.4 City Wide Real Estate Review* report states:

By implementing this initiative, Deloitte estimates that the City would realize potential benefits of approximately 5 to 10 percent in savings of the \$600 million cumulative operating budget (excluding Toronto Community Housing and Parks, Forestry and Recreation) of all real estate and facilities management operations within the relevant divisions, agencies and corporations. In addition, the City would generate revenues estimated at 5 to 10 percent of the portfolio value, excluding parkland.

This increase would be achieved through a combination of process improvement, efficiencies in procurement and capital project delivery, improved asset management and utilization, alternative service delivery and portfolio optimization initiatives.

Actual savings will depend on the viability of the opportunities that will be determined through a more detailed review and implementation planning. The expected financial outcomes, once a consolidated framework of City-wide real estate activities are fully implemented, will be reported to Council through future year budget processes.

ISSUE BACKGROUND

Studies commissioned under the City's Core Service Review and value-for-money audits conducted by the Auditor General identified opportunities to improve the delivery of the City's real estate and related functions.

At its meeting of June 7, 2016, City Council adopted recommendations related to the report "*The City of Toronto's Long-term Financial Direction*". The report speaks to ensuring the City is effectively positioned to strategically leverage these assets, and maximize operating efficiencies: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX15.1>

In adopting Item EX5.5, titled "*Consolidated City-Wide Real Estate Framework*" at its meeting on May 5 and 6, 2015, City Council directed the City Manager to retain a third-party consultant, combined with an independent advisory panel to undertake a City-wide Real Estate Review for the purposes of carrying out an objective evaluation of all City-owned real estate operations: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX5.5>

At its meeting on March 31, 2015, City Council adopted a report from the Auditor General titled "*Operational Review of Build Toronto Inc.*" The report included a number of recommendations to improve real estate co-ordination City-wide, including centralizing or coordinating development activities, and exploring opportunities to consolidate or coordinate operations between Build Toronto, Invest Toronto and Toronto Port Lands Company. City Council also adopted a recommendation to review alternative operating models for Build Toronto's functions. The report can be found through the following link: <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.AU1.7>

At the September 21, 2015 Board meeting, Josie Scioli, the City's Chief Corporate Officer, made a presentation on the *City-Wide Real Estate Review*, an initiative to review how the City and its Agencies manage real estate operations. The following City Agencies, Corporations and Divisions were included in the review:

Six Agencies	Four Corporations	Five City Divisions
Exhibition Place	Build Toronto	Affordable Housing Office
Toronto Parking Authority	Toronto Community Housing Corporation	Long Term Care, Homes and Services
Toronto Police Services	Toronto Hydro	Parks, Forestry and Recreation
Toronto Public Library	Toronto Port Lands Company	Real Estate Services
Toronto Transit Commission		Shelter, Support and Housing Administration
Toronto Zoo		

The City has employed the services of a consultant to perform the City-Wide Real Estate Review. In connection with the review, Library staff met with the consultants and City Real

Estate staff. Detailed information was provided to the consultants on all TPL properties including:

- size and value of TPL's real estate portfolio;
- size and value of TPL's leasing activities;
- performance standards and metrics;
- operating budgets, including cost of third party services;
- capital budget funding and a list of capital projects.

On November 17, 2015, Library staff made a presentation to the Expert Advisory Panel on how TPL effectively and efficiently manages its real estate portfolio in support of delivering excellent library services. Opportunities and challenges from participating in a coordinated real estate model were noted as follows:

Opportunities

- Redevelopment of TPL properties;
- Joint use facilities;
- Potential cost savings;
- Improved service co-ordination, e.g. renewable energy installation;
- Already participating in coordinated services – Legal, Real Estate Leases/Valuations, Insurance and Utilities, Cooperative Procurement Group.

Challenges

- Need to establish and enforce Service Level Agreements;
- Negotiation of joint Operating Agreements;
- TPL Facilities and Real Estate operations currently are tightly integrated with service delivery objectives;
- Reducing costs while maintaining service levels;
- Increased complexity of management;
- Economies of scale vs. diseconomies.

At the June 27, 2016 Board meeting, the Chief Corporate Officer made a presentation on the findings and recommendations from *EX16.4 City Wide Real Estate Review*. The recommendations were to be included in a report to the June 28, 2016 meeting of Executive Committee and the July 12, 2016 meeting of Council.

COMMENTS

TPL Real Estate

TPL manages 102 facilities with a total of 1,889,747 sq. ft.; 100 libraries (1,798,966 sq. ft.) and two support centres (90,781sq. ft.). Eighty-nine of the facilities (1,817,253 sq. ft.) are owned by TPL or the City and 13 facilities (72,694 sq. ft.) are leased. Twenty-two of the facilities are shared with other City services and 12 libraries are leased in malls and plazas. Total annual occupancy costs for TPL facilities is approximately \$19 million.

TPL has a long-standing operating agreement with Toronto Real Estate Services (RES) division. Once a recommendation is approved to acquire or dispose of real property or lease space for library use, Toronto RES is engaged to support the leasing process, including all in-house or outsourced advisory or brokerage support. City Legal services provides support to TPL for leases and other real estate matters.

With the exception of the services provided by the City for leasing and acquisition/disposal of properties, and legal support, TPL is fully self-sufficient in managing its real estate operations and capital projects. The Facilities department performs asset management, including maintenance of buildings, development of new facilities, disposition of older facilities or surplus lands and other related functions. At TPL, most facilities services have been contracted out, including janitorial, HVAC and elevator maintenance, landscaping and snow removal, window cleaning, pest control, and waste disposal and recycling.

TPL handles its own procurement for facilities management and to support the capital program, which has achieved close to a 90% completion rate for the past five years. TPL's branches represent a public infrastructure, which is highly valued by the community, well used by residents, effectively and efficiently supported by TPL facilities operations, and is integral to achieving service delivery objectives.

City Manager Real Estate Review

The City Manager retained third-party expertise from Deloitte LLP (Deloitte) to assist with this initiative in partnership with the Chief Corporate Officer Organization. The Deloitte report was included in *EX16.4 City Wide Real Estate Review* and the recommendations adopted by Council are included in Attachment 1. Deloitte's review concluded that the status quo will not provide the appropriate framework to unlock land value potential and ensure the strategic use of land and building assets. As a result, a comprehensive plan to co-ordinate all City-owned real estate is required, producing long-term efficiencies and improvements for the City.

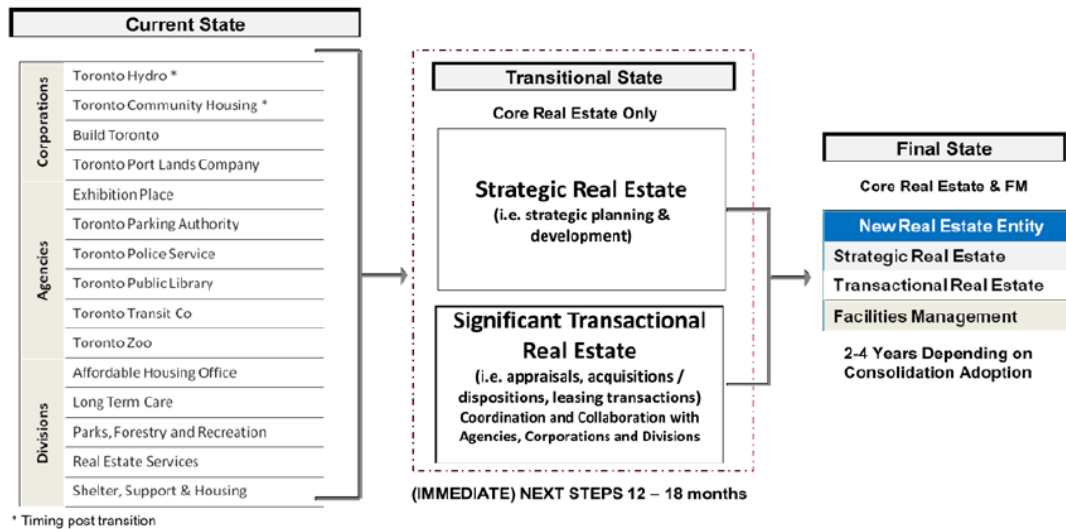
Deloitte's findings suggest that there is an opportunity for the City to align its real estate operations by creating a new leading edge centralized real estate entity that consolidates all core real estate and facilities management operations and functions over the next two to four years.

Deloitte advises that making these changes will help the City of Toronto to:

- strengthen the City's ability to make strategic and informed decisions that promote City-building and City-wide objectives;
- maximize the value of the City's land and property assets and find savings through co-location and joint ventures while reducing the City's state of good repair backlog;
- create more mixed-use developments that bring important services closer to residents;
- develop improved technology platforms and streamlined work and approval processes;
- integrate modernized approaches to space planning to allow for enhanced staff productivity and efficiency; and

- provide better solutions through proactive engagement with all stakeholders, including Council, City staff and the community.

The figure below is a proposed timeframe in which the adoption of best practices for processes and ultimately the consolidation of key functions can occur. This two to four year transformation needs to be carefully evaluated for overall feasibility and implementation, and include a senior leader decision-making process and implementation program.



Within the context of the current real estate service delivery model, City staff has identified four key challenges associated with moving to a new service delivery model: (1) legislative; (2) governance; (3) human resources; and (4) technology challenges will need to be addressed to ensure the best solution meets all needs. The City Manager acknowledges that creating a new real estate entity is a major transformational initiative requiring significant business policy, practice and process re-engineering, organizational change and information technology investment to be successfully implemented.

As an immediate starting point, a series of visioning sessions and workshops with entity leaders, City staff and management, the Mayor and City Councillors would be scheduled and facilitated by Deloitte. The purpose will be to generate dialogue, achieve buy-in and commitment on matters such as defining the transition, why it is required, and implementation. It is intended to engage City leaders in the implementation process, developing a clear plan for success, and aligning key deliverables for the transition process.

City staff is proposing a transitional state to work within the City's framework prior to the end state. The proposed transitional state is comprised of the following key roles: Transition Team; Real Estate Advisory Committee; Executive Support Team; and Deloitte. TPL is expected to have a position on the Real Estate Advisory Committee and the Executive Support Team. Further details on the respective roles are included in Attachment 2.

TPL Participation

The operations of the branches and the delivery on the capital program are crucial components for meeting service delivery objectives for TPL. Accordingly, any shared service delivery should result in improved services or be cost neutral to TPL and provide a net financial benefit. As with any shared service arrangement, service level agreements should be put in place, which are satisfactory to the Board.

TPL should have active participation in the development and implementation of the transitions plan for centralized service delivery. TPL will proactively engage with the new real estate entity and achieve consensus on matters that affect TPL's core business requirements, capital projects, services, established partnerships and strategic priorities.

One of the key fundraising priorities of the Toronto Public Library Foundation is to support TPL's capital program, and their continuing support is very important to TPL.

CONCLUSION

On July 12, 2016, City Council adopted in principle the directions to move to a centralized real estate operating model as described in *EX16.4 City Wide Real Estate Review*, ensuring the City is effectively positioned to strategically leverage its real estate portfolio and maximize operating efficiencies. A new centralized real estate entity would consolidate all core real estate and facilities management operations and functions over the next two to four years.

The recommendations in the report establish the principles for TPL's participation in the City's centralized service delivery initiative.

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SIGNATURE

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ATTACHMENTS

Attachment 1: EX16.4 City-Wide Real Estate Review – Recommendations

Attachment 2: EX16.4 City Wide Real Estate Review – Transitional State