TORONTO

STAFF REPORT
ACTION REQUIRED

Waterfront Parks Operations and Capital State of Good Repair Funding Strategy

Date:	October 23, 2008
To:	Executive Committee
From:	Deputy City Manager, Richard Butts
Wards:	**All**
Reference Number:	**P:\2008\ClusterB\WF\ec08009**

SUMMARY

The purpose of this report is to recommend strategies to mitigate the financial impact of new waterfront parks and public spaces on City operating and capital state of good repair budgets. Recommendations reflect findings from the Waterfront Parks Operations and Maintenance Strategy Study, prepared for the City and Waterfront Toronto (WT) by HR&A Advisors and reported to Council in November 2007, entitled "Operating Budget Impacts of Waterfront Revitalization" (Executive Committee Report 13.4).

In managing waterfront parks, the City will have financial responsibility for capital state of good repair costs and routine operating costs, such as litter picking, grass cutting, garbage and recycling, and maintenance of washrooms, playgrounds and other facilities.

Revenues from mitigation strategies recommended in this report are intended to augment base funding provided through traditional municipal sources. In the short term, these strategies include securing a contribution from WT equivalent to 10% of its capital budget for parks and public spaces to be held in a Waterfront Capital Preservation Reserve Fund managed by the City and used to cover capital state of good repair costs of new waterfront parks and public spaces for their first five years of operation. Capital state of good repair costs include the repair and replacement of park features and facilities.

Also in the short-term, opportunities for enhancing onsite earned revenue in a manner that allows waterfront parks to develop as year round destinations with appropriate public amenities will be explored.

In the longer term, as new waterfront communities develop adjacent to new parks and public spaces, additional strategies will be evaluated, including: creating BIAs whose mandates include supporting adjacent parks and public spaces, recognizing that these spaces will attract significant customers to the area; assessing the feasibility of a special services levy through which new development adjacent to higher-end waterfront parks may contribute to parks costs; and with WT, exploring the viability of implementing philanthropic and sponsorship strategies that support individual parks. Implementation of these initiatives, should they prove feasible, will require Council approval.

RECOMMENDATIONS

The Deputy City Manager whose responsibilities include Waterfront Revitalization, the Waterfront Project Director and the General Manager of Parks, Forestry and Recreation recommend that:

1. Subject to approval of the Government of Canada, the primary funder of Waterfront parks and public spaces, and the Province of Ontario, Council approve creation of a Waterfront Capital Preservation Reserve Fund comprised of funds contributed by Waterfront Toronto (WT) in an amount equivalent to 10% of its capital budget for completed waterfront parks and public spaces, with this fund to be used to cover the capital state of good repair costs of Don River Park, Sherbourne Park, Jarvis public space and other waterfront parks and public spaces as they are developed for their first five years of operation;

2. Council direct the Deputy City Manager whose responsibilities include Waterfront Revitalization, and the Acting Deputy City Manager and Chief Financial Officer, to develop criteria for management and governance of the Waterfront Capital Preservation Reserve Fund, with such criteria to be subject to Council approval;

3. When reporting Council in 2009, with updated projections on the operating impact of waterfront renewal on City programs and services, staff address: (a) the status of the Waterfront Capital Preservation Reserve Fund; and (b) strategies for addressing capital preservation of the Central Waterfront Public Realm;

4. Council request that the Waterfront Project Director, with WT, the Director of Partnerships, the General Managers of Parks Forestry and Recreation and Economic Development, Culture and Tourism, and the Acting Deputy City Manager and Chief Financial Officer explore the following longer term strategies for financing the operating and capital state of good repair costs of waterfront parks and public spaces:

   i. development of a concession strategy;

ii. creation of BIAs whose contributions to the community support high quality parks and public spaces and attract customers and residents to the area;

iii a special services levy, in consultation with the Province of Ontario; and

iv. a waterfront philanthropic and sponsorship strategy that is consistent with City policy and coordinated with other City initiatives;

5. The Deputy City Manager whose responsibilities include Waterfront Revitalization recommend to Council those strategies that prove to be feasible, prior to any implementation taking place;

6. The appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Implementation Points

WT's contribution to the Waterfront Capital Preservation Reserve Fund will require approval of the Federal Government, whose contribution to Waterfront Renewal is targeted primarily at parks and public space development, and the Province of Ontario. The WT Board of Directors formally approved contributing 10% of its capital funds for parks to a capital preservation fund at its meeting on October 16, 2008 and instructed staff to seek concurrence of its Federal and Provincial partners. This concurrence is now being sought.

Specific terms and conditions must be developed to govern the Waterfront Capital Preservation Reserve Fund. These will be developed by staff, in consultation with WT, and submitted to Council for approval in 2009.

The Central Waterfront Public Realm includes the Spadina, Rees and Simcoe wave decks, the Portland Promenade and the Spadina Bridge, all scheduled for completion before or during 2010. Further discussion is required with other waterfront stakeholders to determine the appropriate mechanism to finance the capital state of good repair requirements of these assets. Recommended strategies will be reported to Council in 2009 when staff update, as requested by Council, projections on the operating impact of waterfront renewal on all City programs and services.

WT and the City are exploring ways in which on-site earned revenue for the first three signature waterfront parks – Don River, Sherbourne and Jarvis – can be maximized. Parks designs include pavilions and facilities that will support programming and expedite the generation of on-site revenue. Concession plans are required for these parks and will be developed within the context of the concession strategy for waterfront parks and public spaces, over the next 12 months. In addition, WT is conducting an audit of the designs of these parks to ensure that on-site revenue generation opportunities are consistent with City and Waterfront objectives for the revitalization initiative. Staff will consider existing City policies regulating concessions and leases as part of this process.

Financial Impact

WT currently estimates the capital cost of parks included in its long term plan at $70 million. Included in this estimate are Don River Park, Sherbourne Park and Jarvis Slip Public Space, all of which are scheduled for completion in 2010. Also included are Aitken Place Park, the Cherry Street TTC Loop, Parliament Street Park, Dominion Foundry Mews, Cork Town Mews, Front Street Triangle, and Lake Ontario Park Phase 1. The value of the WT contribution to a Capital Preservation Reserve Fund would be 10% of this capital estimate, or $7 million, which would be held in the Waterfront Capital Preservation Reserve Fund and used to pay for capital state of good repair costs for these parks in the first 5 years of their operation. On a go forward basis, WT would continue to contribute 10% of the park capital cost for additional waterfront parks as they develop.

Further discussion is required with other waterfront stakeholders to determine the appropriate mechanism for financing capital state of good repair costs for the Central Waterfront Public Realm. Options in this regard will be reported in 2009, when staff update the operating impact of waterfront renewal on all municipal programs and services.

The preliminary annual operating and capital state of good repair costs for Don River, Sherbourne and Jarvis parks are estimated at $2 million (operating) and $0.6 million (capital). These estimates will be refined based on detailed business cases to be submitted on a park specific basis as part of the City Operating and Capital Budget process for the year in which these parks become operational.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

In November 2007, City Council approved Executive Committee Report 13.4 entitled "Operating Budget Impacts of New Waterfront Infrastructure". Council recommended that the Waterfront Project Director and the General Manager of Parks, Forestry and Recreation, in consultation with the Deputy City Manager and Chief Financial Officer and WT, report in 2008 on the preferred approach to implementing recommendations contained in the Waterfront Parks Operations and Maintenance Strategy Study, a study commissioned by WT from HR&A Advisors, Inc.

http://www.toronto.ca/legdocs/mmis/2007/ex/reports/2007-10-29-ex13-cr.pdf (pg 19)

ISSUE BACKGROUND

The 2007 Executive Committee Report titled "Operating Budget Impacts of New Waterfront Infrastructure" identified the projected cumulative incremental net operating cost for all City programs by 2021, as a result of waterfront renewal. For Parks, Forestry and Recreation, the report identified the cumulative incremental net operating impact of new or improved waterfront parks and open spaces to be $140.7 million by 2021. This assumed that 5% of the capital cost of each park was required to be invested on an annual basis to address routine operations and maintenance requirements.

The report also summarized findings from the HR&A study "Waterfront Parks Operations and Maintenance Funding Strategy" (October 2007) regarding the maintenance requirements of waterfront parks and public spaces, recognizing that these spaces are in close proximity to water, and intended to be high-use areas, regional draws and year round destinations. While the higher quality design of these parks is expected to generate significant public value in surrounding waterfront neighbourhoods over time, they will be more expensive to operate and maintain if they are to effectively satisfy the above objectives. As a result, the consultants recommended that a total operating and capital state of good repair budget for individual waterfront parks be equated to of 7-10% of the capital cost of each park on an annual basis, as opposed to the 5% estimate employed by the City. Using this approach, City staff estimated the cumulative incremental net impact to the City by 2021 to be $224 million using a 7% factor and $320.5 million using a 10% factor.

In 2008, City and WT staff formed a working group to assess the viability of various funding options identified in the HR&A Study. Specific revenue sources considered included:

- Traditional municipal funding;
- Funding from the WT Capital budget for parks and public spaces;
- Proceeds from development in new adjacent waterfront neighbourhoods;
- Earned income, including concessions, user fees, and possible parking revenue;
- Philanthropic contributions and sponsorship opportunities.

Each of these potential revenues was evaluated using the following criteria:

- Order of magnitude of revenue;
- Timing of cash flows;
- Likely support of government partners;
- Ease of implementation;
- Legal feasibility.

Recommendations in this report reflect the results of this analysis.

COMMENTS

Parks budgets within the City of Toronto are comprised of both Operating and Capital State of Good Repair components. Operating costs are for general services such as litter picking, grass cutting, garbage and recycling, maintenance of washrooms, playgrounds, pathways, wading pools, splash pads, beaches, grooming, graffiti removal, park patrol, winter maintenance; horticulture services such as flowering annuals and perennial plants, shrubs and associated display areas; soft landscaping for horticultural features, grass, and trees, and parks programming. Capital state of good repair costs include the repair and replacement of parks and associated facility amenities. Operating and capital state of good repair costs are expected to be higher for waterfront parks than for most parks in the City as a result of the proximity to water, higher end design, and the anticipated level of use.

For parks to be completed over the next 10 years, staff agree with the HR&A findings that 7-10% of the capital cost of individual parks must be invested on an annual basis to provide for total operations and capital state of good repair. This would break down into 5-7% of for routine operations (includes 1-2% for parks programming) and 2-3 % for capital state of good repair.

Table 1 below shows the estimated total operating and capital state of good repair impacts for the first five year period of operation for the first three signature waterfront parks to be completed (Don River, Sherbourne and Jarvis). The estimated capital cost for these parks is $30.5 million, thus generating $3 million for the Waterfront Capital Preservation Reserve Fund, enough to fund the first five years of capital state of good repair for each of these parks. The table also includes projections for on-site earned income that have been developed by staff. In addition to this revenue, additional operating funding of $2 million must be addressed through City base funding. These factors and additional information on revenue generation are detailed below.

Summary Table 1

Years 1-5 of Parks Operations (Annual $000's)			
Total Operating & State of Good Repair	**Annual Operating**	**Annual Capital**	**Total Cumulative**
Operating Expense	2,135	-	10,675
Capital State of Good Repair	-	610	3,050
Expenditures	**2,135**	**610**	**13,725**
Funding Source			
Waterfront Toronto Capital Preservation	-	610	3,050
Operating Revenue (Earned Income)	107	-	534
Funding	**107**	**610**	**3,584**
City Base Funding	**2,028**	**-**	**10,141**

Potential Revenue Sources

Revenue sources explored by the work group were intended to be in addition to the City's base funding for routine operations. Potential new or enhanced revenue sources fall into three categories:

- WT contributions to a capital preservation reserve fund for capital state of good repair;
- Parks programming revenues that can offset the City's operating costs in the short to medium-term (0 to 5 years), including user fees for park programs and services, the inclusion of concession and entertainment facilities, retail opportunities, visitor centres, and parking.
- Revenue sources that will take longer to develop (if approved), including mechanisms to leverage investment from adjacent development (waterfront BIAs or a potential Special Services Levy) and a waterfront parks philanthropy and sponsorship program.

1. Base Public Funding

In comparable jurisdictions, stable public funding sources remain critical to the long-term success of high quality parks. Though supplemented with increasing frequency by other revenue sources, park systems in the United States, such as San Francisco, Washington D.C., Chicago, and elsewhere in Canada continue to receive base public funding for operations and capital state of good repair.

City and WT staff concur that base funding for routine operations should be financed through traditional municipal sources while capital state of good repair costs should be funded by WT over the first five years of parks operation to allow time for other funding sources to develop.

Staff conclude that the target for base funding from the City for waterfront parks on an annual basis should be equivalent to approximately 7% of the park's capital cost, noting that this is a guideline that should be met or exceeded depending on the specific details for each park proposal. This City funding must address most of the $2 million in operating costs shown in Table 1 in the short term, until other earned revenue sources can be developed.

At the request of WT, HR&A examined options for re-profiling WT capital funds, with a view to supporting the capital state of good repair costs for new parks and public spaces during their first five years of operation.

Based on this analysis, WT has agreed to contribute 10% of its overall parks capital budget to a Waterfront Capital Preservation Reserve Fund. These resources, with interest, would fund five years of capital state of good repair costs for new parks. This equates to investing 2 % of the capital budget for each park in its capital state of good repair for each of their first five years of operations.

2. On-site Revenue Generation, Concessions and Programming Opportunities

Encouraging additional uses and activities that generate on-site revenues and diversify overall revenues for parks can benefit the vibrancy and character of waterfront open spaces and is consistent with the vision of waterfront parks as both regional attractions and year round destinations. The presence of restaurants, cafés, entertainment venues, and indoor recreation facilities can enliven neighbourhoods during evenings and winter months. On-site use and activities must be considered during the parks planning process to ensure that proposed uses are complementary with the design vision for each park. Programs for uses and activities should vary significantly by park, and the “market” for these uses will vary by the location and character of a park.

The City of Toronto has a tradition of hosting festivals and public space programming that enhances the City's ability to promote parks and public spaces as year-round destinations. For example, staged/permitted events such as Cavalcade of Lights and small Jazz Festival events are integrated into the programming mandates of parks. These events contribute greatly to park diversity, year-round park animation and community economic development. However, the actual revenue-generating potential for Parks Forestry and Recreation for these events is anticipated to be limited, due to existing City policy that requires organizations who apply for special event permits to be not-for-profit.

Opportunities may exist to encourage programming that is financially and operationally sustainable, as well as that which may be financed by business through BIAs and other mechanisms.

During the design process for Don River Park and Sherbourne Park, the potential of these spaces to accommodate festivals and public space programming, some of which may have income generating potential, was explored. For Don River Park, small and medium-sized event capacity is built into the park design through two separate open lawn areas of differing size, both of which have supporting grade conditions, event staging access, electrical service capacity and sloped seating areas, along with a nearby park pavilion. Similar capacity has been built into Sherbourne Park, but for smaller permitted events and activities.

The work group examined comparable parks systems in North America, with a particular focus on systems that contain significant waterfront components, to determine the range of contributions from on-site earned income to total operations and state of good repair.

The Vancouver Board of Parks and Recreation generated approximately 40% of its operations and state of good repair on-site in 2006, the Chicago Parks District 23%, and the New York City Department of Parks and Recreation approximately 26%.

The current development of upper the New York Harbour exemplifies this approach to parks design and use. With a total area of 1,380 acres, the site has roughly the same area as Toronto's waterfront parks when fully developed. When fully developed, the project will include 45 restaurants and cafés; 800,000 square feet of retail uses; 7 cultural and educational attractions; 5 performance spaces or amphitheatres; and 4 marinas with 1,000 slips. This example shows some of the components to consider in an approach that seeks to raise significant on-site revenues. Staff note that well over 2 million people live in Manhattan and adjacent boroughs, and the Hudson River Park area is a major district park for those residents, so any comparison to what might be considered or achieved for Toronto should be approached with caution.

Staff are proposing targets of generating 5% of operating costs for each new waterfront park from on-site earned income in the first five years, and 10% in the second five year period, to offset costs associated with the operation of the parks. Table 1 shows the preliminary estimates of $107,000 if 5% of operating costs are met in Year 1-5. These anticipated revenues must be reviewed once a revenue and concession strategy is developed. Failure to raise these additional revenues increases the tax burden.

WT has initiated work with the City to ensure that park designs can accommodate uses that enhance revenues earned on-site while respecting City and WT goals for open space in a revitalized waterfront. Uses may range from those "traditionally" included within parks, such as user fees for park services, to less traditional uses such as concession and entertainment facilities, retail opportunities, visitor centres, and parking. The Deputy City Manager whose responsibilities include Waterfront Revitalization, in consultation with the General Manger of Parks Forestry and Recreation, will report to Council on a recommended earned revenue and concession strategy, prior to such a strategy being implemented, as part of the biannual update on the operating impacts of waterfront renewal.

Parking

New waterfront neighbourhoods will yield significant on-street parking according to WT's planning studies.

Parking has been successfully integrated into public spaces in a number of signature parks in other jurisdictions, including Millennium Park, Chicago, which has 2,200 below-grade, revenue-generating parking spaces directly beneath it and 7,000 additional spaces in surrounding garages producing $4 -5 million in net annual income, and Boston Common, which has a 1,300 parking space garage below a 48-acre park in Central Boston and generates approximately $5 million in net annual income. A proposed expansion for Boston Common garage would double the number of spaces and a portion of revenues may be dedicated to operations and state of good repair.

Consideration of integrating parking into new parks where contextually appropriate could yield significant revenues. Staff have concluded, however, that parking as an option to support waterfront parks in East Bay Front and West Don Lands is limited within the next five to ten years. Further exploration of parking opportunities as parks develop in the Port Lands and as Lake Ontario Park advances must be explored.

3. Long-term Revenue Sources

Non-City revenue sources are being considered over the longer term to further mitigate the financial impact of waterfront parks on City budgets. The following sources will be explored by City and WT officials over the next year and addressed in the biannual update on operating impacts of waterfront renewal on all City programs and services.

Funding from Adjacent Properties

As new commercial development comes on stream in the waterfront, there is an opportunity to work in partnership with new businesses to ensure that new waterfront parks benefits business as well as residents and visitors.

Throughout Toronto, BIAs often partner with the City to make significant contributions to the improvement and maintenance of the public realm. These investments are usually focussed on providing capital funding for streetscape elements that are above the normal City standard and maintaining those elements once complete. Investments in streetscape improvements are perceived by BIAs as a direct benefit to the local business community as they enhance the local shopping and dining experience. In order to extend this model to public parks, local business must be convinced that their investment would be a direct benefit to business and is above and beyond the normal park standard.

There are very few examples in the City of Toronto where BIAs have undertaken such park partnerships and where they have occurred it has been to supplement the City’s efforts to enhance business opportunities. For example, many BIAs have invested in seasonal lighting displays to extend the City’s Cavalcade of Lights festival to local communities. There are successful examples from other cities where the local business community have made significant contributions to park development and maintenance. Bryant Park Business Improvement District (BID) in New York City is a leading example of a BID that raises substantially all of the required funds (approximately $950,000 per year) for operations and capital state of good repair of its adjacent 8-acre open space. Staff note that this is a unique park wherein the surrounding area is mostly business towers, and it is the only significant green space directly available to local employees.

The City’s BIA Office can work with the local business community in new waterfront neighbourhoods to first assess support for establishing Business Improvement Areas and ultimately support for partnering with the City in park programming and capital state of good repair. Until the new business community is established, however, it is premature to create these BIAs.

Special Services Levy

Toronto's waterfront revitalization initiative will create open space that will provide immediate and material benefits to new commercial and residential developments in the waterfront. Opportunities for those directly benefiting from this public realm investment to supports its ongoing maintenance and operation must be explored.

Opportunities to levy charges on developers as new neighbourhoods are constructed, through Section 37 and cash-in-lieu of parkland dedications have already been accounted for in the Waterfront Capital Budget and are earmarked for investment in the construction of new waterfront infrastructure As a result, these resources are not available to fund operations and capital state of good repair.

The *City of Toronto Act* enables the City to provide for a "special levy" to be imposed for certain services within a specific geographic area. This levy could address both operating and capital costs associated with the provision of waterfront parks as a "special service". A key condition is that this special service is a service or activity of the City or a local board of the City that is not being provided or undertaken generally throughout the City, or that is being provided or undertaken at different levels or in a different manner in different parts of the City.

Under the *Act*, the City may identify the cost of providing a special service to an area, the benefit of which is not received or will not be received in other areas of the City, and levy a charge for all or a portion of the costs of providing that service. WT and City officials believe that an argument can be made for such a levy to support waterfront parks and public spaces, as they will be of a quality and provide programming and service opportunities that are not provided elsewhere in the City. The parks will result in additional customers for area business, serve as elements that attract potential residents to new development, and, given the inclusion of community facilities in these areas which are funded by WT, reduce the need for residential developers to provide common space within condominium buildings. U.S. cities such as Seattle have employed the special levy approach to fund parks and public spaces.

Creation of a special services levy could pose a number of challenges to the City. Property owners may argue that the value of the waterfront open space has already been reflected in property values, and therefore property taxes. In addition, setting the district boundary can be complex.

Staff note that the Minister of Municipal Affairs and Housing may make regulations prescribing services that cannot be identified as a special service, establish conditions and limits on the exercise of the City's powers under this section of the Act or prescribe the amount of costs or the classes of costs for the special service, among other conditions. As a result, City staff must work with Provincial partners on the waterfront on the continued exploration of this option.

Philanthropic and Sponsorship Opportunities

Over time, public and private interest and commitment to waterfront parks could lead to opportunities to generate philanthropic contributions from private sources in support of signature waterfront parks. Sponsorship opportunities associated with specific park or public space programs may also exist.

Experiences elsewhere indicate that philanthropic support takes a longer period of time (10 years or more) to develop. A mechanism for developing and implementing a campaign and for managing the funds which it generates would have to be developed by the City and approved by Council prior to implementation.

Other jurisdictions, especially in the United States where there has been a greater history of philanthropic support of the public realm, have had success in this area. The Central Park Conservancy, which now funds 83% of the operations and capital state of good repair budget for Central Park, was able to fund about half of the park's budget through private contributions in the early 1990s – ten years after its founding. The Pittsburgh Parks Conservancy has significant foundation endowments that fund most of the special events and has funded much of the revitalization and capital state of good repair of Pittsburgh's parks in the last two decades.

A number of lessons are relevant to Toronto's efforts:

- Parks generally must be built out and operating before development staff can generate significant donor interest;
- Effective fundraising demands substantial staff resources: a survey of park fundraising entities showed that they spend between 15 and 20 cents for each dollar raised;
- Fundraising for capital is generally easier than for operating;
- Engagement by a strong constituency, including philanthropic "champions," is critical. Many American parks systems, as well as parks in Vancouver and Montreal, have created "conservancies" to engage community members in maintaining and funding certain signature parks.

Projecting the value of philanthropic or sponsorship contributions at this point in parks development is difficult. To advance this strategy, the City and WT must ensure that parks are designed in a manner that accommodates programs and services that lend themselves to sponsorship and philanthropic initiatives, as long as such initiatives are in compliance with existing City policies and priorities.

Conclusion

An effective strategy to address the operating and capital state of good repair costs for new waterfront parks must support developing waterfront parks as high-use areas, regional draws and year round destinations, with the necessary public amenities and facilities. While the higher quality design of these parks is expected to generate significant public value in surrounding waterfront neighbourhoods, these parks will be more expensive to operate and maintain.

City and WT staff concur that base funding for routine operations is best financed through traditional municipal sources while capital state of good repair costs should be funded by WT over the first five years of operation, to allow time for other funding sources to be developed. This will require the establishment of a Waterfront Capital Preservation Reserve Fund to which WT would contribute 10% of the capital cost of each park.

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