



STAFF REPORT ACTION REQUIRED

Food Service Opportunity at Toronto City Hall and Nathan Phillips Square

Date:	August 31, 2015
To:	Government Management Committee
From:	Chief Corporate Officer
Wards:	Ward 27 - Toronto Centre-Rosedale
Reference Number:	P:\2015\Internal Services\RE\Gm15031re (AFS# 21564)

SUMMARY

The purpose of this report is to advise City Council about the results of staff's consultations with various training and social enterprise organizations regarding the feasibility of and interest in establishing a social enterprise food service operation in Toronto City Hall, 100 Queen Street West and/or in developing a new restaurant in Nathan Phillips Square and to seek further direction from City Council.

RECOMMENDATIONS

The Chief Corporate Officer recommends:

1. City Council direct the Chief Corporate Officer to proceed with the tenant selection process for the food service opportunity at Toronto City Hall separately from the tenant selection process for the Nathan Phillips Square restaurant development opportunity, while considering both in relation to all food service operations at City Hall. However, proponents will have the opportunity to pursue either of the opportunities separately or jointly.

AND

- 2.a. City Council direct the Chief Corporate Officer to undertake the tenant selection process outlined in Appendix 1 of the report (February 9, 2015) from the Chief Corporate Officer [Item GM1.4a], as adopted by City Council at its meeting held on February 10 and 11, 2015, to find a commercial food service operator and to report back to City Council, through the Government Management Committee, on the recommended tenant(s) and lease terms, if any.

OR

- 2.b City Council approve the establishment of a social enterprise food service operation in Toronto City Hall, and direct the Chief Corporate Officer, in consultation with the Executive Director of Social Development, Finance & Administration ("SDFA"), to undertake the tenant selection process outlined in Appendix 1 of the report (February 9, 2015) from the Chief Corporate Officer [Item GM1.4a], as adopted by City Council at its meeting held on February 10 and 11, 2015, using selection criteria that evaluate not only a proponent's ability to generate income but also its ability to achieve social goals that are measurable and that align with the City's social strategies, and to report back to City Council, through the Government Management Committee, on the recommended tenant(s) and lease terms, if any.

AND

3. City Council authorize the Chief Corporate Officer to retain a food service advisor with expertise in establishing, advising, and operating food service(s) in downtown Toronto, at a cost of up to \$100,000, after obtaining a minimum of three quotes, if possible, for these services for both the Toronto City Hall food service opportunity and the Nathan Phillips Square restaurant development opportunity, on terms satisfactory to the Chief Corporate Officer and in a form satisfactory to the City Solicitor, and if it is not possible to find at least three qualified food service advisors who are willing to submit quotes, authorize the Chief Corporate Officer to retain a food service advisor on a sole source basis.
4. City Council authorize the Chief Corporate Officer, in consultation with the City Solicitor, to retain, on a sole source basis, a process monitor to ensure the fairness of the tenant selection processes, at cost of up to \$37,000 for both the Toronto City Hall food service opportunity and the Nathan Phillips Square restaurant development opportunity, on terms satisfactory to the Chief Corporate Officer and in a form satisfactory to the City Solicitor.

5. City Council authorize the extension of the lease between the City and 1158093 Ontario Limited o/a Café on the Square ("Café on the Square") beyond the current expiry date of December 31, 2015 until the City has entered into a new agreement for the provision of food services in Toronto City Hall, with such extension to be on the same terms as the existing lease and in a form satisfactory to the City Solicitor.

FINANCIAL IMPACT

A food service advisor will be retained at a cost of \$100,000 to provide advice for both the Toronto City Hall food service opportunity and the Nathan Phillips Square restaurant development opportunity regardless of the recommendation(s) adopted. Funding is available in the 2015 Operating Budget for Facilities Management, Real Estate & Environment and Energy (FREEE) under cost centre FA0131.

A process monitor will also be retained to ensure the fairness of the market-determined tenant selection processes, at a cost of \$37,000 for both the Toronto City Hall food service opportunity and the Nathan Phillips Square restaurant development opportunity regardless of the recommendation(s) adopted. Funding is available in the 2015 Operating Budget for FREEE under cost centre FA0131 to retain the process monitor.

Should the lease between the City and Café on the Square extend beyond the current expiry date of December 31, 2015, the City will receive approximately \$6,400 from Café on the Square on a monthly basis, which is equivalent to approximately \$76,800 annually.

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

DECISION HISTORY

On February 10 and 11, 2015, City Council adopted Item GM1.4, entitled "Café on the Square, 100 Queen Street West – Update", and thereby requested the Chief Corporate Officer to consult with the Ontario Restaurant Association and training organizations such as the YMCA, UNITE HERE Local 75, George Brown College and other social enterprise food service providers to determine the feasibility of and possible interest in a social enterprise food services operation being established at City Hall following the expiry of the current lease with Café on the Square and to report back to City Council, through the Government Management Committee, on the results of the consultations.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM1.4>

On February 10 and 11, 2015, City Council adopted Item GM1.3, entitled "Nathan Phillips Square Revitalization – Project Update", and thereby directed the Chief Corporate Officer to undertake the same Proposed Tenant Selection Process outlined in Appendix 1 of the report (February 9, 2015) from the Chief Corporate Officer [Item GM1.4a] to obtain a lessee to customize the design and to build, finance and operate a restaurant on Nathan Phillips Square, and that food services be considered within the overall context of Nathan Phillips Square and City Hall with the goal of providing healthy food choices, selection, value and an acceptable economic return to the City. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM1.3>

ISSUE BACKGROUND

Café on the Square's current lease, as amended on February 1, 2015, is in good standing and expires on December 31, 2015. The Chief Corporate Officer has been requested to consult with various training organizations and social enterprise food service operators to determine the feasibility of and interest in establishing a social enterprise food service operation in Toronto City Hall. As City Council directed that food services be considered within the overall context of Nathan Phillips Square and Toronto City Hall, staff also consulted with the same training organizations and social enterprise food service operators concerning the restaurant development opportunity in Nathan Phillips Square.

COMMENTS

Social Enterprise Operation Feasibility and Interest

After the decisions in Item GM1.4 were adopted by City Council on February 10 and 11, 2015, Real Estate Services ("RES") staff had to further clarify the requirements and conduct research on a comprehensive group of training organizations and social enterprises that should be contacted. Subsequently, RES staff invited the organizations listed in Table 1 below to attend consultation meetings on May 21 and 22, 2015.

On June 4, 2015, letters were sent to all of the parties who expressed initial interest in the opportunities. The letters included answers to questions that were posed during the consultation meetings and City staff requested each party's written interest/input by 5 pm on June 25, 2015 on: (1) the Toronto City Hall food service opportunity; (2) the Nathan Phillips Square restaurant development opportunity; or (3) both opportunities.

Table 1: Parties Contacted and Their Responses

Organization Contacted	Initial Interest	Referred Opportunity To	Interest in Toronto City Hall Opportunity	Interest in Nathan Phillips Square Opportunity
YMCA GTA	Yes	N/A	No	No
UNITE HERE Local 75	Yes	Hospitality Workers Training Centre ("HWTC") and Working for Change ("WFC")	Yes	No
George Brown College	No	N/A	No	No
Seneca College	No	N/A	No	No
Humber College	No	N/A	No	No
Ontario Restaurant Hotel & Motel Association	Yes	N/A	No	No
Restaurants Canada	No	N/A	No	No
Social Purchasing Project, an initiative of United Way	Yes	Various social enterprises, including Paintbox Catering and Bistro Inc. ("Paintbox")	Yes	No

Two written responses expressing interest in the food service opportunity in Toronto City Hall were received, one from a partnership between WFC and HWTC, which operates Hawthorne Food & Drink ("Hawthorne"), and one from Paintbox. Copies of both responses are attached as Appendices B and C, respectively. None of the parties that were contacted expressed interest in the restaurant development opportunity in Nathan Phillips Square, with the most common reasons being lack of resources and lack of funding.

Both of the interested parties met the goals of healthy food choices, selection, and value as listed by City Council in Item GM1.3, Decision 1. Value can be interpreted in multiple ways and therefore is subjective and hard to determine. The factor of being able to provide "an acceptable economic return to the City", also stated in GM1.3, Decision 1, cannot be determined based on the current information available.

Potential Funding by United Way

On July 29th, 2015, staff from SDFA was contacted by United Way Toronto & York Region (“United Way”) and Toronto Enterprise Fund (“TEF”). United Way and TEF indicated that funding and other support would potentially be available to any social enterprises, training organizations, and/or partnerships, such as a social enterprise working with a private sector organization (which could include Café on the Square partnering with a social enterprise or training organization).

To be eligible for TEF funding, applicants must:

1. Be an incorporated non-profit organization
2. Have a charitable status, or if not, be sponsored by a charitable organization
3. Be managed by a volunteer Board of Directors or Steering Committee
4. Be located and operating in the City of Toronto
5. Operate in accordance with the Ontario Human Rights Code

TEF has indicated that it will consider proposals for funding in the \$100,000-\$150,000 range per year for three years, as well as provide business development support. The final amount of any funding would depend on the organizations’ projections for revenues, costs and social outcomes and, it should be noted that at this time, no funding is guaranteed.

Engagement with a social enterprise(s) in the food service space in Toronto City Hall could contribute to the social and economic goals identified in Council-approved corporate strategies, including *Working as One: A Workforce Development Strategy for Toronto*, the *Toronto Youth Equity Strategy*, the *Toronto Strong Neighbourhoods Strategy 2020* and *TO Prosperity: Interim Poverty Reduction Strategy*.

Feasibility

One key factor RES was instructed to examine was the feasibility of the social enterprise model. Feasibility has to include achieving social goals, implementation capabilities of operator, and meeting financial considerations. From a financial and investment perspective, the City will have a negative return unless the potential food service operator pays the full amount of market rent, common area maintenance ("CAM") costs, and realty taxes.

Analysis provided in Appendix A is based on the investment the City would have to make in relation to the benefits it estimates to receive to achieve net present values for two scenarios.

In Scenario one, RES modeled the potential tenant as if it were a typical below-market-rent tenant that only pays for the CAM costs and realty taxes. In this case, TEF funding may or may not be supplied to cover these two types of costs.

In Scenario two, the social enterprise pays market basic rent, CAM costs, and realty taxes, like a regular commercial tenant, with the support of TEF funding to help cover those costs. This model demonstrates potential financial viability of the social enterprise model. The bulk of the benefits is due to the City receiving all the market rent, CAM costs, and realty taxes.

The purpose of the two scenarios is to test possible outcomes and to determine the financial feasibility of the social enterprises/training organizations so the City is better informed should it choose to undertake such an endeavor.

However, there are benefits that potentially cannot be measured at this stage due to details that need to be worked out with any proponent. Thus the potential benefits that the participants of such a program may receive are difficult to quantify and measure.

Evaluative Framework for Social Enterprise Model

The qualification criteria for the proponents would be established by RES, in consultation with SDFA, and in conjunction with a food services industry advisor. The successful proponent may or may not receive funding from TEF subject to certain criteria. Should there be a winning joint venture proponent, a partnership agreement must be in place so that the lease is between the City and one organization, with one lessee and one operational plan.

Some of the staff-suggested criteria for evaluating the social enterprise framework are as follows:

Objective Criteria

- Financial Management Capabilities
- Revenue Breakdown (revenue forecasting)
- Management strength
- Experience of the operators

Subjective Criteria

- Purpose and mandate of social enterprise
- Proposed concept
- Interior and exterior décor
- Menu selection
- Staff and Training Involvement
- Marketing Campaign
- Professional judgment of proponents by City staff (standard practice used by financial institutions in determining underwriting processes for providing lending)
- Meeting Council directions

The City should also look at other social metrics that evaluate the effectiveness of the social enterprise model, such as the following:

- Number of people that are employed, self-employed, or in continuing education X year(s) after they leave the training program (X to be determined at a later date)
- Number of people who become independent of government assistance programs in addition to Ontario Works and Ontario Disability Support Program, such as emergency shelter support
- Number of people who are able to afford market-rent housing
- Salaries of trainees when they enter the program and biannually after starting the program

All of the above metrics are examples that should be incorporated into the social ROI framework for evaluating social programs. The potential social enterprise model should be evaluated against alternative delivery programs that can achieve the same/similar goals to determine effectiveness of one program versus another and use of taxpayer dollars.

To measure the success of a social enterprise model, TEF has the following financial and social metrics:

Financial metrics:

- Meet or exceed annual sales target (which should be higher than TEF funding)
- Increase sales year over year
- Attain 100% Business Cost Recovery in first three years of operation
- Reduce reliance on grant funding, increase reliance on business revenues

Social metrics:

- Number of people trained/hired in the café per year
- Amount of increased income earned by participants per year
- Number & percent of participants who obtain permanent employment (either full or part-time)
- Number & percent of people whose housing improves during the year
- Number & percent of people who become independent of social assistance (Ontario Works and Ontario Disability Support Program)
- Overall improvement in participants' health (physical & mental), food security, social networks, and general quality of life

The creation of a social evaluation framework, prioritization of competing social purposes, and metrics are greatly needed in order to better allocate limited resources in order to achieve the optimal results. From a pure financial point of view, a social enterprise model is likely to forgo revenue that the City would otherwise have to be utilized for all programs, including social programs.

Should City Council determine that a commercial for-profit model is better suited for the City in that it would produce a more positive financial result for the City, the Chief Corporate Officer could instead undertake the selection process in Appendix 1 of the report (February 9, 2015) from the Chief Corporate Officer [Item GM1.4a], as adopted by City Council at its meeting held on February 10 and 11, 2015 to find a commercial operator. The qualification criteria would be established by RES in conjunction with a food services industry advisor.

Given that none of the social enterprises and training organizations that RES contacted are interested in investing in the Nathan Phillips Square restaurant development opportunity, staff believes it is best to separate these two opportunities and proceed with each on its own. However, should Recommendation 2 be adopted and proponents are interested in both of the opportunities, proponents would be able to pursue the opportunities jointly.

Also, given the implementation timelines required to undertake either a social enterprise tenant selection process or a commercial tenant selection process and to report back to City Council for approval, it is likely that the current lease between the City and Café on the Square will need to be extended past the current lease expiry date of December 31, 2015 to ensure the continued availability of food services in Toronto City Hall. It is recommended, therefore, that the lease be extended on the same terms as the current lease until such time as an agreement has been entered into with a new food service operator.

In conclusion, should a social enterprise model be adopted, both financial and social objectives have to be met with an acceptable economic return to the City and taxpayers. A structured and rigorous approach for evaluating social enterprise programs must be established to determine the prudent allocation of resources in order to ensure results.

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SIGNATURE

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ATTACHMENTS

Appendix “A” – Net Present Value of Social Enterprise Food Service Operation

Appendix “B” – Response from Hospitality Workers Training Centre and Working for Change - June 25, 2015

Appendix “C” – Response from Paintbox Catering and Bistro Inc. – June 25, 2015