EX16.4

STAFF REPORT
ACTION REQUIRED

City-wide Real Estate Review

Date:	June 13, 2016
To:	Executive Committee
From:	Peter Wallace, City Manager
Wards:	All
Reference Number:	P:\2016\Internal Services\FAC\Ec16002fac

SUMMARY

This report is further to City Council's direction to the City Manager to undertake a City-wide Real Estate Review to provide an objective assessment of the City's real estate services delivery model across applicable divisions, agencies and corporations. Its purpose is to provide an update on the status of this review and outline the City Manager's advice to Council related to the opportunities identified through the review process.

This report is intended to set the future direction for the City of Toronto's extensive real estate holdings, the scope of which has been fully captured for the first time through this review process. The City of Toronto owns an expansive, diverse and valuable real estate portfolio with significant operational and capital expenditures. With holdings conservatively valued at $27 billion including 6,976 buildings covering 106.3 million square feet (9.87 million square metres) and 28,882 acres of leased and owned land, the City of Toronto, including all its divisions, corporations and agencies, has one of the most significant real estate portfolios in the country.

Although it is recognized that many of these assets can never be sold, ensuring the City is effectively positioned to strategically leverage its real estate portfolio, and maximize operating efficiencies is consistent with the City's Long-Term Financial Direction report recently adopted by Council. The Long-Term Financial Direction is focused on strengthening financial processes, strategic planning, oversight and decision-making, while taking a "whole of government" approach to all aspects of City operations, including those of divisions, agencies, and corporations. Further, optimization of the City's assets will aid Council in achieving long-term strategic objectives and city-building priorities.

Table 1 shows there are 15 entities identified as managing their portfolios with varying governance arrangements, mandates, strategic and operational objectives related to real estate assets:

Table 1: 15 City Real Estate Entities

6 Agencies	4 Corporations	5 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		

Real Estate Services within the City's Chief Corporate Officer Organization provides day-to-day transactional real estate services to the majority of divisions and agencies. When entities manage their real estate portfolios autonomously, it limits the City's ability to achieve long-term strategic objectives, develop a holistic City building strategy, explore co-location opportunities, maximize the value of assets and find efficiencies in operations.

The City Manager retained third-party expertise from Deloitte LLP (Deloitte) to assist with this initiative in partnership with the Chief Corporate Officer Organization. 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 suggests 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 transformation process to successfully establish a new real estate entity will require significant executive leadership, change management, policy and practice re-engineering, organizational change and information technology investment.

As an immediate first step, the City will need to put in place a comprehensive transition framework, which will include engaging with senior executives and creating a transition team reporting to the City Manager.

The transition team will develop a strategy and a detailed implementation plan, including new policies and practices, and identification of a technology platform by Q2, 2017 to help facilitate the restructuring and move to the end state. It will develop a core city building mandate that considers public policy objectives such as affordable housing, public realm, public transit and economic development.

RECOMMENDATIONS

The City Manager recommends that:

1. City Council adopt in principle the directions to move to a centralized real estate operating model as broadly described in Appendix A of this report and authorize the City Manager to:

    a. recruit and appoint a transition team; and

    b. develop a transition strategy and implementation plan, in collaboration with affected City agencies and corporations (listed in Table 1), including a recommended governance model incorporating a core city building mandate that considers public policy objectives such as affordable housing, public realm, public transit and economic development and report further to Executive Committee in Q2, 2017.

2. City Council establish a Council Advisory Body (Real Estate Advisory Committee) for the real estate transformation pursuant to the Terms of Reference in Appendix B to this report.

3. City Council request the Boards of relevant agencies and corporations listed in Table 1 participate in the development of the transition strategy and implementation plan, and provide information as required.

4. City Council request that the City's affected City agencies and corporations listed in Table 1, during the development of the real estate transition strategy and implementation plan, co-operate and coordinate with the transition team, when undertaking any real estate transaction or development work of significance (whether in dollar value, City building potential, size of site, or otherwise).

5. City Council approve one-time transition costs over the next 9 months of $1.702 million ($0.788 million in 2016, $0.914 million in 2017) and 8 temporary positions with funding provided from the Innovation Reserve Fund (XR1713). This increase is for the establishment of a transition team, including a cross-functional Program Management Office for a 9 month period ($1.143 million) and for continued support from Deloitte LLP, the City's third-party consultant retained to support the City-wide Real Estate Review ($0.559 million).

6. City Council amend the 2016 approved operating budget for Facilities, Real Estate, Environment & Energy by adding $0.788 million gross and $0 net and that the Chief Corporate Officer report back during the 2017 budget process on future requirements.

7. City Council authorize the City Manager to negotiate and execute an amending agreement with Deloitte LLP to assist in the transition phase of the City-wide Real Estate Review initiative at cost of $0.550 million net of all applicable taxes and charges ($0.559 million net of HST recoveries) which increases the value of the existing contract from $0.2 million ($0.203 million net of HST recoveries) to $0.750 million ($0.762 million net of HST recoveries), on terms and conditions satisfactory to the City Manager and in a form satisfactory to the City Solicitor.

Financial Impact

Expenditures:

An upfront investment is required to successfully facilitate the transition process that will provide incremental benefits in future years. Achieving these benefits requires upfront investments of $1.702 million for an extension of Deloitte's contract to assist in the transition and the establishment of a transition team as noted in table 2.

Table 2 ($M)

Item	Positions	Months Required	2016	2017	Total Funding Required
Deloitte – Extension for transition phase	-	-	$ 0.279	$ 0.279	$ 0.559
"Transition Team"	8.0	9	$ 0.508	$ 0.635	$ 1.143
Total Incremental funding and positions required	**8.0**		**$ 0.788**	**$ 0.914**	**$ 1.702**

The proposed transition team will be comprised of staff from various disciplines for a 9 month period. There will be a need for a net increase in the City's complement of 8.0 temporary positions for the 9-month period. In addition, project management, change management and data analysis resources will be seconded from the existing complement to join the transition team. The expertise needed within the transition team from various disciplines is identified in table 3.

Table 3

Expertise	Position	Role Description
Transition lead	1.0	Executive level position
Legal	2.0	Legal Services specializing in the areas of Municipal and Real Estate law
Human Resources	1.0	support the team from a labour relations perspective
City Manager's Office	1.0	Provide policy expertise to the team
Communications	1.0	Support the communications needs of the initiative
Real Estate	1.0	Support the team on corporate real estate and policy matters
Financial Planning	1.0	Assist with financial policy and impacts of the implementation of the initiative
	8.0	

Extending Deloitte's contract is necessary to facilitate visioning sessions and workshops and to provide input in the development of a transition strategy. Amending the agreement with Deloitte LLP is in the amount of $0.550 million net of all applicable taxes and charges ($0.559 million net of HST recoveries). This revises the current contract value from $0.2 million ($0.203 million net of HST recoveries) to $0.750 million ($0.762 million net of HST recoveries).

The 2017 request of $0.914 million gross and $0 net, funded by the Innovation will be submitted for Council approval through the 2017 Budget process.

There will be costs associated with restructuring such as changes in the corporate governance structure and to ensure that the City meets its obligations under various employment agreements. These costs will be reported to Council through future year budget processes.

Funding Source:

As at the end of December 31, 2015, Facilities, Real Estate, Environment & Energy (FREEE) reported a favourable net operating variance of $14.942 million or 22.5 percent below the 2015 Approved Net Operating Budget. This positive year-end variance was primarily due to the receipt and recognition of one-time revenues of $14.507 million with respect to the favourable ruling in the dispute over a long-term ground lease with Brookfield Properties Corporation for 2 Bloor Street East. The disputed lease payments had been made by Brookfield and recorded as deferred revenues pending the arbitration outcome. As outlined in the staff report entitled "*Operating Variance Report for the Year Ended December 31, 2015*" to the Budget Committee on June 22, 2016, $3.850 million of the 2015 operating surplus will be transferred to the Innovation Reserve Fund (XR1713) to provide funding for the contract extension and the establishment of a transition team. Of this amount, $1.702 million will be required for ongoing support from Deloitte and the establishment of a transition team for a 9 month period. The remaining $2.148 million will remain in XR1713 for future use.

Potential Savings and Revenues:

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.

The City of Toronto will ensure continued financial management, governance and oversight of the new real estate entity as illustrated in the recommended structure and transitional state in figures 2 and 3 on page 11.

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

DECISION HISTORY

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

Recommendations from the May, 2013 report by KPMG LLP titled, "*City of Toronto – Shared Services Efficiency Study"* included consolidating leasing activities, centralizing property information for City-wide portfolio management, and consolidating vendor contracts (i.e. brokers and appraisers):
http://www.toronto.ca/legdocs/mmis/2013/ex/bgrd/backgroundfile-58362.pdf

At its meeting on August 5, 2009, City council adopted the report titled, *"Implementation Report #2 - New Model to Enhance Toronto's Economic Competitiveness"* which approved the Shareholder Direction for Build Toronto and Invest Toronto and re-branded TEDCO as Toronto Port Lands Company:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2009.EX33.1

At its meeting on October 29, 2008, City Council adopted the report titled, *"New Model to Enhance Toronto's Economic Competitiveness"* which established Build Toronto and Invest Toronto as two new City corporations:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.EX24.1

ISSUE BACKGROUND

Strategic City-wide Initiative

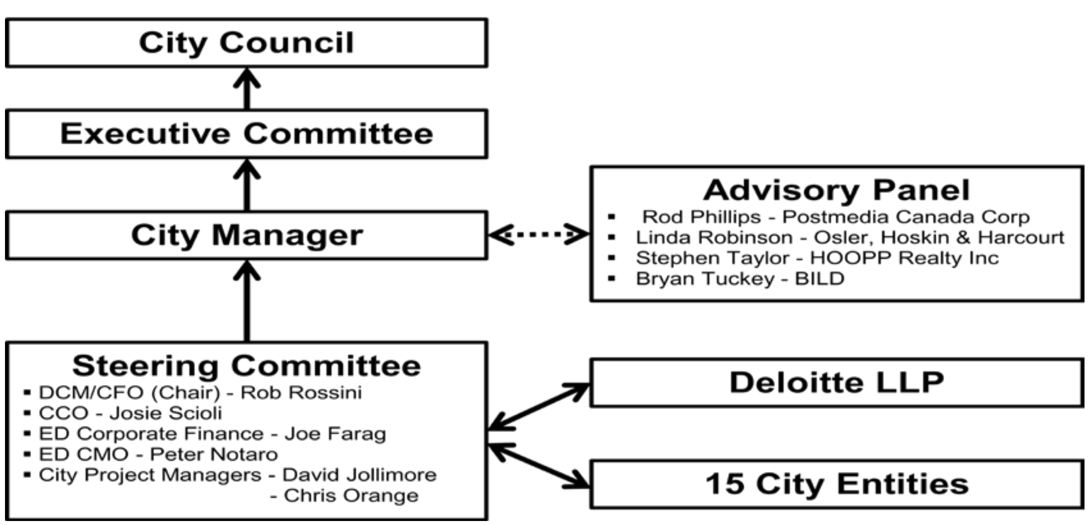
Since amalgamation 18 years ago, the City's real estate structure and processes have been progressing and the timing is right to pursue the next stage of its maturity model. Given the City's current state, it is well positioned to enhance City building initiatives, operational effectiveness and strategic management of the portfolio.

The City Manager initiated a City-wide Real Estate Review, at the direction of Council, to carry out an objective assessment of the City's real estate delivery model across relevant City divisions, agencies and corporations.

There are 15 entities identified as managing their portfolios with varying governance arrangements, mandates, strategic and operational objectives related to real estate assets. This combined portfolio includes 6,976 buildings covering 106.3 million square feet (9.87 million square metres); and 28,882 acres of owned and leased land. The total portfolio, including Toronto Community Housing and Parks Forestry and Recreation, has over $1 billion cumulative annual operating costs and capital expenditures and is conservatively valued at $27 billion. Nearly half or 52 million in building square footage is multi-residential while 64 percent or 18,484 acres of land is occupied by Parks, Forestry and Recreation.

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 review was supported by a four member Advisory Panel with a range of public, private, asset management and real estate expertise to provide advice to the City Manager on the findings of the review. The City Manager's Office and a Steering Committee consisting of senior City Executives, chaired by the Deputy City Manager & Chief Financial Officer also provided support and advised the Project Management team.

Figure 1: Project Governance Structure



The expected outcomes of the review included:

- Identifying the most effective service delivery model to align to City strategic objectives;
- Leveraging City real estate assets to meet Council's city-building priorities;
- Investigating barriers to optimize City real estate and recommend methods to overcome those barriers;
- Developing the appropriate business processes and technology to support the business delivery model;
- Finding and recommending operational efficiencies and opportunities to save costs.

Deloitte's Methodology and Approach

Deloitte's assignment included significant engagement with the 15 City divisions, agencies and corporations and was divided into six distinct phases:

Phase 1 – Project initiation and work plan approval
Phase 2 – Data gathering and analytics
Phase 3 – Stakeholder consultation
Phase 4 – Jurisdictional review
Phase 5 – Strategic evaluation
Phase 6 – High level business case

Deloitte interviewed and met over 50 City leaders throughout the process. Their interview findings were summarized and returned to each entity for verification, confirmation of key findings and overall "ownership" of the information requested and submitted.

Through their data gathering and stakeholder consultation, they found a number of key areas for improvement, which included the following four:

1. Opportunity for City-building

The current structure limits the strategic and overarching decision-making, as the range of interests are not aligned with an overall City building framework. Specific examples of some key city-building objectives that may be impeded by the current model include community hubs, co-location opportunities, the provision of affordable housing units and ‘freeing up’ surplus sites for mixed use development, such as the Etobicoke Civic Centre relocation.

Real estate operations and processes are not cohesive or standardized across the City. The relative lack of formal information flow was identified as a concern, and points to the opportunity to take a more strategic approach in adopting best practices City-wide to become more operationally effective.

The mechanism for coordinating specific opportunities that could lead to city-building and the broader public good could be improved. Entities tend to operate within individual silos, limiting coordination and potential for decisions that could lead to higher and better use opportunities such as the co-location of some groups.

2. Multiple and Complex Governance, Decision-Making and Approval Processes

Currently there are 15 entities involved in the management of the City's real estate portfolio. In addition, each entity has its own decision-making body (i.e. committees, boards), mandate, governing legislation and engagement with Councillors. Decisions and approvals are currently made through a complex process involving many different stakeholders including executives, staff, board members, divisions, Council and residents.

3. Talent/Skills Imbalance

From an industry/sector perspective, the term “real estate” typically refers to a combination of facilities management and strategic asset management. At the City of Toronto, real estate is focused on core real estate, including transactional and development functions, but not inclusive of facilities management.

Currently, real estate expertise is unevenly distributed throughout the City. Some collaboration exists among the real estate professionals across the City, but there is still opportunity to improve coordination and to leverage the appropriate expertise. Staffing for core real estate strategic management functions is limited. The majority of real estate expertise, inclusive of facilities management is focused on task-oriented facilities management activities. Of the 3,177 staff across the City, 94 percent are focused on facilities management and 6 percent are focused on core real estate services. Only 20 percent of the 248 core real estate staff (excluding Toronto Community Housing and Parks, Forestry and Recreation), are devoted to strategic and asset management functions. For such a large portfolio this is a very limited staffing complement compared to similar jurisdictions such as Infrastructure Ontario.

4. Technology and Process

Real estate portfolio data is spread across multiple platforms among the various entities and not easily accessible through one comprehensive technology system. Related to finding operational efficiencies, the current technology platform and work processes for the City real estate portfolio and operations is fragmented and challenged in its ability to deliver accurate and timely information about properties, occupants and finances. There is an opportunity to integrate and employ industry/sector best practices to ensure data integrity in terms of quality, consistency and completeness to make timely and informed decisions and enable effective "big picture" strategic planning.

Jurisdictional Review

In addition to direct stakeholder engagement, Deloitte conducted a jurisdictional review of leading practices in public sector entities to inform its findings.

The purpose of the jurisdictional review was to evaluate the operations of other public sector organizations that could provide relevant insights and benchmarks. The three Canadian entities interviewed were Infrastructure Ontario, Public Works and Government Services Canada (PWGSC) and Shared Services BC. Recent research undertaken by CoreNet and Deloitte with respect to the emerging corporate real estate marketplace was also reviewed to highlight key trends and opportunities.

In order to be comparable with the various jurisdictions, the multi-residential and land portfolios of Toronto Community Housing and Parks, Forestry and Recreation were removed from the City's portfolio to focus on key commercial real estate portfolio metrics. This results in a total portfolio of 48.3 million square feet. In addition, all staff involved in capital, design and construction management were added to the core real estate staff count to arrive at the 248 staff total. This makes the overall staff count comparable to the other jurisdictions in terms of functions performed, including any outsourced service contracts.

The jurisdictional review revealed that the City's combined commercial real estate portfolio and services budget per square foot (psf) is comparable to Infrastructure Ontario ($14.38 psf versus $13.77 psf) but lower than PWGSC and BC Shared Services, at $24.08 psf and $17.28 psf, respectively. This analysis demonstrates that while the City could achieve some minor efficiencies, overall the operational financial metrics are comparable with Infrastructure Ontario and best practices.

The review identified a number of benefits from moving to a direct or centre-led operating model and an increased investment in technology:

- **Strategic alignment –** Easier in a centralized model because of the visibility of the portfolio.
- **Cost reduction –** Centralized control improves property vacancy management and portfolio optimization.
- **Continuous improvement and innovation –** Short, medium and long term operational planning allows for constant review of processes and spaces.
- **Economies of scale –** Procurement opportunity to identify and realize increase value for money.
- **Improved data quality –** Most corporate real estate organizations surveyed as part of the CoreNet and Deloitte research were planning investments in improving services and technology platforms, with goal of improved reporting on portfolio and operating costs and better strategic portfolio oversight.

Lessons from the jurisdictional review suggest that the City's cost performance is reasonable in comparison to the other jurisdictions, but the skills imbalance needs to be addressed. The jurisdictional review revealed that most corporate real estate organizations have experienced a significant operating model redesign over the last one to two years or reorganization is currently being planned/ implemented. As well, procurement and technology investment are becoming a more integral part of the corporate real estate landscape.

Key Findings

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

The following two illustrations (figures 2 and 3) show a recommended structure and transitional state, with associated timing for end-state implementation. While Toronto Hydro and Toronto Community Housing would be included in the visioning sessions and implementation planning, they would not be part of the initial implementation and would be assessed at a later stage.

Figure 2: Core Functions in a Strategic Operating Model

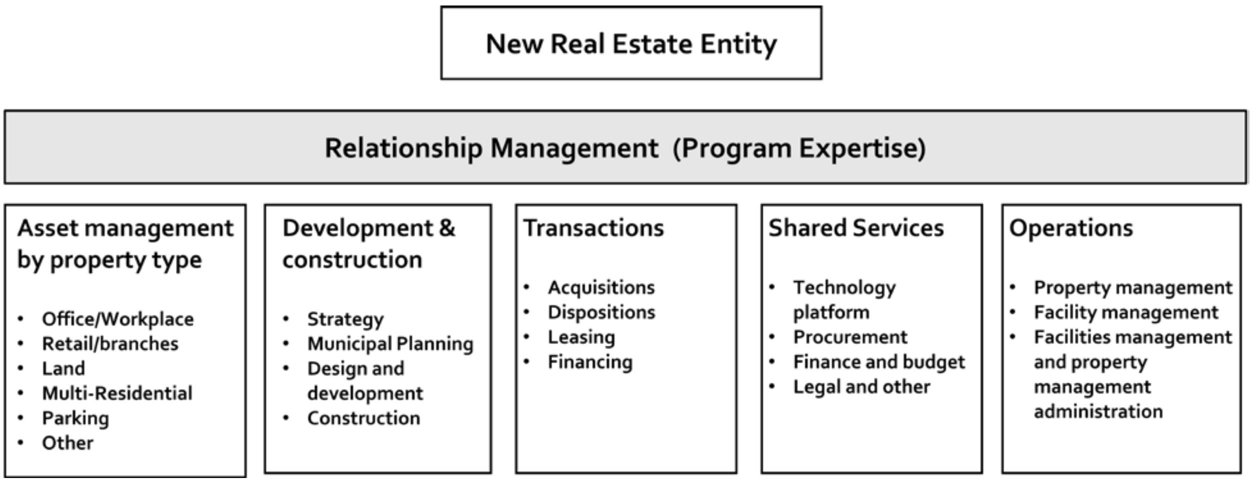
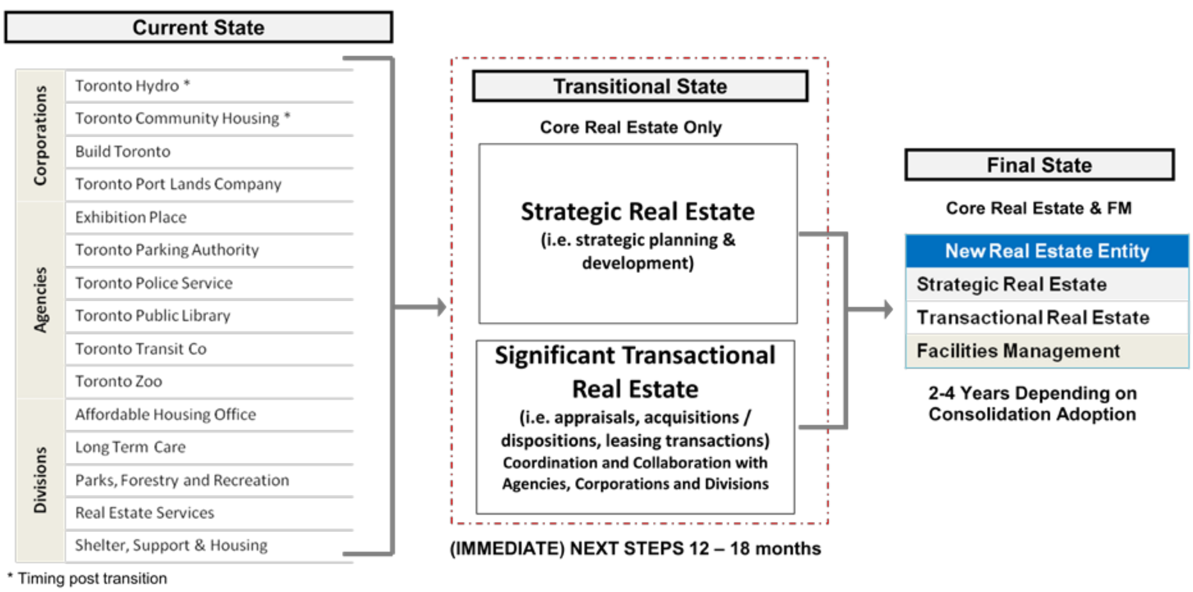


Figure 3: Transition to a New Real Estate Entity – Consolidation of Core Functions



In the final state, one of the industry/sector best practices and a key success factor is the introduction of a Relationship Management team with program expertise. This team will be aligned with its program organization and deliver strategic real estate expertise through the new real estate organization. This degree of expertise is crucial for programs with specific service delivery mandates and real estate requirements.

To support the proposed new real estate organization, Deloitte suggests five major opportunities for change:

1. Effective operations - There is an opportunity for the City to become more efficient in terms of decision-making and approvals processes, alignment of professionals, and staff to deliver outstanding projects and clear areas of accountability and authority.

2. City Building - City staff to focus their attention on leveraging shared building interests through collaborations with various stakeholder groups, co-location of City programs, and realigning office space. There is an opportunity to be strategic about what lands to acquire for future use, long-term planning for program needs, as well as the ability to develop City assets to serve other community needs, such as affordable housing, parks, and community centres.

3. Technology and processes - Related to operation efficiencies, the current technology platform and work processes for the City of Toronto real estate portfolio and operations are challenged in their ability to deliver accurate and timely information about properties, occupants, finances and accountability. There is an opportunity for the City to update its technology and processes to improve its decision-making ability.

4. Value for money - The City needs to ensure that any investment in people, property or other resources is highly focused and delivers value. This is especially crucial given that revenue streams for the City continue to be challenged when matched against ongoing and enhanced requirements for programs and services. To this end, there are several opportunities to "unlock" value from City assets that could be realized.

5. Stakeholder endorsement - The current service delivery model reflects a relatively mature, post-amalgamation program. There is an opportunity to put in place a new, high performance real estate entity that will lead to an improved delivery of real estate services and engagement of City leaders, employees, unions, local councilors and the community in delivering high-quality real estate solutions.

COMMENTS

City Manager's Review of Opportunities

The City Manager has reviewed Deloitte's report and recommends that the City, its agencies, corporations and divisions, establish one reference point for City Council to identify all real estate assets under its control and enable City-wide strategic planning and city-building. The transformation will reduce duplication of vendor contracts and project initiatives, office space requirements (i.e. the Office Modernization Program) and systems management. The key benefits derived from Deloitte's opportunities include:

- Strengthening the City’s ability to make strategic and informed decisions that promote city-building and City-wide objectives;
- Maximizing the value of the City’s land and property assets and finding savings through co-location and joint ventures, while reducing the City’s state of good repair backlog;
- Creating more mixed-use developments that bring important services closer to residents;
- Developing improved technology platforms and streamlined work and approval processes;
- Integrating modernized approaches to space planning to allow for enhanced staff productivity and efficiency;
- Providing better solutions through proactive engagement with all stakeholders, including Council, City staff and the community.

Figure 4: Today: Independent Planning

Figure 5: Tomorrow: Strategic and Co-ordinated Planning with Multiple Stakeholders

The new real estate entity aims to create economies of scale, share resources and skills, leverage technology investments, and provide a cost savings of 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 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.

Centralizing will also provide consistent expertise, implementing best practices in key areas. The review is also in line with the Auditor General and KPMG LLP reports, which recommended improving real estate co-ordination City-wide, by centralizing or coordinating development activities, and exploring co-ordination opportunities among real estate entities.

This transformation will also allow agencies, corporations and divisions to focus on their respective key services and programs.

Key Challenges to Implementation

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 will need to understand the legislative exceptions, limitations and where adjustments may be needed. For governance, a tiered approach to establishing new policies and practices that will move implementation forward is recommended. The review revealed that real estate expertise is distributed unevenly City-wide. Some entities making real estate decisions are more knowledgeable and experienced than others. A rebalancing of skills is recommended to look at the total real estate portfolio with a more holistic, strategic focus. There will be labour contract obligations and potential trade union issues to work through, as well as issues related to the various existing employment relationships between current-state organizations and their non-union employees. The need for accurate and up-to-date portfolio data and a comprehensive technology platform for the City will require an investment.

The proposed change process is both realistic and aggressive, and relies heavily on robust engagement with partners and stakeholders. There will be a need for a cultural shift for some program areas to view all assets as "City" assets. To make significant change, an inclusive and collaborative approach will be required. Success is also dependent on executive leadership, policy and practice re-engineering, organizational change and implementation of new technology.

Next Steps

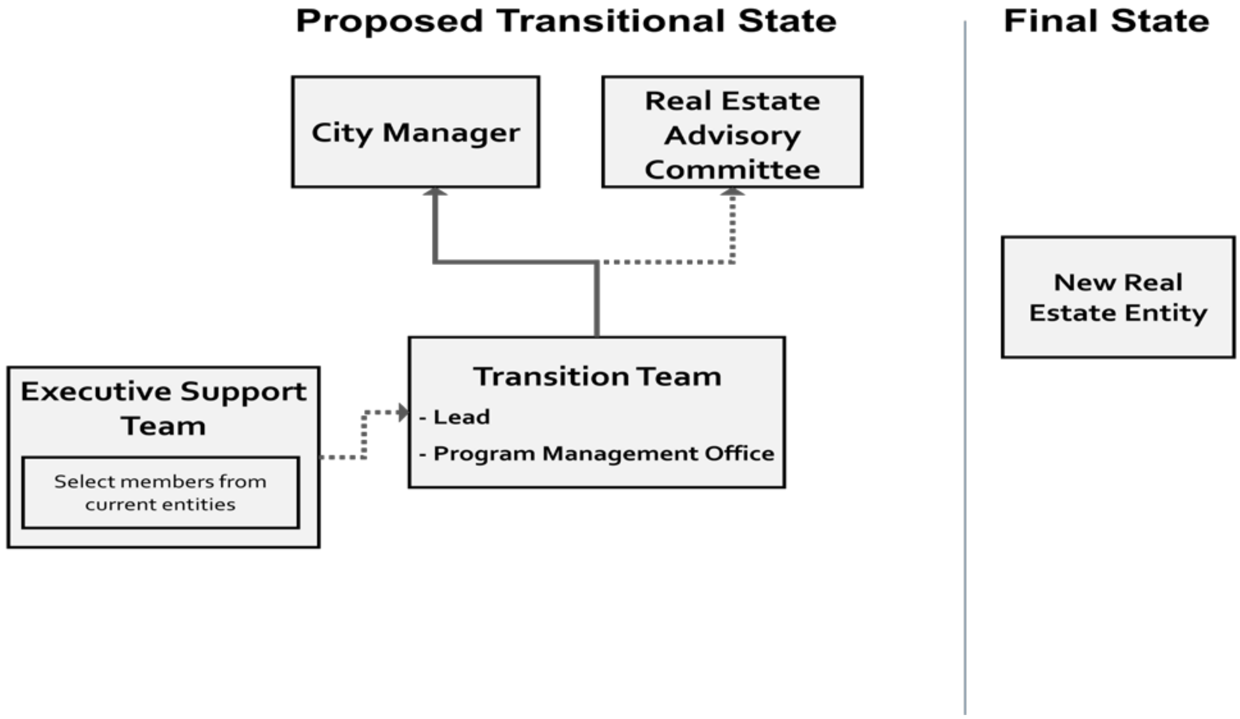
The City Manager acknowledges that creating a new real estate entity is a major transformational initiative requiring significant business policy, practice and process re-engineering, organizational change and information technology investment to successfully implement. City leaders need to be actively engaged in the development and implementation of a new real estate operating entity for it to be successful. If approved by City Council, further due diligence and planning will be undertaken and a multi-year implementation plan will be developed.

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.

Figure 6 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 senior leader decision making process and implementation program.

City staff is proposing a transitional state (Fig. 6) to work within the City's framework prior to the end state:

Figure 6: New Real Estate Entity Transition Structure



The above proposed transitional state is comprised of the following key roles:

- The appointment of a **Transition Team** including a lead and a multi-disciplinary program management office. The lead will be an industry/sector recognized real estate expert with experience leading significant change management and restructuring initiatives. The role would report to the City Manager while working closely with the Real Estate Advisory Committee.

  A program management office will be established to develop the transition strategy, implementation plan, and a clear mandate including deliverables with targets around City building and revenue generation. The development of the core city building mandate will consider public policy objectives such as affordable housing, public realm, public transit and economic development. This would be a full-time project team of City-wide subject matter experts (project management, policy, legal, human resources, etc.). This 8-member temporary team would report directly to the lead.

  The transition team drives this initiative forward and ensures the transition strategy for the new real estate entity is completed for approval within its first year.

- The establishment of a **Real Estate Advisory Committee** (Council Advisory Body) is recommended pursuant to the Terms of Reference in Appendix B of this report. The Real Estate Advisory Committee will provide advice and recommendations on the implementation strategy to move forward with a new real estate delivery model. The Committee will be composed of thirteen (13) members, including the Chair, the current

Chairs for nine (9) of the agencies and corporations and three (3) citizens. The Real Estate Advisory Committee will report through Executive Committee.

Council Advisory Bodies, established by City Council under Toronto Municipal Code Chapter 27, Council Procedures, provide advice to City Council on specific areas of interest and term policy priorities. Council Advisory Bodies generally include Members of City Council and at least 50 percent citizens appointed by City Council. City Council may also direct that Council Advisory Bodies have a specific composition to achieve a Council priority.

- An **Executive Support Team** consisting of the senior leaders (President and CEOs, City Librarian and division heads) of the City agencies, corporations, and divisions appointed by the City Manager. The team is responsible for ensuring all strategic real estate related matters are managed and executed in professional co-ordination, co-operation and collaboration with each other and the Transition Lead. They will work with the transition team and make recommendations in developing the transition strategy.

- **Deloitte** will work with the Program Management Office to craft the transition strategy, facilitate visioning sessions and workshops, and deliver the detailed implementation plan. Deloitte has been involved from the outset and now have extensive experience and knowledge of the City's real estate portfolio. Not continuing with Deloitte would halt the momentum of the project and delay the transition strategy deliverable by several months. Given that Deloitte's performance to date has been very satisfactory, it is considered prudent and cost effective to amend their agreement to continue their critical role in facilitating the interim framework to guide the transition from current to future state.

New policies and procedures for all real estate related matters will be developed by the transition team. During the Transitional State, all real estate transactions and development work will continue to be performed by those currently responsible, but matters of significance will be undertaken in coordination and collaboration with the transition team. Reassignment of responsibility for real estate transactions requires a comprehensive review of the existing authorities, which have evolved over time and are different for each entity. These authorities would be reviewed as part of the development of the implementation plan. Once established, the new team will work to develop a transition strategy, including key performance indicators and drivers of synergy, an integration strategy, opportunities to leverage monetization, and a plan for the consolidation of real estate services and workforce transition.

Proposed immediate next steps are:

Q3 2016 – Appointment of a transition team.
Q4 2016 – Conduct a series of visioning sessions and workshops with the key stakeholders and City leaders.
Q1 2017 – Development of a transition strategy.
Q2 2017 – Request City Council to adopt the transition strategy and appoint a permanent CEO for the new real estate entity.

The City Manager recognizes that resources to sustain and manage this change will be important. Dedicated resources will be identified for the initial stages of this work and budget impacts reported as required. Longer term resource requirements will be further considered and addressed through the development of a multi-year City-wide real estate implementation plan.

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SIGNATURE

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Peter Wallace, City Manager

ATTACHMENTS

Appendix A: Deloitte Report
Appendix B: Real Estate Advisory Committee Terms of Reference