

City-Wide Real Estate Transformation

Date: May 8, 2017
To: Executive Committee
From: City Manager and Deputy City Manager & Chief Financial Officer
Wards: All

SUMMARY

In July 2016, City Council approved, in principle, the direction to move to a centralized service delivery model for real estate. There are many City entities (over 24 divisions, agencies and corporations) involved in real estate activities with varying governance structures, program objectives, investment plans, processes, data and technology, skill and expertise. The current state of real estate management is made up of an entangled system of governance and service delivery, and when coupled with increasing real estate demands it poses considerable challenges to achieving desired city-building outcomes.

The City of Toronto owns one of the most expansive, diverse and valuable real estate portfolios in North America (8,446 properties and over 106.3 million square feet), with significant operational (\$1.1 billion) and capital (\$1 billion) expenditures per year, and an estimated assessed value of \$27 billion.

There is now an opportunity to move forward with a new City-wide service delivery model, with centralized accountability for real estate stewardship, and a broader mandate to implement a strategic approach to real estate planning. A model which applies a strategic city-wide lens and drives sophisticated management practices to ensure the most effective use of real estate assets and capital dollars to benefit the City.

This report sets out a new centralized model to manage the City's real estate assets through its lifecycle, deliver real estate services to City divisions, agencies and corporations, support city-building priorities through maximizing the use of City lands, pursue real estate opportunities to serve the public interest, and leverage surplus City lands to generate value for the City government.

The new model centralizes real estate activities across the City government and includes:

1. The Real Estate Services and Facilities Management divisions under the current Chief Corporate Office, with an expanded city-wide scope and mandate to execute and coordinate day-to-day real estate transactions and facilities management; and

2. A new realty agency (*the "Toronto Realty Agency"*) to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client-focused real estate solutions to City divisions, agencies and corporations. In addition, the *Toronto Realty Agency* will leverage a real estate holding corporation with necessary real estate tools and instruments (e.g., to deliver joint ventures, manage environmentally sensitive properties, etc).

This is a transformational shift for the City. The key benefits of the new model include:

- Coordinated stewardship of the City's real estate assets, and the ability to execute a mandate focused on supporting programs and enabling city-building (e.g., affordable housing);
- A strong accountability and governance structure with the necessary Council oversight, and built in flexibility to operate in the changing marketplace;
- Real estate expertise to modernize and harmonize operations, and to drive service delivery to programs while maintaining a presence at the local / community levels;
- The capacity to maximize real estate value in pursuit of social, economic, environmental, and program benefits, while achieving new revenue and cost savings; and
- The ability to evolve over time and adjust as required to meet the City's changing and complex needs.

Business transformation of this scale and level of complexity will require a multi-year approach - a deliberate maturity model – that will incubate operational modernization, governance reform, and implement leading practices for asset management, real estate strategy and portfolio planning taking a whole of government approach.

If approved, the new model will launch on January 1, 2018, with the operating structures (i.e., Real Estate Services, Facilities Management, and the new *Toronto Realty Agency*) working collaboratively together. The implementation will be phased over a 3 year period and evaluated to ensure it is working effectively.

This report presents the transition strategy and initial implementation plan. Set-up activities for the new model will take place during Q3 and Q4 of 2017. A follow-up report will be brought forward to committee and Council in Q4 2017 with further implementation details, including a recommendations on amendments to delegated authorities; a transition plan for divisions, agencies and corporations (e.g., activities and authorities); establishing financial processes; creating a formal name for the *Toronto Realty Agency*; and appointment of the *Toronto Realty Agency* Board of Directors.

It is anticipated that the full transformation to high-performing operations and using industry leading strategies, talent, processes, and technology is expected to take three to five years.

RECOMMENDATIONS

The City Manager and Deputy City Manager & Chief Financial Officer recommend that:

New City-Wide Real Estate Service Delivery Model

1. City Council approve a new real estate service delivery model for the City government that centralizes all real estate activities City-wide, including all real estate strategy and portfolio planning, major building projects, developments, real estate transactions and facilities management as outlined in Figure 1 to this report.
2. City Council dissolve the Real Estate Advisory Committee effective immediately and thank the members for their service.

Establishment of a New Real Estate Agency

3. City Council establish a new City agency ("*Toronto Realty Agency*") and delegate its authority pursuant to section 143 (1) of the City of Toronto Act, 2006 to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client focused real estate solutions to City divisions, agencies and corporations.
4. City Council establish a separate Toronto Municipal Code Chapter for the Toronto Realty Agency which includes the board governance matters outlined in Attachment 1 to this report.
5. City Council approve the following composition for a nine (9) member board for the new *Toronto Realty Agency*, effective the date of Council appointment, to occur before January 1, 2018:
 - The Mayor or designate appointed by the Mayor;
 - Two (2) Members of Council; and
 - Six (6) public members, one who shall serve as chair appointed by City Council.
6. City Council direct that the City Manager and Chief Corporate Officer or designates may attend all meetings of the *Toronto Realty Agency*, including closed sessions to provide advice to the board and support the implementation of the new City-wide real estate delivery model.
7. City Council authorize the City Clerk to initiate a recruitment process for the *Toronto Realty Agency's* board for consideration by the Corporations Nominating Panel for recommendation of appointment to City Council.
8. City Council direct the new *Toronto Realty Agency* to follow the procedures of Toronto Municipal Code Chapter 27, Council Procedures, as it applies to committees of Council, with any necessary modifications until such time that the procedures for the *Toronto Realty Agency* are approved by City Council.

9. City Council request the new *Toronto Realty Agency* to develop a procedure by-law by spring 2018 for consideration by the Board and approval by City Council through its Executive Committee.

10. City Council direct the Board of the Toronto Realty Agency, to bring forward the appointment of its Chief Executive Officer for ratification by City Council and delegate authority to the Board to renew or terminate the appointment of the Chief Executive Officer.

11. City Council direct the Deputy City Manager & Chief Financial Officer to provide transition support to the interim board including support in the development of the new *Toronto Realty Agency's* 2018 operating and capital budget submission for Councils consideration as part of the 2018 Budget process.

Implementation of the New City-Wide Real Estate Service Delivery Model

12. City Council appoint the following individuals as the interim board for the Toronto Realty Agency, effective upon adoption of this report for a term ending upon the effective date of the appointment of the new board (i.e., January 1, 2018), with a mandate solely to initiate a recruitment process for a Chief Executive Officer, provide leadership during the set-up of the new agency and provide direction on transition activities:

- The Mayor or designate appointed by the Mayor;
- The Chair of the Toronto Transit Commission board;
- The Chair of Build Toronto board;
- The Chair of the Toronto Public Library board;
- Dino Chiesa, as Chair of the Interim Board;
- Linda Robinson; and
- Stephen Taylor.

13. City Council request the City Manager, in consultation with the City Solicitor and the Chief Corporate Officer, to report to Executive Committee in Q4 2017 on a Delegation of Authority Framework for Real Estate Matters aligned with the new City-wide real estate model, including a recommendation to rescind or amend the current delegations of authority for real estate matters as required.

14. City Council request the boards of Build Toronto and Toronto Port Lands Company to develop transition plans resulting from the new City-wide real estate service delivery model, in consultation with the City Manager, Deputy City Manager and Chief Financial Officer and the interim board of the *Toronto Realty Agency*, and report to City Council as the Shareholder in Q4 2017, for any required authorities.

15. City Council request affected City agencies and corporations undertaking real estate or facilities management activities to advise the interim board and/or the permanent board of the new *Toronto Realty Agency* on the status of their activities and provide such information as may be required in order to provide a full understanding of real estate assets and requirements across the City government.

16. City Council request the Chief Executive Officer of the Toronto Realty Agency, in collaboration with the Chief Corporate Officer and affected City divisions, agencies, and corporations, and in consultation with the Executive Director Financial Planning, to develop a City-wide real estate strategy for City Council approval in Q1 2019, and prepare an annual performance report to City Council.

17. The Chief Financial Officer, Treasurer and Executive Director, Financial Planning acting as a financial liaisons with the *Toronto Realty Agency* to provide advice on corporate financial planning, budgeting, financial management and financial control matters and services.

18. City Council appoint the City Clerk as Secretary to provide meeting management support to the interim board and the permanent board of the *Toronto Realty Agency*.

19. City Council approve an increase of \$0.492 gross and \$0 net to the 2017 Operating Budget for Facilities, Real Estate, Environment & Energy for the one-time transition costs of \$0.882 million required over the next 12 months (\$0.492 million in 2017 and \$0.461 million in 2018), with funding provided from the Innovation Reserve Fund (XR1713) for the continuation of a transition team including the seven (7) temporary positions previously approved by Council for a cross-functional Program Management Office, for a 12 month period to support the City-wide Real Estate model implementation.

20. City Council direct the City Manager and the Chief Executive Officer of the Toronto Realty Agency to develop the terms of an operational Memorandum of Understanding between the Agency and the City, to be submitted to City Council for approval in Q1 2018.

FINANCIAL IMPACT

Implementation: Set-up & Start-up (June 2017 to June 2018)

To move forward with the implementation of the new model an investment will be required for corporate support services (i.e., legal, human resources), the creation of an interim board (remuneration), and for the program transition team to work on implementation set-up from June 2017 to June 2018.

The program transition team was put into place in July 2016 with direction to develop a transition strategy and an implementation plan. As outlined in the staff report entitled "Operating Variance Report for the Year Ended December 31, 2015" approved by the Budget Committee on June 22, 2016, \$3.85 million of the 2015 operating surplus was transferred to the Innovation Reserve Fund (XR1713). Of this amount, \$1.702 million was approved in July 2016 to provide funding for this program transition team, and for additional consulting services.

As shown in Table 1, an additional \$0.882 million in transition expenses, funded through the Innovation Reserve Fund, will be required to continue with the program transition team and other costs associated with moving forward with the implementation plan of the new City-wide real estate service delivery model. See below for summary of project funding to date:

TABLE 1 - CITY-WIDE REAL ESTATE PROGRAM TRANSITION BUDGET

Description (\$000s)	2016	2017	2018	Total Cost
2016 and 2017 Council Approved Budgets				
July 2016 - June 2017 Transition Costs	787.5	914.5		1,702.0
Unspent Approved Funding	-71.0	-278.0		-349.0
2017 Recommended Budget Adjustments and 2018 Outlook				
2017 Adjustment to Complete 2016 Requirements		71.0		71.0
June 2017 - June 2018 Transition Costs		699.0	461.0	1,160.0
Total Transition Costs	716.5	1,406.5	461.0	2,584.0
Net Additional Funding for Continued Implementation	-71.0	492.0	461.0	882.0

Incubation Period (2018 to 2020)

During this period the new model will be established, which includes the new *Toronto Realty Agency*, as well as the Real Estate Services and Facilities Management divisions under the current Chief Corporate Office. While the corporate entities are expected to be retained in some form and repurposed (to be determined as part of the reports to be received in Q4 2017), the operations of Build Toronto and TPLC will be removed from the current corporations and consolidated into the new *Toronto Realty Agency*. The consolidation of real estate activities across divisions, agencies, and corporations will commence based on an appropriate timeline supported by the programs and the new model. The corporate entities will retain their current contractual obligations with third parties but decisions will be made by the *Toronto Realty Agency's* board functioning as the directors of Build Toronto and TPLC.

The operational consolidation of Build Toronto and TPLC into the new agency is estimated to result in efficiencies of \$4.740 million over the incubation period, from which new capabilities and resources will be funded. An estimated \$3.511 million will be required by the new *Toronto Realty Agency* from 2018-2020 for new positions. Table 2 provides a summary of the estimated efficiencies and one-time transition costs.

TABLE 2 - SUMMARY OF ESTIMATED EFFICIENCIES & ONE-TIME TRANSITION COSTS

DESCRIPTION	2017	2018	2019	2020	Total
Estimated Operating Savings from BT / TPLC Efficiencies	\$0.0	(\$396.6)	(\$2,042.2)	(\$2,301.9)	(\$4,740.7)
Estimated New Operating Requirements to Support New Model	\$0.0	\$375.0	\$1,545.0	\$1,591.4	\$3,511.4
Total - Annual Net (Savings) / Costs	\$0.0	(\$21.6)	(\$497.2)	(\$710.6)	(\$1,229.3)
One Time Costs (i.e. investments in technology and data)	\$0.0	\$500.0	\$500.0	\$0.0	\$1,000.0

The residual savings anticipated from consolidation will be used for one-time costs related to restructuring and investments in City-wide data collection and technology. Any additional operating requirements for the new *Toronto Realty Agency* will be offset by the efficiencies realized through consolidation.

This will ensure the *Toronto Realty Agency* is self-sustaining through the incubation period. Operational consolidation of Build Toronto and TPLC will not impact existing commitments within those entities, and therefore existing dividend payments to be received from these entities by the City will be preserved.

The consolidation of real estate activities across divisions, agencies and corporations will also occur over this incubation period. The City is expected to realize benefits over this timeframe, as these actions will yield operational efficiencies. The extent of these efficiencies over the incubation period will be known and/or validated as consolidation of activities occur. Anticipated efficiencies will be identified as part of the multi-year planning and budgeting process with actual efficiency savings to be considered by Council through future year budget processes.

2018 Budget Submission

The new *Toronto Realty Agency* will submit a consolidated 2018 operating and capital budget to City Council through the City's regular budgeting process. The City's Financial Planning Division and Office of the Treasurer will assist the *Toronto Realty Agency* to consolidate and streamline financial reporting and budgeting requirements for Build Toronto and Toronto Port Lands Corporation (TPLC), including all subsidiary holdings.

Creating Financial Value

City Programs will share in the value created through the implementation of the new model and execution of real estate strategies. Additional capital funding capacity created through the execution of real estate strategies will be reinvested in City-wide unfunded capital priorities through the City's Budget Process with consideration given to advancing on opportunities to invest in current or future facility needs.

Actual savings and realization of the benefits outlined above will be determined after a more detailed review of each opportunity is completed and a strategy and implementation plan is developed. 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.

DECISION HISTORY

- At its meeting on July 12, 13, 14 and 15, 2016, City Council directed the City Manager to develop a transition strategy and implementation plan to consolidate the delivery of the City's real estate functions including a governance model and to report further to the Executive Committee.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.4>
- At its meeting on May 5, 6 and 7, 2015, City Council directed the City Manager to develop a business case and identify implementation options for coordinating and/or consolidating real estate operations and/or portfolios across relevant City agencies, corporations and divisions, and to report to Executive Committee on the results of the findings.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX5.5>

Issue / Background

The City of Toronto has one of the largest real estate holdings in North America with an estimated assessed value of over \$27 billion. Real estate functions and activities are currently delivered across twenty-four (24) divisions, agencies and corporations with a range of governance, authorities, strategies and standards in place. This fragmentation limits the City's ability to achieve long-term strategic objectives, develop a holistic real estate strategy enabling city building, explore co-location opportunities, maximize the value of assets and find efficiencies in operations.

A review of the City's real estate delivery model undertaken by Deloitte concluded that the status quo will not provide the appropriate framework to unlock land value potential and ensure the strategic use of City's land and building assets. In line with the approach in other jurisdictions, the review recommended centralizing the delivery of the City's real estate activities to produce long-term efficiencies, economies of scale, share resources and skills, and leverage technology investments. Moving to a centralized delivery model is consistent with previous 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.

The current real estate portfolio, one of the largest in Canada (see Table 3), has significant potential and considerable opportunity to advance to the next step in its real estate maturity.

TABLE 3 - CITY OF TORONTO REAL ESTATE PORTFOLIO

Total Number of Buildings	6,976 with 106.3 million square feet (4,664 with 55.7 million square feet without TCHC and Toronto Hydro)
Total Number of Properties	8,446 on 28,823 acres of land (6,656 on 27,592 acres without TCHC and Toronto Hydro)
Assessed Value of Property	\$27 billion (\$17 billion excluding TCHC and Toronto Hydro)
Annual Operating Cost (core real estate & facilities management)	\$1.1 billion (\$724 million excluding TCHC and Toronto Hydro)
Annual Capital & Development Cost	\$1.0 billion (\$608 million excluding TCHC and Toronto Hydro)

COMMENTS

This report responds to City Council's direction to report on an implementation plan to centralize real estate delivery, including a corporate governance structure to improve the stewardship, strategic use of and management of the City's extensive real estate portfolio. The real estate delivery model takes a whole of government approach across the real estate lifecycle to:

- Improve stewardship of public assets by centralizing strategic portfolio planning for City lands and buildings, standardizing lifecycle management and capital project planning and execution, enhanced management, coordination and accountability for real estate;
- Leverage the City's lands and buildings more strategically to meet city-building priorities, including delivering strategic development and revitalization projects and priorities (e.g., affordable housing); and
- Deliver excellent real estate and facility management services to City divisions, agencies and corporations.

Three options to operationalize the model were analyzed, including a full consolidation of all real estate activities into an agency or corporation, and a full consolidation into a "super" City division. The proposed model is the best way forward to achieve the strategic policy and business transformation objectives, while factoring in the legal framework, labour relations implications, and good governance principles.

The real estate delivery model considered input and advice through extensive consultation with the Real Estate Advisory Committee (i.e., board Chairs of relevant agencies and corporations plus four citizen industry experts), the City's divisions, agencies and corporations, City Councillors and industry experts. While the transition

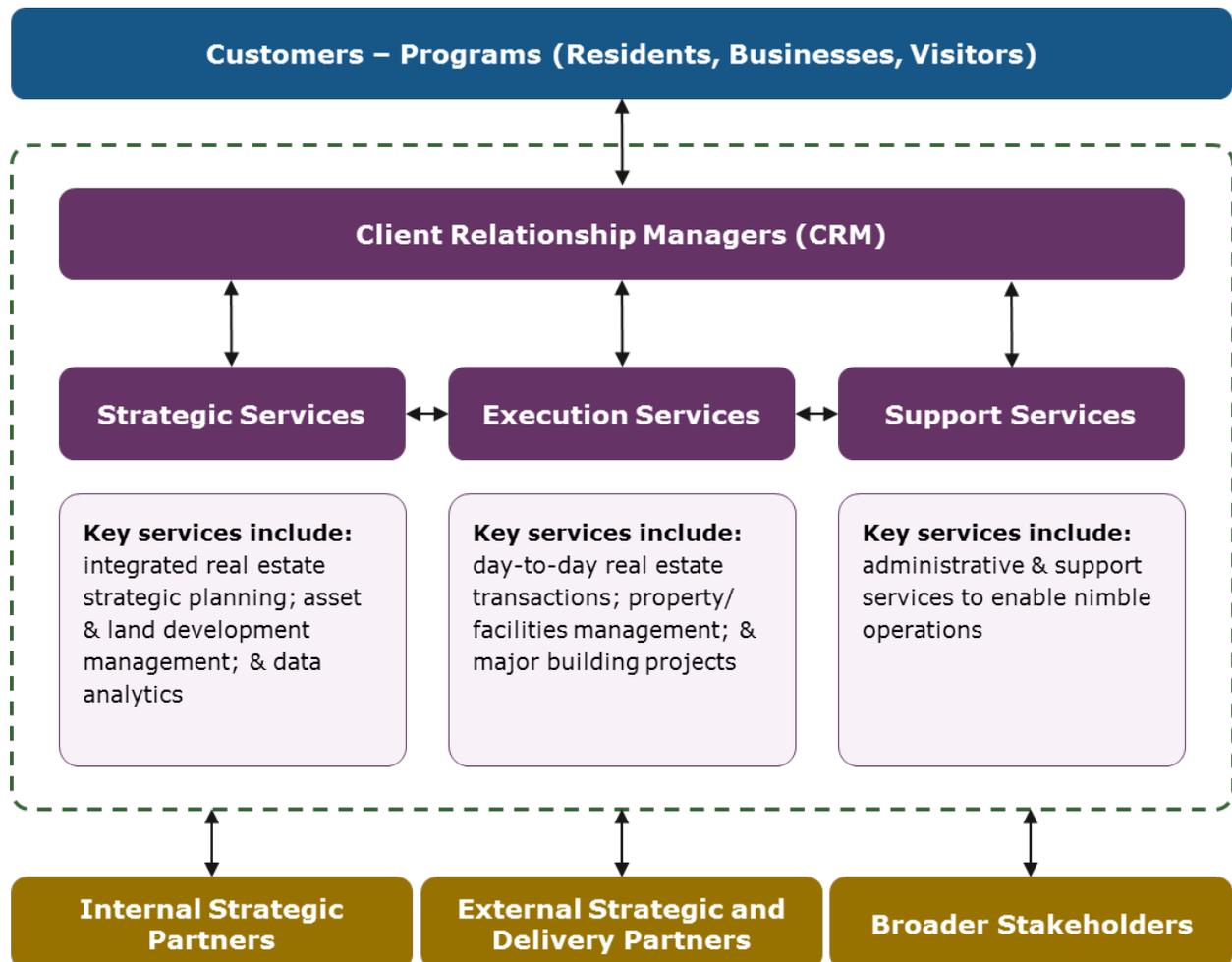
team will continue to engage with the affected divisions, agencies and corporations, as well as industry experts, it is recommended that the Real Estate Advisory Committee be dissolved effective immediately. The Advisory Committee’s mandate was to provide advice on the development of the new City-wide real estate service delivery model and that work has now concluded.

1. NEW CITY-WIDE REAL ESTATE DELIVERY MODEL

The new City-wide real estate service delivery model will be responsible for all real estate matters, inclusive of facilities management, across the City government. As shown in Figure 1, the new model integrates real estate functions City-wide, including real estate strategy, portfolio planning, transactions, developments, real estate capital project execution, and facilities management services.

FIGURE 1 - NEW CITY-WIDE REAL ESTATE SERVICE DELIVERY MODEL

Figure 1 is a rendering of the new City-wide real estate service delivery model. This depicts the new operational ecosystem and integrated relationships for city-wide management of real estate, which includes: direct collaboration with City programs through a client relationship management function; proactive engagement with stakeholders; and three core service pillars focused on real estate strategy, execution, and support services.

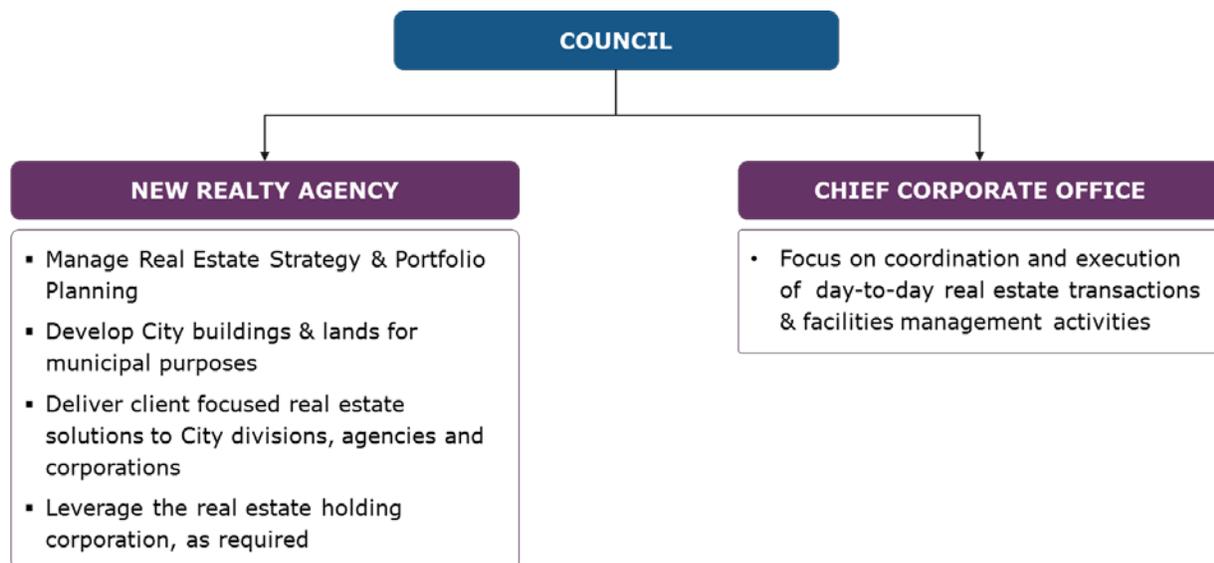


As described in Figure 2, the new delivery model will include:

- The Real Estate Services and Facilities Management divisions under the Chief Corporate Office, with an expanded city-wide scope and mandate to execute and coordinate day-to-day real estate transactions and facilities management; and
- A new realty agency (the "*Toronto Realty Agency*") led by a board and Chief Executive Officer to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client focused real estate solutions to City divisions, agencies and corporations. In addition, the *Toronto Realty Agency* will leverage a real estate holding corporation with necessary real estate tools and instruments to deliver joint ventures (e.g., public-private partnerships), manage environmentally sensitive properties (i.e., brownfield holdings, remediation), and enter into financial arrangements to deliver strategic projects.

FIGURE 2 - NEW INTEGRATED REAL ESTATE OPERATING STRUCTURE

Figure 2 is a visual of the new integrated real estate operating structure with City Council on top, representing their full authority over real estate assets and strategies. The structure includes a sub-tier under City Council with the new *Toronto Realty Agency* and the Real Estate Services and Facilities Management divisions under the current Chief Corporate Office. The new *Toronto Realty Agency* will have the following functions City-wide: Manage Real Estate Strategy & Portfolio Planning; Develop City buildings & lands for municipal purposes; Deliver client focused real estate solutions to City divisions, agencies and corporations; Leverage the real estate holding corporation, as required. The Real Estate Services division and Facilities Management division will be responsible for the coordination and execution of day-to-day realty transaction and facilities management activities.



KEY FEATURES

- Professional knowledge within the board
- Key strategy, long term planning & development advice
- Key development tools will be maintained
- Coordinated management of asset decisions
- Desired City tie-backs & integration is achieved
- Allows greater focus – day to day vs. strategy and planning

The new model will operate with a City-wide view of real estate assets, the authority from Council to coordinate activities and implement a strategic approach to real estate planning on behalf of all programs (i.e., divisions, agencies and corporations), and accountability for its stewardship.

This is a transformational shift to a whole-of-government approach working across City program boundaries to achieve a shared goal and an integrated government response to real estate management and strategic portfolio planning. The key benefits of the recommended new model include:

- Coordinated stewardship of the City's real estate assets, and the ability to execute a mandate focused on supporting programs and enabling city-building;
- A strong accountability and governance structure with the necessary Council oversight, and built in flexibility to operate in the changing marketplace;
- Real estate expertise to modernize and harmonize operations, and to drive service delivery to programs while maintaining a presence at the local / community levels;
- The capability to maximize real estate value in pursuit of social, economic, environmental, and program benefits, while achieving value for the City; and
- The ability to evolve over time and adjust as required to meet the City's changing and complex needs.

The new City-wide real estate service delivery model will be incubated for three (3) years and evaluated to ensure it is working effectively. The real estate delivery model will be coordinated and aligned through key governance mechanisms including:

- Cross appointment of the board of the new *Toronto Realty Agency* to the real estate holding corporation to leverage necessary real estate tools and instruments;
- Cross appointment of the Chief Executive Officer and the Chief Financial Officer of the new *Toronto Realty Agency* to the real estate holding corporation;
- Chief Corporate Officer as the program liaison to the *Toronto Realty Agency*;
- The City Manager and Chief Corporate Officer attending board meetings to provide advice and support transition activities.
- The Chief Financial Officer, Treasurer and Executive Director, Financial Planning acting as a financial liaisons with the *Toronto Realty Agency* to provide advice on corporate financial planning, budgeting, financial management and financial control matters and services;
- Memorandum of Understanding between the organizations, on terms to be approved by City Council; and

- Appropriate internal governance committees to support the transition and coordinate key functions.

Driving Value for the City

A city-wide real estate delivery model will drive value for the City government through a variety of ways, including improved stewardship of assets, leveraging assets to meet city-building priorities, a centre of excellence for real estate solutions, and coordinated real estate strategy to support the delivery of multiple City services and programs.

Once fully implemented, it is estimated that the model will generate value that includes economic, environmental, social and financial benefits. Preliminary opportunities and estimates of cost savings and new revenues include:

- **Operating Cost Savings:** approximately 5 to 10 per cent of total operating costs, equivalent to \$36 to \$72 million annually, through opportunities such as office modernization, operational lease reductions, vendor aggregation, and improving building efficiencies (i.e., energy and utility cost savings initiatives).
- **Capital Cost Savings:** estimated capital cost savings of \$30 to \$60 million are projected via coordinating city-wide capital projects, driving co-location solutions, prioritizing asset rehabilitation projects and leveraging economies of scale for purchasing furniture, equipment and services.
- **New Revenues:** potential to unlock greater value on approximately 20 per cent of the City's real estate portfolio (i.e., an estimated \$5 billion out of the total portfolio of \$27 billion have revenue generating potential). Revenue generation opportunities include a city-wide retail lease strategy, development of transit hubs, and the sale of air rights over underutilized property while protecting for long-term City interests.

These opportunities are not limited to financial value, do not necessitate a “mass sale” of City assets and at the same time cannot be realized simply through “short-term” activities. These opportunities will be further examined during the incubation period and will form part of the City-wide real estate strategy. Actual savings and realization of the benefits will be monitored and reported to Council through the annual budget process.

2. ESTABLISH A NEW CITY REALTY AGENCY

One of the key components of the new City-wide real estate service delivery model (the “new model”) is establishing a new realty agency. The City realty agency (*Toronto Realty Agency*) will be a local board, established under the City of Toronto Act, 2006, responsible on behalf of Council to manage the City’s real estate portfolio, develop City buildings and lands for municipal purposes and deliver client focused real estate solutions to City divisions, agencies and corporations. In addition, the *Toronto Realty Agency* will leverage a real estate holding corporation.

The new *Toronto Realty Agency* requires multi-disciplinary expertise in real estate, community planning, and development to best drive city-building outcomes. The *Toronto Realty Agency* will be composed of nine (9) members effective the date of Council appointment, to occur before January 1, 2018. Board composition will include:

- The Mayor or designate appointed by the Mayor;
- Two (2) Members of Council; and
- Six (6) public members, one who shall serve as chair appointed by City Council.

This report recommends that the City Council direct the board to allow the City Manager and Chief Corporate Officer to attend all board meetings, including closed sessions and provide advice, particularly important during the incubation period to ensure effective coordination with the City proper.

The governance structure of the *Toronto Realty Agency* is outlined in Attachment 1 to this report including mandate and authorities, composition and eligibility, term, qualifications of members, role and qualifications of the chair, remuneration, appointment process and accountability to City Council. The report also recommends that City Council establish a new Toronto Municipal Code Chapter setting out the *Toronto Realty Agency's* governance structure. The report authorizes the City Clerk to initiate a recruitment process for board members for consideration by the Corporations Nominating Panel and appointment by City Council. The Corporations Nominating Panel, which recommends public appointments to City corporations is being recommended as the Board of the new City agency will be cross-appointed to the holding corporation.

This report recommends that the City Clerk be appointed to provide meeting management support to the Board and that the Board follow Toronto Municipal Code Chapter 27, Council Procedures (with necessary modifications) until City Council adopts a procedure by-law for the new *Toronto Realty Agency*.

The report also recommends that City Council ratify the appointment of the Chief Executive Officer to provide City Council with confidence in the leadership given the critical role and integration for successful service delivery with the City proper. To ensure that the Board has appropriate authority on a go forward basis, the report recommends that City Council delegate authority to the board for contract renewal and termination. The new *Toronto Realty Agency* will be subject to the Executive Compensation Policy at City Agencies and Corporations.

3. ESTABLISH THE NEW REAL ESTATE HOLDING CORPORATION

The new City-wide real estate model will require the use of a corporation for specific real estate activities, including commercial development to limit the City's liability and leverage corporate tools and instruments not available to a City realty agency.

The City Manager, in consultation with the City Solicitor, is undertaking due diligence to determine the appropriate corporate structure for the real estate holding corporation including consideration of repurposing Build Toronto and TPLC for this purpose. The City Manager will report further on this in Q4 2017, including implications for Build Toronto and TPLC.

4. IMPLEMENTATION OF THE NEW REAL ESTATE DELIVERY MODEL

The transformation process to transition to the new delivery model will require significant executive leadership, change management, policy and process re-engineering, organizational change and information technology investment. This transformation will also allow agencies, corporations and divisions to focus on their respective key services and programs.

A. Appoint an Interim Board to the new Toronto Realty Agency

It is recommended that an interim board be appointed until City Council appoints the permanent board, expected in late 2017. It is important to appoint an interim board for key start-up activities for the new *Toronto Realty Agency* while the recruitment and selection process for the public members of the permanent board is underway. This allows critical preliminary transition work to begin and to lay the groundwork in anticipation of the implementation date of January 1, 2018. It is estimated that the permanent board will be in place late Q4 2017.

The interim board will be composed of seven (7) members including:

- The Mayor or designate appointed by the Mayor;
- The Chair of the Toronto Transit Commission board;
- The Chair of Build Toronto board;
- The Chair of the Toronto Public Library board;
- Dino Chiesa, public member of the Real Estate Advisory Committee, as Chair of the Interim Board;
- Linda Robinson, public member of the Real Estate Advisory Committee; and
- Stephen Taylor, public member of the Real Estate Advisory Committee.

Similar to the board for the *Toronto Realty Agency*, the City Manager and Chief Corporate Officer will attend interim board meetings to provide advice, particularly critical during the transition period.

The interim board will be responsible for retaining an external search firm and launching a recruitment of the CEO, beginning the work necessary to operationalize the new *Toronto Realty Agency* on January 1, 2018 and working with Build Toronto and TPLC on transition plans to implement the new model. The interim board will have no delegation of authority over real estate matters and will be solely focused on immediate transition activities.

B. Delegation of Authority Framework

The delegation of real estate authorities across the City government will need to be reviewed and aligned with the new model including rescinding delegation of authorities for real estate matters beyond the new real estate delivery model with the exception of Toronto Community Housing Corporation and Toronto Hydro.

In 2010, City Council delegated authority up to particular dollar value thresholds for a range of real estate matters to the City Manager, Deputy City Manager & Chief Financial Officer, Chief Corporate Officer and the Director of Real Estate Services. The delegation of authority include such matters as acquisitions, expropriations, disposal of surplus property, leases and licenses for the City as the landlord and as the tenant, and easements where the City is the grantor or grantee. Furthermore, City Council has also delegated authority for certain real estate matters to its agencies and corporations through Shareholder Directions, specific Toronto Municipal Code Chapter provisions, Relationship Frameworks, and in some cases, through individual staff reports to City Council.

This report recommends that the City Manager, in consultation with the City Solicitor, Chief Financial Officer, and Chief Corporate Officer, review the delegation of real estate authorities and report to Executive Committee in Q4 2017 with any required changes to the delegation of real estate authorities in order to implement the new model. A transition period will also need to be provided to ensure that any real estate transactions that are underway at that time period are not adversely affected by changes to delegation of authorities.

As per the proposed framework in Table 4, Council maintains authority over all real estate assets, City-wide strategies, and budget processes.

TABLE 4 - A NEW AUTHORITIES FRAMEWORK

A revised delegated authority framework will be recommended to committee and City Council in Q4 2017, based on the following key principles:

CITY COUNCIL	<ul style="list-style-type: none"> • City Council holds authority over all City-wide real estate assets, goals, and strategies. • Approves: <ul style="list-style-type: none"> ○ City-wide integrated real estate strategy ○ Operating Budget & 10-Year Capital Budget and Plan ○ The new <i>Toronto Realty Agency's</i> budget, appointment of the agency board and ratification of the CEO ○ Delegated Authorities Framework for the new real estate service delivery model ○ Real Estate matters as outlined in the Delegated Authority Framework, including approval of surplus property for development purposes
COUNCIL: <i>Executive Committee</i>	<ul style="list-style-type: none"> • No change (<i>approves major building and land projects, city-wide strategic issues, & real estate matters that cross multiple committee jurisdictions</i>)
COUNCIL: <i>Government Management Committee</i>	<ul style="list-style-type: none"> • No change (<i>based on a revised delegated authority framework, approves real estate matters from the new Toronto Realty Agency and City division(s)</i>)

TABLE 4 - A NEW AUTHORITIES FRAMEWORK

A revised delegated authority framework will be recommended to committee and City Council in Q4 2017, based on the following key principles:

<p>NEW REAL ESTATE SERVICE DELIVERY MODEL: <i>Toronto Realty Agency</i></p>	<ul style="list-style-type: none"> • Develops and recommends to Council through the appropriate committee: <ul style="list-style-type: none"> ○ City-wide integrated real estate strategy ○ Real estate development strategies on surplus lands • Develops in partnership with Chief Corporate Office, Chief Financial officer, and City Programs: <ul style="list-style-type: none"> ○ Strategic real estate portfolio plans by program area, asset class or geographic region ○ Standards and best-practices respecting real estate asset management, facilities management, occupancy management and major capital project execution ○ Plans for the most efficient use of real estate capital investment that is submitted to the Chief Financial Officer as part of the Budget Process to help inform budget recommendations to Council ○ Delivers Council approved major capital projects • Accountable <ul style="list-style-type: none"> ○ Agency's budget & financing arrangements, including subsidiary activities
<p>NEW REAL ESTATE SERVICE DELIVERY MODEL: <i>Facilities Management and Real Estate Divisions reporting to the Chief Corporate Officer</i></p>	<ul style="list-style-type: none"> • Accountable: <ul style="list-style-type: none"> ○ Real estate transactions and activities in accordance with delegated approval framework approved by Council ○ Coordinate facilities management service delivery and execution (e.g., maintenance, custodial, SOGR capital project management)

TABLE 4 - A NEW AUTHORITIES FRAMEWORK

A revised delegated authority framework will be recommended to committee and City Council in Q4 2017, based on the following key principles:

<p>BUDGET PROCESS: <i>Chief Financial Officer and Financial Planning</i></p>	<ul style="list-style-type: none"> • Set budget submission guidelines and directions for all Programs and Agencies including the new <i>Toronto Realty Agency</i> • Review funding opportunities through the Capital Budget process to support realty requirements • Recommend City-wide Operating Budget & 10-Year Capital Budget and Plan to Council, including all facility and realty investments • Consider reinvestment opportunities for capital funding capacity created through the execution of real estate strategies with consideration given to advancing on opportunities to invest in current or future facility needs.
<p>PROGRAM AREAS: <i>Divisions, Agencies and Corporations</i></p>	<ul style="list-style-type: none"> • Divisions, agencies, & corporations work in cooperation with the new model to develop real estate plans that support their business operations (e.g., requirements, desired outcomes) • Agency and corporation boards focus on core business activities and effective service delivery while engaging the new real estate service delivery model on key real estate requirements and issues

The report recommends that City Council request the relevant divisions, agencies and corporations advise the new *Toronto Realty Agency* and the Chief Corporate Office, as required, with a status update of all real estate transactions, activities, and any appropriate information so that the new City-wide real estate service delivery model has a whole of government view. This understanding will allow for a focused and harmonized approach on City real estate.

C. Real Estate Transition

To initiate the new City-wide real estate service delivery model the following transition will be undertaken over the incubation period:

- Consolidation of real estate transaction service activities across City divisions, agencies, and corporations will occur over the three-year incubation period (not including Toronto Community Housing Corporation and Toronto Hydro).
- Consolidation of facility services and state-of-good-repair capital delivery from divisions, agencies, and corporations will occur over the three-year incubation period (not including Toronto Community Housing Corporation and Toronto Hydro).
- Build Toronto and TPLC will develop transition plans, in consultation with the *Toronto Realty Agency's* interim board, to support their integration into the City-wide real estate service delivery model for January 1, 2018.

- Through a client relationship management framework the new *Toronto Realty Agency* will work closely with divisions, agencies, and corporations to fulfill program and community real estate requirements. Client relationship management will include dedicated real estate senior managers to engage with: Councillors and external partners; community infrastructure and social services; and hard infrastructure and business services.
- Formal staff committees, composed of staff from the *Toronto Realty Agency* and relevant City divisions, agencies and corporations, will be created to ensure proactive engagement and ongoing collaboration between the new model and City program areas. This will include:
 - *The Real Estate Program Focussed Committee*: To review program requirements and solutions as input into the City-wide strategy, opportunities for co-location, & review surplus properties
 - *The Strategic City-Building Committee*: To foster city-building, placemaking, & support developments, plus review/address project roadblocks such as process / framework for planning / building approvals
 - *The Business & Operations Committee*: To guide the coordination, performance and service delivery of the City-wide real estate service delivery model including the management framework, functional activities' direction and operational priorities.

D. Next Steps and Change Management

A follow-up report will be brought forward to committee and Council in Q4 2017 with further implementation details including: a recommendation on amendments to delegated authorities; a transition plan for divisions, agencies and corporations (e.g., activities and authorities); establishing financial processes and accountabilities; a formal name for the *Toronto Realty Agency*; and recommended appointments to the *Toronto Realty Agency's* Board of Directors.

The City-wide Real Estate Program transition team will continue to work with the directly involved entities in Q3 and Q4 of 2017 to support transition, change management, and set-up activities such as implementing governance and financial set-up. In addition, key start-up initiatives to be undertaken once the new model is operating will be examined more closely prior to January 1, 2018. Table 5 below describes some the transition set-up activities to be undertaken, as well as agency start-up initiatives.

TABLE 5 - IMPLEMENTATION ACTIVITIES

KEY SET-UP ACTIVITIES: DAY 0: JUNE 1, 2017 TO END-OF-YEAR 2017	ACTIVITIES AT START-UP: DAY 1 & BEYOND: JAN 1, 2018 & BEYOND
<ul style="list-style-type: none"> • Engagement & Change Management • Legal Structure / Governance <i>(Staff committees, delegated authorities)</i> • Finance set-up <i>(Operating / Capital / ROI)</i> • Transition Plan <i>(Ramp down / ramp up)</i> • Board / CEO Recruitment 	<ul style="list-style-type: none"> • Client Relationship Management <i>(Real Estate Planning framework)</i> • Portfolio Strategy & Planning <i>(10-Year plan / Corporate Space / Lease Strategy)</i> • Foundational Data & System <i>(Centralizing City-wide real estate information)</i> • Leveraging Purchasing Power <i>(Vendor consolidation)</i> • Operational Harmonization <i>(Best practices, standards, etc)</i>

The new model will also be aligned to other key City initiatives to ensure seamless alignment of strategies, such as the long-term fiscal plan, major capital project planning and delivery review, agency and corporation governance review, financial management and control by-law review, and program transformations such as Toronto Community Housing Corporation and the City's Parks, Forestry, and Recreation division facilities master plan.

4. CONCLUSION

A strategic city-wide lens and active engagement with a diverse group of stakeholders was used to design the most appropriate service delivery model for the City government. This is not a mass consolidation but rather whole-of-government integrated approach that leverages strong governance and strategic coordination, industry expertise, and streamlined practices, harmonizes standards, and maintains a presence at the local/community levels. The recommended service delivery model provides the City with both the greatest net benefit and the most viable way forward to achieve success.

The City needs to undertake a multi-year effort toward real estate maturity - evaluating and refining at key stages. To start, an incubation approach is recommended as business transformation at this scale will require operational modernization, complete governance reform, and instituting progressive financial approaches. This allows the City to appropriately focus on the build-up of much needed strategy development, new asset utilization approaches, and financial and analytical tools.

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SIGNATURE

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ATTACHMENTS

Attachment 1 – Governance Structure of the Toronto Realty Agency

ATTACHMENT 1 - Governance Structure of the Toronto Realty Agency

A. *Mandate and Authorities*

The board is a City board, established under the City of Toronto Act, 2006 responsible to manage the City's real estate portfolio, develop City buildings and lands for municipal purposes and deliver client focused real estate solutions to City divisions, agencies and corporations.

B. *Composition and Eligibility*

The agency will be composed of nine (9) members, including six (6) public members, one who shall serve as Chair appointed by City Council, the Mayor or designate appointed by the Mayor, and two (2) Members of Council.

Public board members will be required to meet the eligibility requirements pursuant to the City's Public Appointments Policy, including that they are a resident of Toronto and at least 18 years of age. Public members are ineligible for appointment if they are a supplier of good or services to the City, have an employment or an interest in an organization that is involved with a real estate transaction with the City, or are involved in litigation with the City.

C. *Term*

The term for public board members will be subject to the term requirements of the City's Public Appointments Policy, which provides for terms for 4 years until successors are appointed, served at the pleasure of City Council. The maximum term is two (2) four (4) year terms. Members of City Council will be appointed for two (2) year terms.

To promote continuity, the terms of the public members will be staggered so that the terms of 3 members expire every two years. As a transitional measure to establish staggered terms, when the first board is appointed, three public members will be appointed for 4 years and three public members will be appointed for 2 years.

D. *Qualifications of Members*

It is important that Board members are experienced and skilled to help ensure high quality decision-making consistent with their new mandate with respect to City-wide real estate assets.

Public members of the Board shall collectively represent a range of skills, knowledge and experience to discharge their duties in an effective manner including:

- Executive level experience in a major public, private or not-for-profit organization;
- Senior level experience and professional skills in real estate, property development, urban planning, facilities management, investment industry, infrastructure delivery, community development, economic development, brownfield remediation, or environmental sustainability.

- Experience in large-scale transformative change and implementing complex business strategies;
- Post-graduate degree preferred in any one of the following fields: finance, business, economics, risk management, accounting, public administration, urban planning, engineering or law; and
- Certificate in board governance or training in a related field such as director's education.

E. Role and Qualifications of the Chair

In addition to the qualifications of Board members, the Chair will be responsible to ensure meetings are effective, decisions are consistent with the Board's mandate and that the Board meets its accountability requirements. The Chair will prepare for approval by the Board an annual performance report to City Council and coordinate operational activities of the Board including liaising with the City Clerk's Office and Chief Corporate Officer as required.

The Chair will need to be an effective leader and will be required to demonstrate additional expertise and skills in order to perform this role effectively including well-developed leadership and administrative skills.

In addition to the qualifications of Board members, the Chair will be required to demonstrate the following qualifications:

- Leadership and administrative skills;
- Highly developed chairing and facilitation skills; and
- The ability to effectively represent the Board and communicate with City Council, City Committees, City staff, the media and the public.

F. Chair and Member Remuneration

The remuneration for public Board members is an annual \$5,000 retainer and \$500 per board meeting up to a maximum of \$15,000. The remuneration for the Chair of the Board is an annual \$30,000 retainer and \$500 per meeting. It is estimated that the Board will meet eight (8) to ten (10) times per year.

The remuneration is intended to attract qualified applicants and compensate members for the high level of responsibility and work involved in this board, particularly during the incubation period. The remuneration is the same as Build Toronto and generally consistent with the remuneration levels of other City corporations, and large agencies.

G. Appointment Process

The City Clerk's Office will be responsible for recruitment and outreach and to encourage the public to apply for consideration of appointment to the Board. The Corporations Nominating Panel will review, short-list and interview applicants and recommend candidates for appointment by City Council.

H. Procedures By-law

The Board is required to adopt a Procedure By-law to manage its meetings effectively for approval by City Council through Executive Committee.

I. Accountability to City Council

The new real estate agency will have a number of accountability provisions in place to ensure transparency, monitoring and reporting on a regular basis to City Council.

The accountability provisions include:

- **Jurisdiction of the Accountability Officers** – the new *Toronto Realty Agency* is within the jurisdiction of the Auditor General, Integrity Commissioner, Lobbyist Registrar and Ombudsman.
- **Code of Conduct for Member of Local Boards** – the Board is required to comply with the Council approved Code of Conduct for Members of Local Boards.
- **Open Meeting Requirements** – the new *Toronto Realty Agency* is required to conduct its meetings in accordance with the open meeting requirements of the City of Toronto Act, 2006 and within the jurisdiction of the Open Meeting Investigator appointed by City Council.
- **Annual Performance Report to City Council** - the *Toronto Realty Agency's* board will be responsible to provide an annual performance report to City Council (e.g., performance indicators, key projects, value created, etc.).
- **Real Estate Asset Strategy** - a strategic plan on how to maximize broader value from the City's real estate assets and drive City priorities.
- **CEO Ratification** - ratification by City Council for appointment of the Chief Executive Officer.
- **Annual Audit** - the new *Toronto Realty Agency* will undergo an annual audit by a third-party auditor, retained by the Auditor General, as required in section 234 and 235 of the City Of Toronto Act, 2006.