

Food Service Opportunity at City Hall Update

Date: June 18, 2018

To: Government Management Committee

From: Deputy City Manager, Internal Corporate Services

Wards: 27

SUMMARY

The purpose of this report is to seek authority to pursue an alternative option for the food service space in Toronto City Hall by procuring a leasing consultant/broker to develop a retail strategy, design concept, and find suitable tenant(s).

An alternative option is necessary given the results of the most recent tenant selection process which did not yield a suitable tenant to operate a food service operation in the space currently occupied by Café on the Square. Staff would report back in Quarter One of 2019 on tenant(s) recommendation(s) for the food service space.

RECOMMENDATIONS

The Deputy City Manager, Internal Corporate Services, recommends that:

1. City Council cancel the tenant selection process for the food service opportunity in Toronto City Hall, which staff were directed to undertake in 2015.
2. City Council authorize the Deputy City Manager, Internal Corporate Services to procure a leasing consultant/broker to develop a retail strategy and design concept for the food service space and find suitable potential tenant(s) for the food service space with the assistance of the currently existing volunteer food advisory committee ("Advisory Committee") and direct that the leasing consultant/broker consult with the Nathan Phillips Square Community Advisory Committee on potential implications of the proposed strategy/design on Nathan Phillips Square.

FINANCIAL IMPACT

The total cost to retain a leasing consultant/broker to provide the services outlined in this report is estimated to be \$0.100 million, of which \$0.040 million is estimated to be spent in 2018 and \$0.060 million in 2019. Funding is available in the 2018 Council Approved Operating Budget for Facilities, Real Estate, Environment & Energy.

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

DECISION HISTORY

On February 10 and 11, 2015, City Council adopted Item GM1.4 and directed the Chief Corporate Officer to consult with various training and social enterprise organizations to determine the feasibility of and interest in a social enterprise food service operation being established in the food service space at City Hall following the expiry of the lease between the City and 1158093 Ontario Limited o/a Café on the Square ("Café on the Square"), the current operator:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM1.4>

On September 30, October 1 and 2, 2015, City Council adopted Item GM6.11 and directed the Chief Corporate Officer to establish a volunteer advisory committee composed of members of the public with extensive experience in the food service industry to explore social enterprise food service options for the food service opportunity at City Hall. City Council also directed the Chief Corporate Officer to undertake a tenant selection process, including consideration of social enterprise, to find a commercial food service operator:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.GM6.11>

On April 4, 2016, the Government Management Committee received a report from the Chief Corporate Officer for information, which presented the findings of a food survey conducted by City staff in January 2016, feedback received from the members of the Advisory Committee, the criteria to be used in the Request to Pre-qualify ("RTP") document to screen qualified respondents, and the timeline for issuing the RTP to the public.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.GM11.7>

COMMENTS

In January, 2016, prior to the RTP being issued, Real Estate Services conducted a food survey for employees at City Hall to seek information on staff's eating preferences and behaviours with the objective of obtaining insight into the type of food service operation that would be most suitable for the food service space. As of 2015, there were 1,684 City employees working at City Hall. Approximately 36% of the employees responded

to the survey. The survey results showed that staff, on average, purchase meals 2.4 times a week during working hours, with breakfast, lunch, and snacks being the main purchases. Results also indicated that staff spend an average of nine dollars or less for breakfast and eleven dollars or less for lunch, showing high demand for a breakfast/lunch food service operation with moderate pricing.

The RTP was issued in May, 2016. The City received a total of six (6) Responses from the public on the closing date of May 27, 2016 and Real Estate Services staff completed a preliminary evaluation of the said Responses based on the Council-approved RTP criteria used to evaluate Respondents. The Respondents were evaluated based on four (4) components: Respondent Profile, Experience and Qualifications of the Respondent, Proposed Staff Team and Resources, and Preliminary Operating Concept & Marketing Plan. The score for each component ranged from 0 (failed to address the component) to 5 (all considerations of the component were addressed with the highest degree of confidence in the Respondent's response or proposed solution). Each of the Respondents also had an opportunity to present in front of the Advisory Committee. The Advisory Committee then evaluated each of the Respondents based on the same RTP criteria outlined above and the final evaluation was completed in October, 2016. Only two (2) Respondents, Compass Group and Toronto Market Company ("TMC"), obtained a minimum score of 70%, being the threshold mark needed to be considered a qualified Respondent.

In accordance with the tenant selection process outlined in the RTP, market and internal research was conducted and the Advisory Committee was consulted in order to determine appropriate lease terms. In early April, 2017, proposed lease terms were presented to the two qualified Respondents for review and feedback. They were given 2.5 weeks to review the lease terms with their own management team and propose changes. However, one of the Respondents did not submit their feedback by the deadline and an extension to early May was granted to both Respondents. The feedback and comments were reviewed by staff on the deadline date. However, some of the comments by the Respondents were not clear and the City engaged in further communication with both Respondents to clarify their position on the initial proposed lease terms. The discrepancies were then sent to the Advisory Committee for their feedback. During the last two weeks of June, 2017, a meeting between the Advisory Committee and City staff was set up to gather their feedback on the comments from the two Respondents.

In July, City staff met with each of the two (2) qualified Respondents to reconcile the discrepancies between the City's and each Respondent's proposals. However, since each Respondent had to discuss any revisions with their management team before making an official offer, the City allowed the Respondents to take comments back and submit a final proposal in late August 2017.

Each Respondent sent its final proposal to the City on August 22nd, 2017. Both proposals were significantly different than the original proposals received from each Respondent. Compass Group's financial offer to the City was significantly reduced due to the announcement of the minimum wage increase effective January 2018 amongst other items. TMC requested an additional item that was not included as part of the original scope of the market call. TMC requested an extension of the patio boundary

line to include approximately 2,500 square feet of additional space. In addition, TMC was also looking for other financial considerations as part of their proposal. The final proposals were reviewed by City staff and brought back to the Advisory Committee and the Deputy City Manager, Internal Corporate Services for feedback.

In late August 2017, it was determined by senior management that the City would continue negotiations with Compass Group in order to arrive at mutually satisfactory terms due to their operational experience in providing food services.

However, between late August and early September 2017, the Advisory Committee informed the City that there was too much of a discrepancy between the proposed lease terms from the City and from Compass Group; this applied to multiple clauses and the Advisory Committee did not feel comfortable recommending Compass Group as the successful tenant.

In September, 2017, Compass Group notified the City in writing that it was withdrawing from the tenant selection process due to limitations and challenges with the food service space, including its lack of proximity to the street, the structure of the proposed financial arrangement, and the amount of capital that would be required to renovate the food service space.

As of September 28th, 2017, City staff decided to make a recommendation to proceed with TMC as the new tenant, subject to the City finding a solution to their requests.

Between early October 2017 and early January 2018, City staff worked with various staff to resolve one remaining item being negotiated related to the obligations of a successor food service provider under the Employment Standards Act.

Moreover, TMC's second request, which involves the extension of the patio area, would also need special consideration from City Council, as it was not included in the original scope of the RTP.

During January and February, 2018, consultations were held with various stakeholders, including Economic Development & Culture, Facilities Management, Heritage Preservation Services, Corporate Security, and the Nathan Phillips Square Community Advisory Committee to determine the feasibility of the patio extension request. However, given all the conflicts and security risk concerns raised by other divisions, City staff determined in March, 2018 that due to the operational and logistical challenges associated with TMC's requirements, it would not be possible for the City to reach an agreement on mutually satisfactory lease terms with TMC. The Advisory Committee suggested that should negotiations be unsuccessful, the next step would be to engage a leasing agent/broker for the marketing and leasing of the food service space.

Throughout the tenant selection process, the Advisory Committee brought up a number of issues that make the food service space challenging for a tenant, such as the prohibition on selling bottled water in City Hall, the amount of capital needed to restore the space, heritage assessments, and marketing limitations. Moreover, they advised that the cost of operating a food service operation has significantly increased within the

past several years due to recently approved legislation and the competition has increased due to new food service operations opening up near City Hall.

However, despite the challenges, the Advisory Committee stated that the location is attractive and with the right tenant(s), vision, and marketing, it could be a successful food service operation. They advised that since the City is looking for long-term tenant(s), engaging a leasing consultant/broker with extensive experience finding suitable tenants for other retail spaces would be worth the expense. The leasing consultant/broker could provide the City with expert advice on how to configure the space and how to address the infrastructure limitations, which in turn would enable them to market the food service space to a suitable target market.

Another option for the food service space that was considered would be to transform the space into a basic cafeteria dedicated to employees and visitors of City Hall. An assessment of budget impacts, both operating and capital, would need to be completed in order to determine the financial impacts of a City-operated food service space, but this option was not an ideal alternative from the perspective of the Advisory Committee.

Accordingly, due to the reasons outlined above, as per the Advisory Committee's expert advice and recommendations, this report seeks authority to cancel the tenant selection process that staff were directed by Council to undertake in 2015 and retain a leasing consultant/broker for the design, marketing, and leasing of the food service space.

The City would look to the consultant/broker to conduct specific market analysis on the food service space based on pre-established, proven models. This would include information on the volume of foot traffic in nearby areas, upcoming food trends within Toronto, and how the food service space should look in order to attract tenants and provide the City with a good return on investment. The consultant/broker would also be asked to advise the City on any limitations and improvements that are required to the current food service space to support a successful food service operation.

In addition, the consultant/broker would be asked to develop a marketing strategy to target the optimal tenant(s) for the space based on its market analysis. The City would seek a consultant/broker with experience in retail/restaurant leasing, who can leverage their market contacts and resources to the City's advantage. Real Estate Services staff, on the advice of the Advisory Committee, believes that by engaging an expert with extensive experience in both the leasing and the restaurant industry, the City will be successful in finding suitable tenant(s) for the food service space and achieving a positive return on investment.

Staff would seek a leasing consultant/broker with a proven record of success, to provide the following services:

- 1) Develop and propose a comprehensive vision for the food service space in the context of local retail and restaurant trends, in consultation with the Nathan Phillips Square Community Advisory Committee;
- 2) Present design concepts to reconfigure the food service space so that it has an efficient and appealing layout;

- 3) Create and implement a marketing strategy to find potential tenants; and
- 4) Represent the City as the leasing broker for the food service space.

Once the leasing consultant/broker completes its analysis, it would solicit offers to lease from suitable potential tenant(s) for consideration by the City. Real Estate Services staff would then evaluate the offers to lease that are received, in consultation with the Advisory Committee. Staff anticipates that this process would take approximately 6 to 9 months to complete and that staff would be in a position to report back to the Government Management Committee with its recommendations in Quarter One of 2019. Real Estate Services staff will comply with City policies to procure a leasing consultant/broker.

In order to leverage the expertise of the Advisory Committee, it is recommended that they continue in their advisory role until staff is in a position to report back to City Council with recommendations in Quarter One of 2019.

Café on the Square's lease expired at the end of February, 2017. Since that time, Café on the Square has been an over holding month-to-month tenant. City staff will seek to negotiate a new short term arrangement with Café on the Square to ensure the continued provision of food services at City Hall until new food service arrangements can be put in place.

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SIGNATURE

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