Protocol for Management of TO Live Capital Projects

Purpose

The purpose of this Protocol for the Management of Capital Budget and Capital Projects for TO Live is to establish clear decision making authorities and processes, expenditure thresholds, roles and responsibilities for management of TO Live Capital Projects including SOGR projects, and clarification of project management services provided by City Staff.

The objectives are to assist both the City and TO Live to plan and manage capital projects for the three civic theatres in an effective manner that optimizes the operations of the theatres, their state of good repair, and contributes to their use and programs, while complying with the City's policies and priorities for the long term stewardship of City assets.

The Protocol cannot anticipate every kind of Capital Project that might be undertaken by TO Live or the City, but sets a general framework for clear accountabilities and collaboration between TO Live and the City. For the successful implementation of Capital Projects, timely consultation is required between TO Live and the City's Facilities Management Division staff in the Project Management Office (PMO) on major TO Live projects.

Background

- Effective July 9, 2015, City Council approved the amalgamation of the Boards and operations of the three civic theatres (Sony Centre for the Performing Arts, St. Lawrence Centre for the Arts (SLCA), Toronto Centre for the Arts (TCA) and established Civic Theatres Toronto as the new City Board, now renamed TO Live.

- At the January 18, 2019 board meeting, the Board of TO Live approved the renaming of the SONY Centre to Meridian Hall, and Toronto Centre for the Arts to Meridian Arts Centre. The change in name will take effect September 30, 2019.

- Up to 2018, Capital Budgets and Capital Projects of the Civic Theatres have been maintained separately by individual theatre sites. The Economic Development and Culture Division has previously managed the Capital Budgets and projects of SLCA and TCA on behalf of those Theatres, while Civic Theatres Toronto has independently managed SONY's Capital Budgets and Capital Projects.

- Beginning in 2019, the TO Live Capital Budget, including State of Good Repair (SOGR), for all theatre sites are now being consolidated under the management of the Board of TO Live.

- TO Live has Reserves and Reserve Funds being held by the City that were established for specific Theatre sites. These are set out in Section 8 of this Protocol.

- Given the organizational and budget changes, the Board and CEO of TO Live and City Staff recommended review of the Capital Budget and Capital Project management responsibilities, to clarify the roles and responsibilities of TO Live to manage its Capital Budget and Capital Projects for all three theatres, levels of authority for the Board and CEO of TO Live, and the services to be provided by City Divisions.

Application

- This Protocol for the Management of TO Live Capital Budget and Capital Projects applies to all three buildings: Sony Centre for the Performing Arts (Meridian Hall), Toronto Centre for the Arts (Meridian Arts Centre) and St. Lawrence Centre for the Arts.

Principles

The following key principles inform this protocol:

- Effective stewardship of public assets.

- Adherence to City of Toronto Capital Budget and Operating Budget guidelines, principles and procedures, TO Live and applicable City by-laws and policies, and compliance with Chapter 23, Civic Theatres, of the Toronto Municipal Code and applicable law.

- The three civic theatre buildings, Sony Centre for the Performing Arts (Meridian Hall), Toronto Centre for the Arts (Meridian Arts Centre) and St. Lawrence Centre for the Arts, are owned and funded by the City of Toronto, and the Board of TO Live is charged with the management of the theatres on behalf of Toronto City Council.

- The City and TO Live will work collaboratively to derive maximum value from the use of public funds, and minimize disruption to the day to day operations of the theatres that will result in the greatest benefit to the users of the facilities.
- Utilization of specialized expertise and capacity of TO Live staff to manage Capital Projects that are unique to the operations of Performing Arts Facilities Systems and that are at a scale that is manageable by agency staff.
- TO Live staff have a distinct understanding of program requirements and how best to avoid or limit business interruption during the execution of Capital Projects. The

limiting or avoidance of business interruption must be a fundamental principle in the execution of any Capital Project.

- Mitigation of unnecessary risk in asset management while utilizing the project management expertise, oversight responsibilities and capacity within City Divisions for large scale Capital Projects related to Building Envelope and Building Systems.

- Appropriate documentation and retention of records are critical to the management of Capital Projects, including: business cases, project charters where required, standing Service Partnership Agreements (to establish standards for service quality, speed and responsiveness), procurement process, contract management and disbursements.

- Timely, proactive consultation and information sharing between TO Live and City Staff (for example: Capital Project planning, projects risks, building conditions, etc.)

1. TO Live Board Mandate and Delegated Authority

The following summarizes City Council's delegation of authority to the Board of TO Live as a City Board and Agent of the City under Chapter 23 of the Toronto Municipal Code:

- The Board of Directors acts on behalf of City Council for the purposes of occupation, management and control of the Civic Theatres, to provide quality performance and event facilities, and to promote contribution to the artistic, cultural and social vitality of Toronto and its communities.

- The Board may adopt policies respecting sponsorships, naming rights, honourific names, procurement and the hiring of employees that are consistent with the policies adopted by City Council.

2. TO Live Board Responsibilities in Chapter 23, Civic Theatres

The following summarizes the responsibilities of the Board of TO Live as set out by Toronto City Council in Chapter 23, Civic Theatres, of the Toronto Municipal Code:

- Supervise the management of the business and operations of the Civic Theatres.

- Assume responsibility for the governance, business affairs, operation and management of the Civic Theatres.

- Oversee the integration and consolidation of operational functions of the Civic Theatres through a phased-in process.

- Undertake strategic planning and develop a five-year business plan to ensure the long-term viability and success of the Civic Theatres.

- Submit annual reports and audited annual financial statements to City Council.

3. Capital Budgets and Capital Project Planning

The following are Capital Budget and Capital Project Approval Requirements:

a. All Capital Budgets including SOGR budgets for Sony Centre, Toronto Centre for the Arts, and St. Lawrence Centre for the Arts will be consolidated as the Capital Budget for TO Live as of the 2019 budget approval by City Council.

b. All Capital Budgets including SOGR budgets will be submitted by the TO Live Board to City Council through the City Budget process and in accordance with annual instructions received from the Financial Planning Division.

c. TO Live will share Building Condition Audit results of theatre facilities and utilize Council approved budget allocations for building maintenance as assigned and approved by City Council.

d. City Council approves the Capital and Operating Budgets of TO Live, and TO Live's approved Capital and Operating Budgets will be managed by TO Live.

e. Reserves and Reserve Funds are established by City Council under Chapter 227 of the Toronto Municipal Code and held by the City. They are drawn down and approved for specific use upon City Council approval through the annual budgeting process. The existing Reserves and Reserve Funds for theatres are summarised in Part 8 of this Protocol.

f. New projects and in-year changes to the capital budget are subject to City Council approval consistent with all other City Agencies and City Divisions. TO Live will submit Capital and Operating variance reports to Financial Planning, including any budget adjustments, on the same quarterly schedule as all City Divisions and City Agencies.

4. Management of Capital Projects

The following structure for the management of Board and Council approved Capital Projects is proposed. Each Capital Project will be assigned to one of six categories by TO Live staff:

<u>Category A:</u> All State of Good Repair and capital improvement projects up to $50K, regardless of type of project, are part of TO Live's Operating Budget and are managed by TO Live.

<u>Category</u> B: TO Live will manage Capital Projects including State of Good Repair projects up to a value of $250K for Building Envelope and Building Systems, AODA and life safety systems.

<u>Category C:</u> Capital Projects including State of Good Repair projects over $250K related to Building Envelope and Building Systems, and life safety systems (e.g. ramps, roofs, windows, security, fire suppression, HVAC, water, elevators, etc.) will be managed by the City. Staff of the City's Project Management Office of the Facilities Management Division will act as project manager, working with TO Live staff. Project management fees charged to TO Live will conform to City standards set out in Section 7 of this Protocol.

<u>Category D:</u> Capital Projects including State of Good Repair projects that relate to the Performing Arts Facilities Systems will be managed by TO Live <u>regardless of project budget value</u> and in accordance with TO Live's Council approved Capital Budget, unless it is mutually agreed between TO Live and the City that a project is of a significant size and scope to warrant project management by the PMO.

Examples of Performing Arts Facilities Systems Projects include:

i. audio visual systems
ii. theatrical lighting
iii. theatre rigging
iv. seating systems
v. rigging and curtain systems
vi. communication systems
vii. ticketing systems
viii. Electrical, mechanical and structural support for any of the systems noted above
ix. Information Technology systems that need to be compliant with other operational and functional systems: customer relationship management, internet and WIFI access throughout venues, etc.

Note that these are obvious examples. This Protocol cannot contemplate all project scenarios.

<u>Category E:</u> For Capital Projects including SOGR projects that do not fall clearly into any of the previous categories A., B., C. and D. (such as interior renovations, installations, exterior signage, AODA projects, etc.) or which TO LIVE has an interest in managing due to program, client and audience/guest considerations, TO Live staff and staff of PMO of Facilities Management will review the project to decide whether project management should be conducted by TO Live staff or City staff, generally in the August to early September of the year before Council budget approval.

<u>Category F: Revitalization and Redevelopment:</u> As the three civic theatre facilities are City owned assets, any major proposals are subject to City Council approval. Recommendations for revitalization and redevelopment projects, multi-year partnership usage agreements, or projects primarily supported by significant fundraising, require advance consultation with the City's Real Estate Services and Facilities Management Divisions. Consultation is also required with Economic Development and Culture Division, Financial Planning Division, and the City Manager's Office.

Note: Agencies, as do Divisions, provide additional reporting throughout the life cycle of all major Capital Projects as required at various stages of the project. The City's 2019 – 2028 Capital Budget Submission Guidelines and Instructions states that major Capital Projects require a stage-gating process review, with the requirement for Council approval conditional on project cost estimates being based on detailed design completion and secured funding sources. The City's consistent, phased "stage-gating" decision-making process for large Capital Projects will be implemented for large revitalization and redevelopment Capital Projects for TO Live.

5. Policy and Procedures for Capital Projects

All TO Live capital projects noted above will adhere to the following TO Live finance policies:
- Policy 303 -TO Live Purchasing Policy and Procedures
- Policy 313 – TO Live Procurement Processes Policy

To ensure the above policies are adhered to, all invoicing, billing and payment processes will flow through TO Live's finance department.

6. Information and Consultation Process Between TO Live and the PMO:

- TO Live will provide the following to the PMO:
    - all Building Condition Audit results for the three theatres;
    - updates to its 10-year Capital Plan;
    - project charters for all projects to be managed by the PMO.
- Each year between August and early September, prior to the Board's consideration of the Capital Budget, TO Live and the PMO will meet to discuss Capital Projects anticipated for submission to the TO Live Board in the upcoming year and review any adjustments to the TO Live 10-year capital plan. The purpose of this meeting will

be to seek PMO's input early in the capital planning process, to confirm appropriate project management and the required resources for Capital Projects.

- For Capital Projects related to Building Envelope and Building Systems, the PMO will consult with TO Live by:
    - Reviewing project plans to be managed by the PMO on behalf of TO Live, including resource requirements, timelines, change requests, etc.

7. The City's Project Management Fee Schedule for Capital Projects

The City's project management fees are set by City policy, **Policy #: FP-OP - 102**, Budgeting for Interdivisional Charges & Recoveries, to be charged for capital projects at 10% or less of the project cost, and are applied for recovering costs for work performed on behalf of clients.

For small projects, the fees are based on an hourly rate also set out in the policy. For larger projects such as Building Envelope and Building Systems projects or major renovations, there is a sliding-scale percentage fee as outlined in the following table:

Project Management Fees Table for 2019

Project Value **(Annual Cash Flow)**	**Rate**	**Fee Range**
$250K to $750K	$25K plus 8% of the amount over $250K	$25K to $65K
$750K to $2M	$65K plus 6% of the amount over 750K	$65K to $140K
$2M to $4M	$140K plus 1% of amount over $2M	$140K to $160K
Over $4M	$160K (see note in paragraph C below)	$160K (see note in paragraph C below)

Method of Calculating Project Management Fees:

a. The project management fee is calculated on the projected "cash flow" for each year of the project, not the total project budget.

b. The actual charges will be based on the actual total expenditures that occur each year.

c. Fees set out in the City's fee schedule cover only operating costs associated with the City staff delivering the service. Resource requirements and project management fees for projects over $4 million annually are confirmed on a case by case basis after discussions and with agreement of TO Live.

8. Sources of Funds for TO Live Major Capital and SOGR Projects

Consistent with City Capital Budget policies, capital improvement and SOGR projects costing less than $50K are included in program Operating Budgets.TO Live's Facility Fee and Improvement reserves which receive ticket surcharge contributions are understood to fund most of these needs.

Larger SOGR projects and capital improvement projects; that is, over $50K, comprise the Council Approved Capital Budget and 10 Year Capital Plan. These are projects with a useful life of 10 years or more and deliver a tangible physical asset replacement or betterment to the facility.

Detailed criteria and policies concerning the City's Capital budget are included in the annual Capital Budget preparation manual, the 2019 – 2028 Capital Budget Submission Guidelines and Instructions.

<u>List of Current Theatres' Reserve and Reserve Funds:</u>

a. Reserve Funds

The following reserve funds receive ticket surcharge revenue for SOGR and minor repairs to the 3 theatres:

- Sony Centre Facility Fee Reserve Fund (XR3030)
- Toronto Centre for the Arts Improvement Reserve Fund (XR3007)
- St. Lawrence Centre for the Arts Improvement (XR1046)

b. Reserves

The following reserves have no regular source of funding, but are intended for stabilization of annual operating budget results and special purposes:

- Sony Centre Stabilization Reserve (XQ2031)
- Toronto Centre for the Arts Stabilization Reserve (XQ1060)

9. Summary of Key Responsibilities Regarding Capital Projects

a. City Council:

- Consider / approve all TO Live Capital and Operating Budgets and variance reports.

- Establish and approve the purpose of, contribution to and drawdowns from, all Reserve and Reserve Funds under Chapter 227, Reserves and Reserve Funds, of the Toronto Municipal Code.

- Approve and fund projects for the City's 10-Year Capital Plan, including for Agencies and Corporations.

b. Deputy City Manager, Corporate Services:

- Provide general oversight of asset management for the City of Toronto through the Real Estate Division and the Facilities Management Division.

City of Toronto Facilities Management Division – PMO

- The PMO will manage Category C Capital Projects, and will manage Category E projects when requested by TO Live. PMO staff will act as project manager, working with TO Live staff. Project management fees charged to TO Live will conform to City standards set out in Section 7.

- The PMO will provide consultation and Liaison as required with TO Live and with City Staff: Economic Development and Culture Division, Real Estate Division.

- The PMO will provide TO Live updated City procurement resources including procurement templates and manuals, ad hoc advice and suggested vendors when requested.

- The PMO will include a piggyback clause (cooperative purchasing process) in all relevant call documents and share successful proposals with TO Live.

- For PMO managed projects a single project manager will be assigned. This person will liaise and work in a collaborative manner at all times with TO Live.

City of Toronto Real Estate Division

- Coordinate submission of redevelopment or revitalization proposals (Category F Projects) for consideration / approval of City Council in consultation with TO Live, Facilities Management Division, Economic Development and Culture Division and City Manager's Office.

c. Chief Financial Officer, City of Toronto:

- The Chief Financial Officer, as part of the budget process, reports quarterly inflows to and outflows from each Reserve and Reserve Fund.

- The Chief Financial Officer, in consultation with a beneficiary program (Agency), and subject to compliance with any legislative restrictions, determines whether the use of a Reserve or Reserve Fund is an appropriate funding source for a program in the operating budget or a capital project in the capital budget; or If funds should be contributed to a reserve or reserve fund and, if so, the source of those funds.

d. Economic Development and Culture Division:

Monitor implementation, evaluate the effectiveness of, and review this Protocol by Q2 each year, in consultation with TO Live and City Staff: Facilities Management Division, Real Estate Services Division and Financial Planning Division.

e. TO Live:

TO Live Board

- Manage and operate the three Civic Theatres on behalf of City Council.
- Submit Capital and Operating Budgets and Variance reports for City Council consideration / approval.
- On the recommendation of the CEO and President of TO Live, approve Capital Projects including State of Good Repair (SOGR) projects as required by TO Live finance policies.
- Approve requests to the Chief Financial Officer for consideration by City Council, for contributions to and withdrawals from Reserve or Reserve Funds held by the City related to TO Live.
- Approve Capital Budget expenditures and payments subject to delegations of authority from the Board to the CEO and President of TO Live and as detailed the TO Lives finance policies
- Approve a Service Partnership Agreement between TO Live and the PMO pertaining to the management of Capital Projects subject to delegations of authority from the Board to the CEO and President of TO Live.

TO Live Management

- Manage Category A, B, and D Capital projects including State of Good Repair (SOGR) projects and Category E projects which TO Live has not requested the PMO to manage in accordance with the City Council approved Capital Budget and 10-year Capital Plan.
- Prepare a business case for all TO Live Capital Projects as required for entry into CAPTOR.

- Develop a standing Service Partnership Agreement with Facilities Management Division for management of capital projects to be managed by the PMO.
- Adhere to all TO Live finance policies.

Definitions

For the purpose of this protocol, these phrases should be interpreted as follows:

Capital Project: Any undertaking in respect of which an expenditure is incurred to acquire, improve and maintain land, buildings, engineering structures, machinery and equipment, including installation of computer software, and is the level at which Council approves funding and funds control in the capital budget.

The following elements define a capital project (from the capital manual 2019):

- Useful Life - Items that have a useful life that matches or exceeds the standard debenture term of 10 years. Fleet vehicles and related equipment must have a useful life of at least 5 years.
- Physical Asset - Expenditures related to the acquisition, betterment or replacement of a physical asset with a multi-year life should be considered a capital item.
- Materiality - the gross expenditure threshold for defining a capital item as a sub-project is a minimum expenditure level of $50,000.

Building Envelope and Building Systems Projects: Projects involving Building Envelopes and Building Systems, and life safety systems, such as: ramps, roofs, windows, security, fire suppression, HVAC, water, elevators, etc.

Performing Arts Facilities Systems Projects: Projects that involve theatre facilities designed to support programs and productions where the expertise resides with theatre staff. For example, audio visual systems, theatrical lighting, theatre rigging, seating systems, curtain systems, front of house communication systems, ticketing systems, information technology systems that need to be compliant with other operational and functional systems: Customer relationship management, internet and WIFI access throughout venues, etc.

References and Resources Enclosed

- Attachment 1: Business Case Guidelines: Excerpts from: http://insideto.toronto.ca/budget2017/files/op-sec-b6-business-case-dev-guidelines.pdf)

- City of Toronto 2019 - 2028 Capital Budget Submission Guidelines and Instructions http://insideto.toronto.ca/budget2019/files/cap-manual.pdf

- City of Toronto 2019 Operating Budget Submission, Guidelines and Instructions enclosed and located at this link: http://insideto.toronto.ca/budget2019/files/op-manual.pdf

Protocol Updated: April 26, 2019

Attachment 1: Business Case

Excerpt from City of Toronto 2019 - 2028 Capital Budget Submission Guidelines and Instructions; pages 31-34. The complete manual is enclosed, and located at: http://insideto.toronto.ca/budget2019/files/cap-manual.pdf.

Purpose:

A well planned and documented business case is a prerequisite for successful financial planning and decision making. City policy requires that all resources dedicated to a specific capital project be clearly identified in the business case submitted for consideration of each capital project included in Program and Agency Capital Budget and Plan.

Each business case must be informative, relevant and demonstrate that the project is a good investment. This will help to:

- make crucial decisions that reinforce the focus on individual Program/Agency principal activities and maximize their resources by identifying all costs and benefits;
- outline financial aspects of individual Programs/Agencies, including the nature of cash flows required for maintaining minimum service levels;
- gather crucial industry / market information, (e.g., performance measures and benchmarks); and
- set specific goals and measurements to assess the progress of each project over time.

Business Case Information:

In accordance with the 10-Year Capital Plan requirement, each business case needs to have relevant information including cost and funding details, in the proper expenditure and revenue categories. It should also clearly identify the business need, priority, operational impact (including staff) and benefits of the project in specific and measurable terms. At a minimum, a business case must include:

- project description and justification
- project phases/sub-projects
- cost components correctly classified by expenditure category
- sources of funding correctly classified by revenue category
- cash flow commitments
- major milestones and deliverables
- operating impact of capital position impact by position type
- operating costs by type
- cost benefit analysis for the project
- financial, operations and value added benefits
- readiness to proceed with the project; and

- any cross divisional / agency coordination required.

In addition, business cases may include other supplementary information to justify the project including:

- Impact of deferring the project, implications if the project is not approved, project phases if multi-year project (study, design or construction etc.), high-level cost components for stand-alone projects, any uncertainties or risks associated with the project and the urgency of the initiative.

- If applicable, indicate what the City is paying for (e.g. staffing, studies, scoping, consultants, construction, hardware, off the shelf or in-house developed software, etc.) throughout each phase of the project.

- Details of funding request for furniture, fixtures, and other significant expenses that are not captured in separate cost elements in CAPTOR.

Note: For previously approved projects, the supplementary information may be used to update the status of the project.

All Business Cases, including those for information technology capital projects, must focus on justification, project costs and benefits, clearly identifying why the project is necessary and should proceed.

For more details on the preparation of business cases please refer to Policy # FP-CA-100 –"Capital Budget and Plan" in Section D of the Budget Manual.

Business Cases in CAPTOR:

Each Business Case has to be entered in CAPTOR and it has four parts:

- Part A: Project Costs

- Part B: Cash Flow:
    - New – Total Cash Flow Plan
    - Previously Approved – Previous Year's Carry Forward amount

- Part C: Cash Flow – Current & Future Year Commitments

- Part D: Associated Annual Operating Costs and Revenues (Incremental)

Parts A, B, and C are comprised of two sections, Expenditures and Financing Sources. Input of dollars is done in thousands ('000s). The top section lists the expenditure details such as Salaries, Land, Building, Equipment, etc. The bottom section lists the financing sources required for the capital project (i.e. Provincial Grants and Subsidies, Federal Subsidy, Development Charges, etc.).

Other 1 (internal) and Other 2 (external) are used with specific information clearly identified.

Part D details any future incremental operating budget resulting from the approval of the capital project, which may include incremental staffing (listed by position) and/or other operating costs. Funding required must be included in the Program's operating budget request in the same budget year as shown in Part D under the category "Operating Impact of Capital".

Note: New/existing temporary capital positions required to develop/deliver capital projects (funded from Capital) are not to be included in Part D. The funding for Capital funded positions is entered in Part A (as part of the project cost), Part B (as part of the cash flow plan) and Part C (as part of the commitments) as appropriate. Capital Form 4 is also completed to provide additional information such as number of positions, position titles, approximate date of hire and duration, etc.

For more details, please refer to Section A Using CAPTOR included in this Budget Manual.

Capital Project Costing:

The costs of capital project/capital sub-project includes all costs directly attributable or incurred to acquire, develop, construct, manage and/or better capital asset.

If the construction/development of a capital asset will involve the use of internal resources, the Program must include justification in the form of a make versus buy assessment including an estimate of the required internal resources.

For more details on the capital project costing and budgeting for use of internal resources please refer to Section E: Supplementary Information – Eligible Project Costs and Policy #FP-CA-101 – "Capital Project Costing, Internal Cost Recovery & Expenditure Reporting" included in Section D of this Budget Manual.

Future Year Cash Flow Commitments:

Expenditures that the City is committing to for multi-year capital projects/sub-projects approved by Council in the current or previous years represent future year cash flow commitments. Council approval of future year cash flow commitments should be recommended by staff for the following purposes:

- Multi-Year Capital Projects - Allows staff to award multi-year capital work in year 1 of construction, committing future year cash flows to the project.

- Unimpeded Operations – Allows staff to tender awards for work that will occur early in the year (subject to financial review) prior to Council's annual approval of the 10-Year Capital Budget and Plan.

When optimized, future year commitments can enable a program to continue operations / awards without committing current year funding for work that will not be completed until the following year, which in turn will replace the need for a capital pre-approval process and also result in improved capital spend rates.

Note 1. All salary and benefit costs directly required to support/develop the capital project must be identified in the business case since these expenditures must be charged to the Operating Budget and recovered from the Capital Budget.