For help accessing information in this document, please contact 311.

NOTE REGARDING NEXT STEPS AND IMPLEMENTATION

This Service Efficiency Study provides advice and recommendations to the City Manager and was conducted in consultation with the Division. The Study identifies actions and directions that could result in more efficient and effective service delivery, organizational and operational arrangements and associated savings.

The City Manager will work closely with senior management to determine which of the actions are feasible and can be implemented, implementation methods and timeframe and estimated savings. In some cases, further study may be required; in other cases the actions may not be deemed feasible. Implementation will be conducted using various methods and may be reported through annual operating budget processes or in a report to Council or an applicable Board, where specific authorities are necessary. In all cases, implementation will comply with collective agreements, human resource policies and legal obligations.

This study involves multiple City divisions and several major agencies. Preliminary estimated savings have been identified in the study by year where possible. The opportunities identified for estimated potential savings are highly dependent on the viability of these actions as determined by senior management, timeframes, and other implementation considerations such as sequenced action steps and phasing over several years.

KPMG

cutting through complexity™

City of Toronto Facilities Management & Real Estate Service Efficiency Study

Final Report

September 15, 2011

This report is subject to the disclaimer in the Table of Contents

Contents

Disclaimer: This report provides a description of the results of an Efficiency Review of the City of Toronto (the City) Facilities Management and Real Estate Services (FM & RE), conducted by KPMG LLP (KPMG). This document has been prepared and is intended solely for the City of Toronto's City Manager's use. It may not be edited, distributed, published, made available or relied on by any other person without the express written permission by KPMG, which will not be unreasonably withheld.

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Executive Summary

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Executive Summary (1/3)

Project Background

Faced with a significant budgetary gap, the City of Toronto has initiated a program of Service Efficiency Studies, covering internal divisions, agencies, boards and commissions. KPMG LLP was engaged to lead a service efficiency study of the Facilities Management and Real Estate (FM & RE) service functions across the City of Toronto.

Terms of Engagement

Our work was conducted from June 30 to September 15, 2011. Our mandate was to identify and supply actionable recommendations that would provide the maximum of service efficiency cost-savings for immediate 2012 impact and for the longer-term beyond 2012. Our scope included the corporate divisions responsible for facilities management and real estate, client divisions from Clusters A and B, and selected agencies, boards and commissions (ABC).

Understanding This Report

The purpose of this report is to outline certain matters that came to our attention during our work on the Facilities Management and Real Estate Services Efficiency Review, as outline above, and to offer our comments and recommendations for the City's consideration. These comments, by their nature, are critical as they relate solely to the opportunities for enhancement and do not address the many positive features of the City's current activities and undertakings.

Our procedures consisted of inquiry, observation, comparison and analysis of City-provided information. In addition, we considered leading practices of other organizations. Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Such work does not constitute an audit. Accordingly, we express no opinion on the potential savings that the City may realize should it decide to implement the recommendations contained in this report. The City is responsible for the decisions to implement any recommendations and for considering their impact. Implementation of these opportunities will require the City to plan and test any changes to ensure that the City will realize satisfactory results.

Executive Summary (2/3)

Summary of Analysis and Findings

Our analysis showed that the City had approximately $250m in 2010 of operating expenses related to facilities and real estate, including salaries, benefits and external services/materials. Of the 1,959 full-time equivalents (FTE) identified as performing facilities related work across the City's divisions and selected ABC's, 812 FTE, about 41%, were located within the corporate areas. Accounting for about 28% of in-scope staff studied, the divisions with the largest facilities related staff complements were: Parks, Forestry and Recreation; Long-Term Care Homes & Services; and Shelter, Support & Housing Administration. Whereas some ABC's make use of the corporate facilities management and real estate services, most do not.

Our findings indicate that the City, as a whole, lacks an overarching strategy and plan for facilities and real estate, suffers from a lack of standards, process effectiveness and visibility regarding space accommodation and work practices, and does not have a comprehensive set of systems of record for the City's portfolio, major projects or preventative maintenance. Because the City has implemented a mixed model of internal staff and external contracted services, the City assumes responsibility for all delivery and administration, but there is little evidence of strategic sourcing, contract management and vendor evaluation processes in place. Client divisions and ABC's are mixed in their level of satisfaction of the corporate facilities function but are generally satisfied with the real estate function.

The City has taken steps to control facilities and real estate services and spending, through measures such as the Facilities Transformation Project and targeted "out-tasking" of selected activities. In the search for efficiencies, the City operates under a number of critical constraints, the most significant being the contracting out provisions in collective agreements.

Many organizations of the scale of the City (in both the private and public sectors, such as the Canadian Federal government, and the provinces of Ontario and British Columbia) have deemed the provision of facilities related services as "non-core", have significantly reduced their direct service responsibilities and portfolio ownership profile as a result, and have thus reduced ongoing costs.

Executive Summary (3/3)

In the study, KPMG has identified four opportunity areas, with increasing savings potential for each:

- **Process Improvement** – Where the corporate function provides services, administrative processes are highly manual and not standardized. Through automation of invoicing and work order management, there is an opportunity estimated to save $0.7m annually. At a high level, these savings represent an accumulation of time reductions resulting in a potential reduction of 8 FTEs. Additionally, there are opportunities for further aggregation of facilities related spending, due to the administrative overhead related to managing a large number of vendors.
- **Shared Services** – Current consolidation efforts could be reoriented to a true shared services model, one that separates policy and governance from the service delivery organization, thus allowing it to concentrate on effective and efficient service delivery. In the development of a city-wide FM & RE staff model, staff were categorized based on the nature of the work being performed and the degree of management responsibility exercised. Our analysis showed that management level and support positions could be reduced across the City, resulting in estimated annual savings ranging from $2.6m to $4.9m.
- **Outsourcing** – By considering many facilities related activities as non-core, the City could leverage readily available private sector facilities and project management services. Using the FM & RE staff model, we assessed specific functions with the potential for outsourcing and developed a number of savings scenarios based on KPMG's industry experience and Canadian public sector case studies. Because an outsourcing initiative of this size is attractive to potential service providers, the City could save 10-15% on its operating expenses, estimated to be $8.8m to $26m savings annually.
- **Portfolio Optimization** – Significant value can be derived from portfolio optimization, both for the City itself and within a broader economic development mandate – as an example, we propose an opportunity to consolidate externally leased office space, with estimated savings that range from $1.4m to $4.1m annually. However, a full assessment of the property portfolio was beyond the assigned scope of the study.

For each of these opportunity areas, KPMG has included a proposed timetable of potential transition activities.

Going forward, we recommend that the City commence the development of a longer-term portfolio strategy and plan, and consider the outsourcing of non-core facilities related operational activities, as other major Canadian public sector jurisdictions have done in the past 10 years.

Objectives and Approach

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

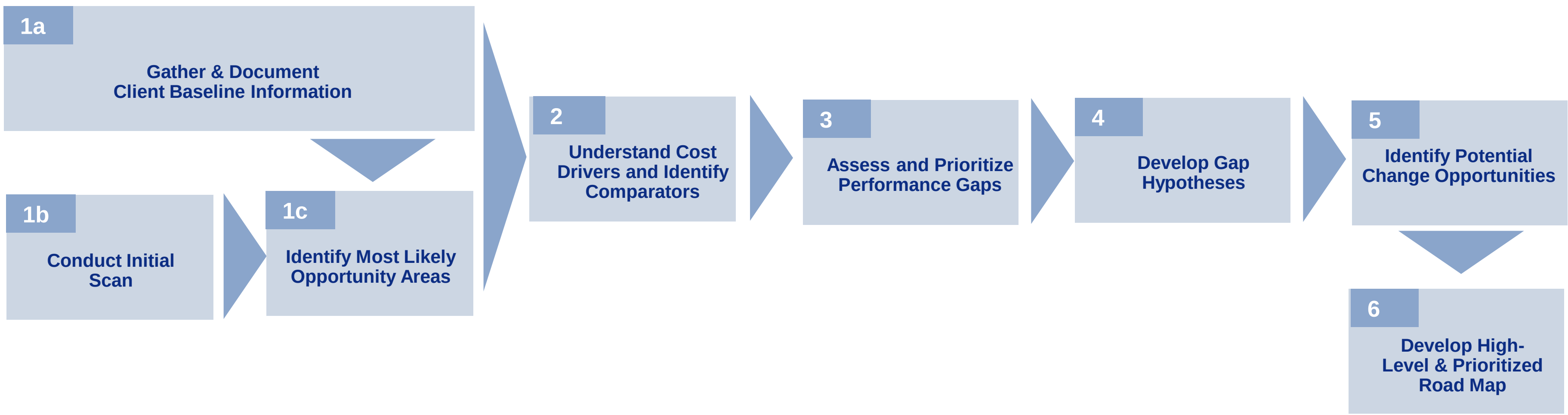
Project Objectives & Scope

- The City of Toronto has begun a program of Service Efficiency Studies. Several areas have been identified for review during 2011 including the functions of **facilities management and real estate services**.
- The purpose of the Service Efficiency Studies is to identify and supply actionable recommendations that will provide the maximum of service efficiency savings in the shortest period of time.
- Working with City staff, KPMG
  - i. Confirmed Focus Areas and Methodology
  - ii. Assessed Service Efficiency
  - iii. Identified and Recommended Efficiency Opportunities
  - iv. Developed an Implementation Scenario

In Scope	Out of Scope
• Facilities Management Division: Design, Construction, & Asset Preservation (DCAP), Facilities Operations, and Facilities Services • Real Estate Services • All facilities management and real estate activities performed by City of Toronto divisions & selected agencies, boards, and commissions (ABCs)	• Facilities Management Division: Energy & Strategic Initiatives (except where providing FM & RE activities)

Approach

We adapted our KPMG Cost Optimization methodology for the City of Toronto:



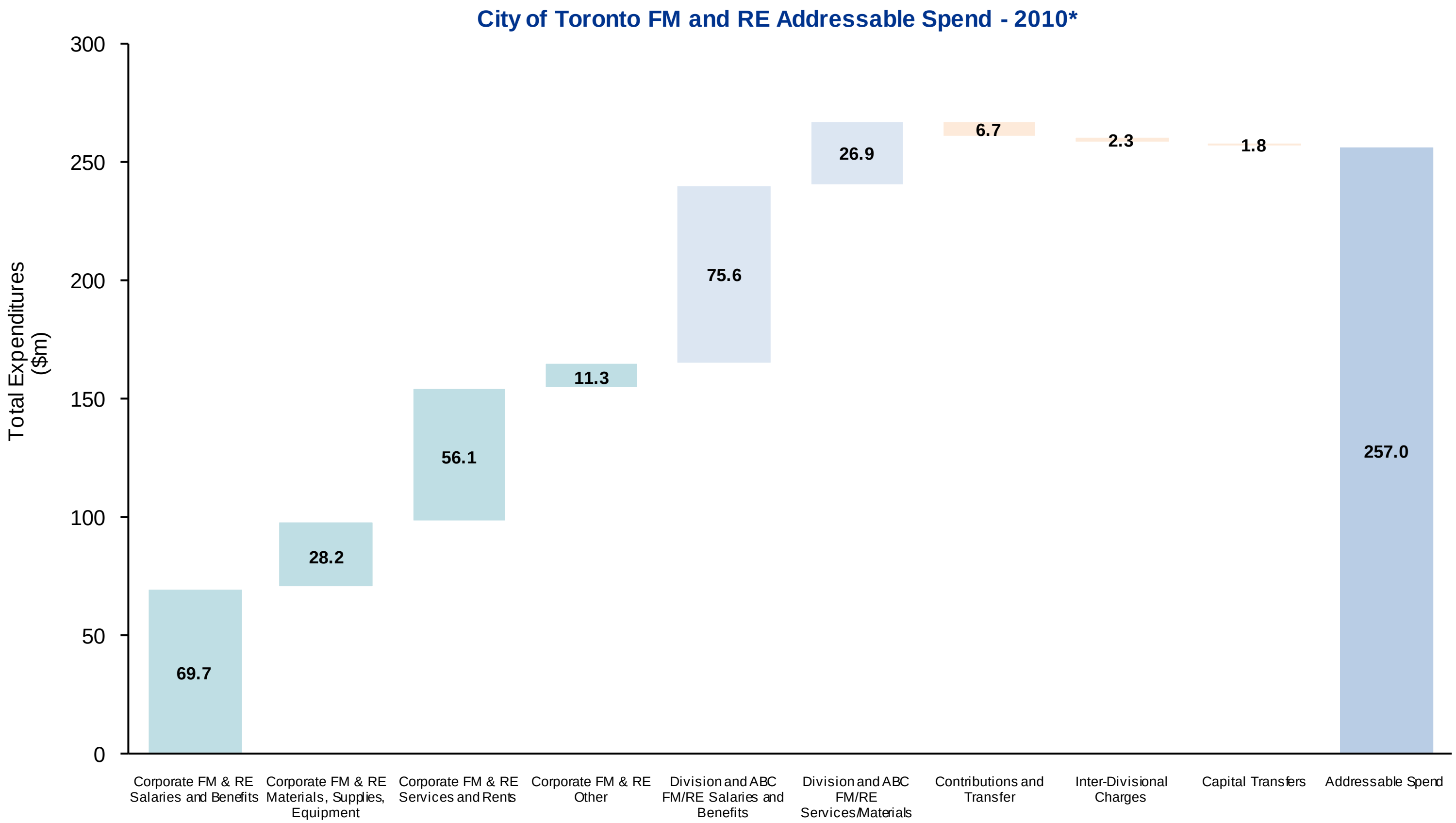
We consulted widely with internal divisions and selected ABC's by:

- Conducting 55 interviews (CFO, CCO, Corporate FM & RE management, plus division and ABC FM & RE leads), plus 2 briefings to management
- Collecting financial/procurement/HR data from divisions and ABCs
- Compiling leading practice information and gathered outsourcing case studies

Our Findings

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Addressable Spend



- *Addressable Spend is defined as direct FM and RE related costs that can be impacted through efficiency and effectiveness measures.
- 40%, $103m, of the FM and RE addressable spend resides outside of the corporate FM & RE budget
- Salaries and benefits account for 57%, $145m, of the addressable spend

Source: City of Toronto – FM & RE, Division, and Agency financial reports

Division and ABC FM & RE Operating Expenditures – 2010

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Division & Agency Costs related to FM and RE Activities (not included in Corporate FM & RE Budget)	Division & Agency FM & RE related Compensation ($'000)	Division & Agency FM & RE related Procurement ($'000)	Total Divisional & Agency FM & RE Spend ($'000)
Parks, Forestry & Recreation	$19,603	$3,983	$23,586
Toronto Transit Commission	$16,162	$1,258	$17,419
Long-Term Care Homes & Services	$9,956	$1,759	$11,715
Toronto Public Library	$6,000	$4,476	$10,475
Toronto Parking Authority	$1,522	$6,414	$7,935
Toronto Zoo	$4,047	$1,374	$5,420
Shelter, Support & Housing Admin.	$3,852	$637	$4,489
Exhibition Place	$3,775	$614	$4,389
Children's Services	$1,766	$1,145	$2,911
Economic Development & Culture	$1,534	$679	$2,213
Emergency Medical Service	$1,877	$224	$2,101
Toronto Police Services	$944	$1,100	$2,044
Solid Waste Mgmt. Services	$1,713	$325	$2,038
Toronto Water	$160	$1,489	$1,649
Theatres	$1,361	$251	$1,612
Transportation Services	$568	$213	$781
Toronto Public Health	$494	$208	$702
Employment & Social Services	$156	$340	$495
Fire Services	$56	$412	$468
Court Services	$51	$11	$62
Social Development, Finance & Admin.	$0	$6	$6
Totals	**$75,595**	**$26,916**	**$102,510**

- Parks, Forestry & Recreation, TTC, Long-Term Care Homes and Services, and the Toronto Public Library account for 63% of the FM & RE spend outside of the corporate budget

Source: City of Toronto – Purchasing and Materials Management reports, Division and Agency reports and interviews .

FTE Analysis – City Wide

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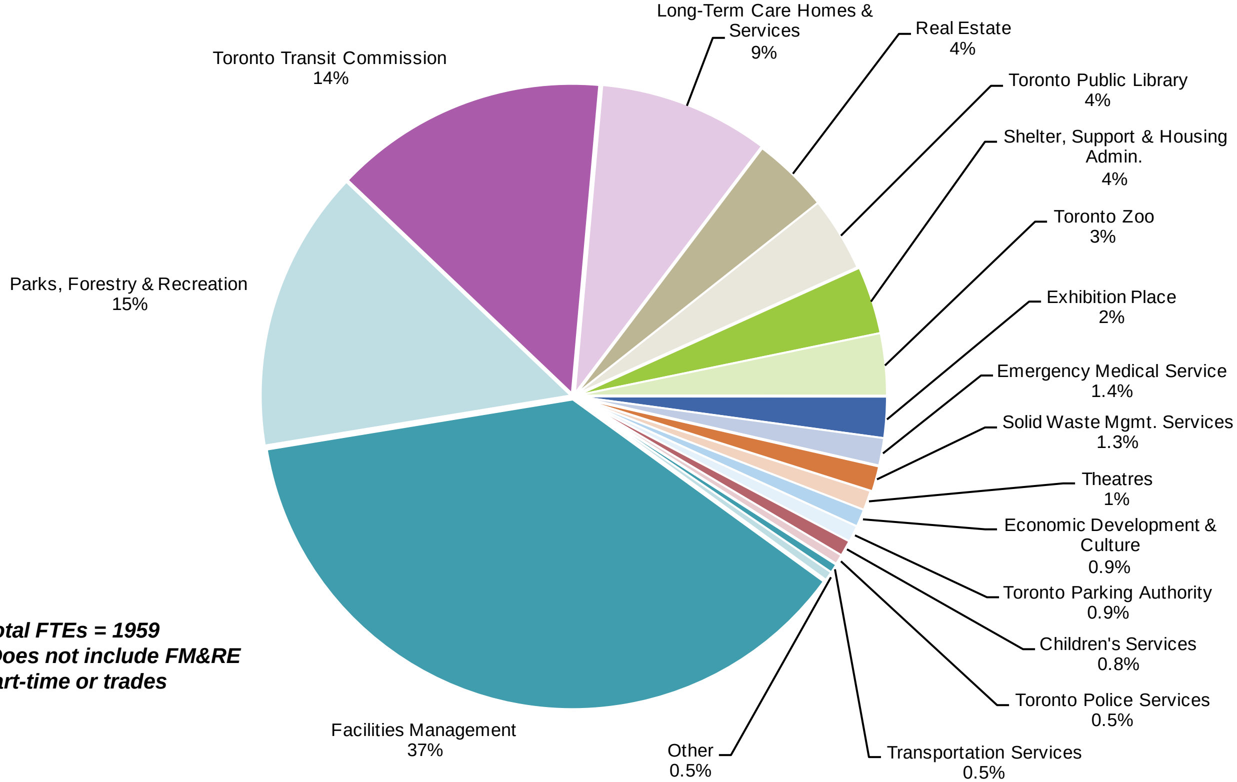
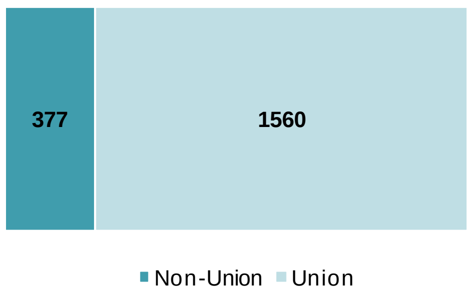
Distribution of Direct Labour (FTEs) for Facilities Managment and Real Estate Services



Total FTEs = 1959
****Does not include FM&RE part-time or trades***

Union/Non-Union Affiliation



****no affiliation available for 23 staff***

- Less than half of city staff delivering Facilities Management and Real Estate services reside within the corporate group
- 81% of FM & RE related staff are affiliated with unions

Source: City of Toronto – FM & RE, Division and Agency reports and interviews, KPMG Analysis

FTE Analysis - Corporate

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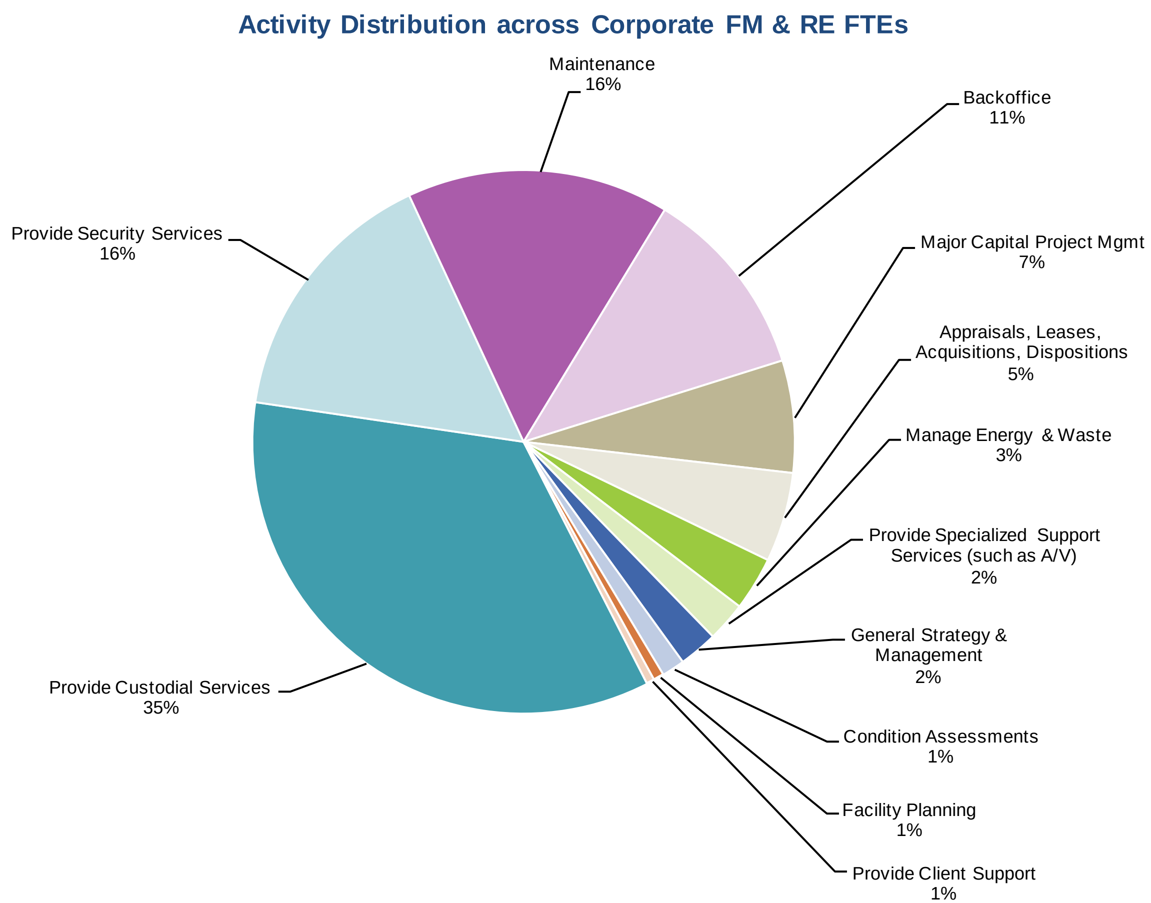

Total FTEs = 812
****Does not include FM&RE part-time or trades***

- 67% of Corporate FM and RE staff deliver custodial, security or general maintenance services

Source: City of Toronto – FM & RE reports and interviews, KPMG Analysis

FTE Analysis – Divisions and Agencies

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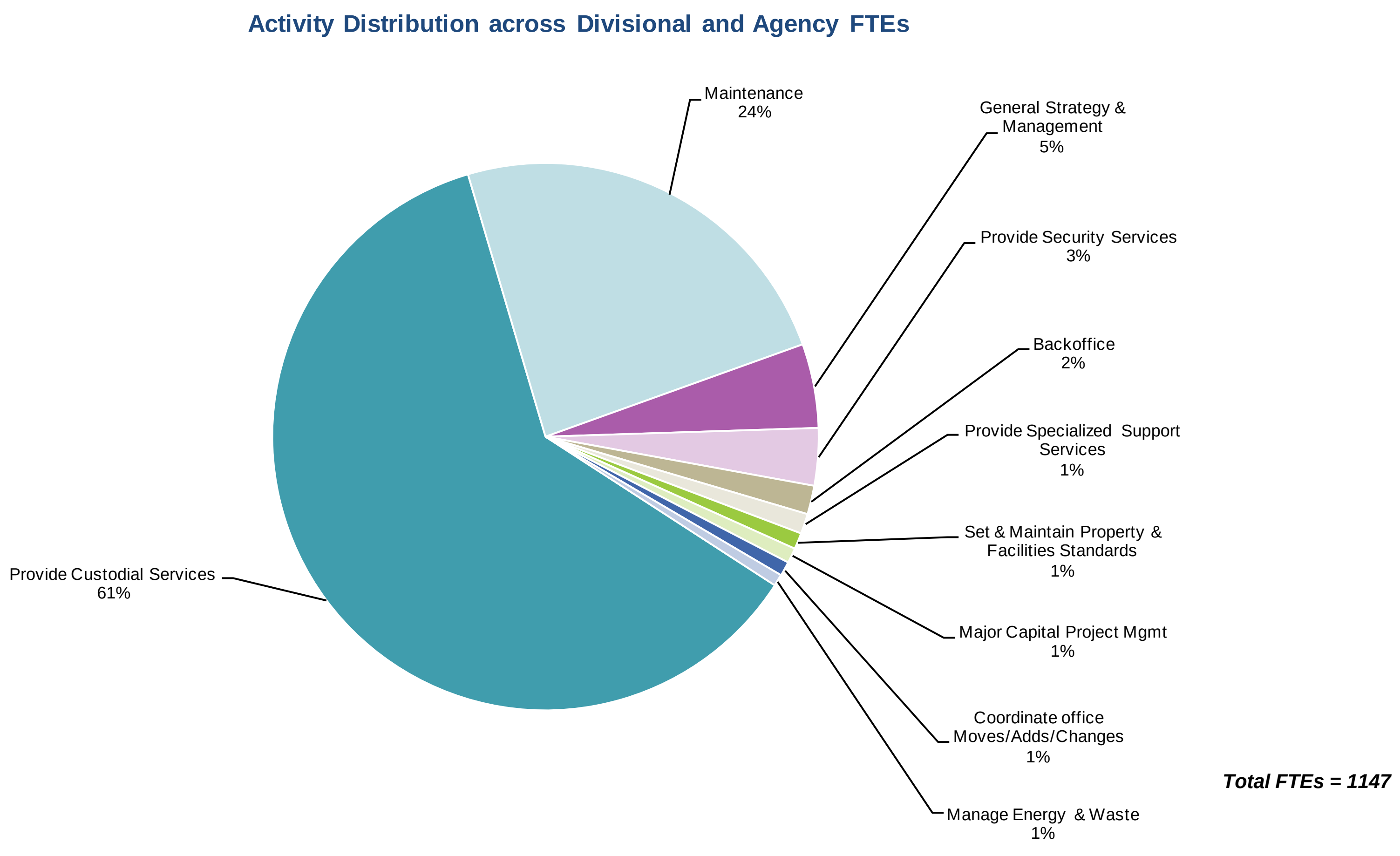
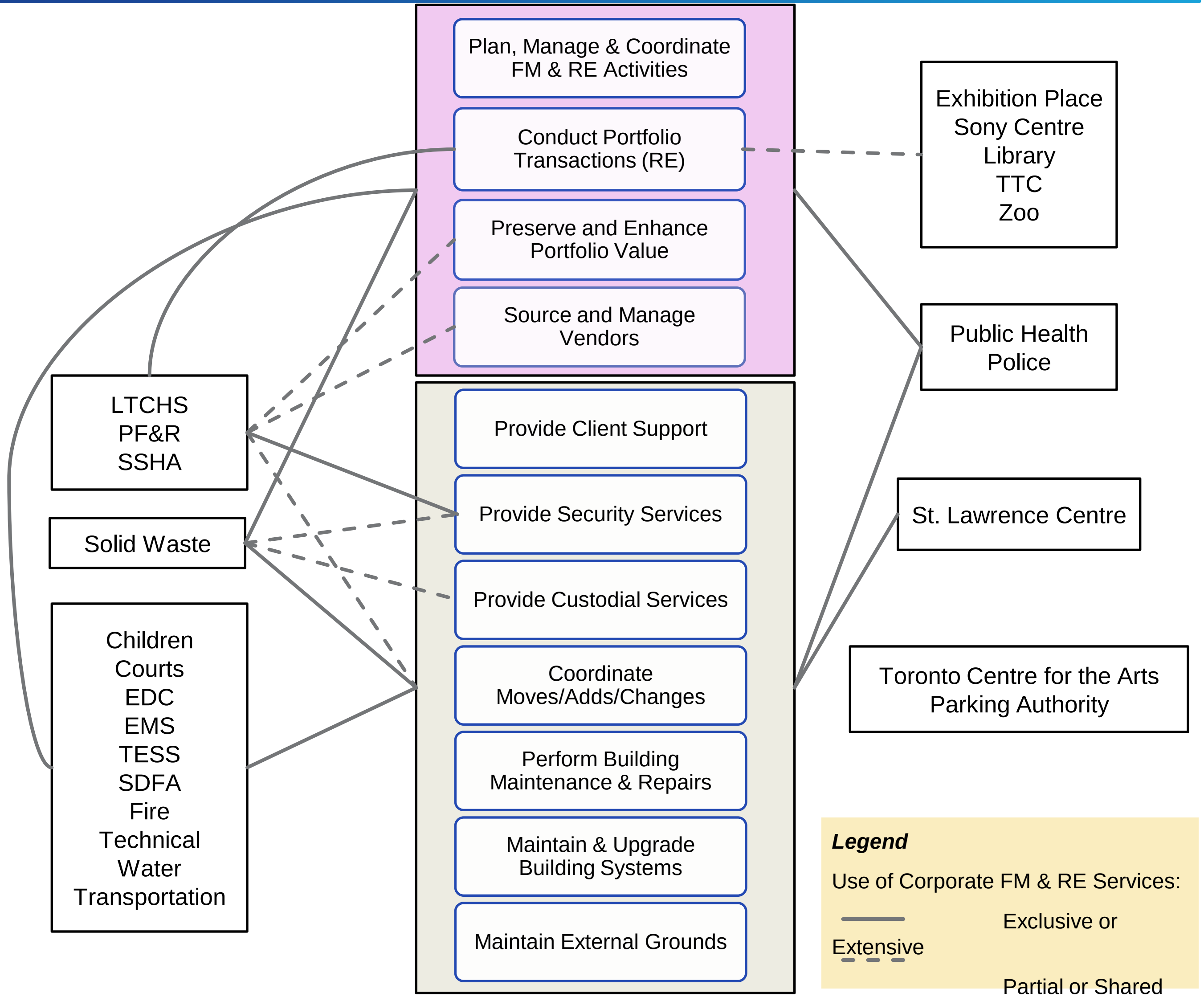


- The majority of staff, 61%, performing FM & RE activities in Divisions and Agencies deliver custodial or maintenance services

Source: City of Toronto –Division and Agency reports and interviews, KPMG Analysis

We interviewed all divisions and selected ABCs to understand the current operating model

- Most divisions, as well as Public Health and Police, make extensive use of Corporate FM & RE, except:
  - LTCHS, PF&R and SSHA use RE and Security services, and have significant numbers of staff in Operations
  - Solid Waste has some custodial and "watchmen"
- Other ABCs tend to use RE services, and are self-sufficient for Operations, except:
  - St. Lawrence Centre uses Operations services



Matrix of FM & RE Responsibilities across the City

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Yellow = Significant In-House FM Staff

Green = ABC use of Corp FM & RE

	Strategy									Management														Operations								
							Develop & Report on Plans & Budgets					Conduct Portfolio Transactions				Preserve & Enhance Portfolio Value (mostly Project Mgmt of Design & Construction)																
Division/ABC	Develop Strategy/Policy	Manage Portfolio & Occupancy	Set & Maintain Property & Facilities Standards	Develop & Monitor Client Service Level Agreements	Report Performance	Innovate and Improve	SOGR	CAPITAL	OPERATIONAL	Plan, Manage & Coordinate FM & RE Activities	Manage Client Relationships	Appraisals	Leases	Acquisitions / Easements	Dispositions	Major Capital Project Mgmt	Small Project Management	Facility Planning	Condition Assessments	Manage Energy & Waste	Source & Manage Vendors	Manage Work Orders & Chargebacks	Provide Back-Office Support (Admin, F&A, Payroll, IT)	Provide Client Support	Provide Security Services	Provide Custodial Services	Coordinate office Moves/Adds/Changes	Perform General Building Maintenance & Repairs	Perform Specialized Building Maintenance & Repairs	Maintain and Upgrade Building Systems (incl. elevators)	Maintain External Grounds (Year-Round)	Provide Specialized Support Services (such as A/V)
Cluster A																																
Children's Services		I C	I C				I	I	I	I		C	C	C	C	C I	C I	C I	O		I C	I C		I C	C	C	O C	O C	O C	O C	O C	
Court Services		I C	I C				I	I	I	C		C	C	C	C	C	C	C I	C		C	C		I C	C	C	C	C	C	C	C	
Economic Development & Culture		I C	I C				I	I	I	C		C	C	C	C	O C	C	C I	O C		C	C		C	C	C	C	C	C	C	C	
Emergency Medical Service							C	I C	I	C I			C	C		C I	C	C I	C		C I	C I		I C	C	I	C	C	O	O		
Employment & Social Services		I C	I C				C	C	I	C		C	C	C	C	I C	C	C I	C		C	C		C	C	C	C	C	C	C	C	
Long-Term Care Homes & Services		I	I				I	I	I	I				C	C	I	I	M	?		I	I		I	C	I	I	M	M	O	?	
Parks, Forestry & Recreation		I	I				I C	I C	I	I C		C	I C	C	C	I C	I C	I C	I C		I C	I C		I C	C	M C	I C	M C	M	M C	M C	
Shelter, Support & Housing Admin.		I C	I				I C	I C	I	I		C	C	C	C	C	O C	C I	C	C	I C	I C		I C	M C	M C	M C	M C	M C	M C	M C	
Social Development, Finance & Admin.							C	C	I	C			C I			C I	C	C	C		C	C		C	C	C	C	C	C	C	C	
Cluster B																																
Fire Services		I C	I C				C	C	I	I C			C	I C	C	C	C	I C	C		I C	C		C	C	I	C M	C	O C	C	O	
Solid Waste Mgmt. Services		I					I	I	I	I			C			I C	I C	I C	O		I	I		I	C	I	I	M	M	O C	O	
Technical Services							I	I	I					C				C						C	C	C	C	C	M C	M C	M	
Toronto Water		I C	I C				I	I	I	I C		C	C	C I	C	I* C	I C	C I	I C		I C	I C		I C	C	I C	I C	I C	I	I C	I C	
Transportation Services							I	I	I	C		C	C	C	C	I* C	I C	C I	C	C	I C	C			C	C	I C	C	C	C	I	
Facilities Management & Real Estate	I	I	I	I	I	I	I	I	I	I		M	I	M	M	M	M	I	O	I	I	I	I	I	M	M	I	M	O	M	M	I
ABC's (selected scope)																																
Build Toronto	I	I	I												M																	
Exhibition Place		I	I	I			I	I	I	I		C	I	C	C	O	O	O	O		I	I		I	I	I	I	I	O	M	I	I
Public Health		I C	I C				C	C	I	I C		C	C	C	C	C	C	C	C		I C	C		I C	C	C	I C	C	C	C	C	
Sony Centre		I	I				I	I	I	I		C				O	O	I	O		I	I		I	M	I		I	O	M	I	I
St. Lawrence Centre	I	I	I				I	I	I	I						O	O	I	O		I	C		C	?	C	C	C	C	C	C	I
Toronto Centre for the Arts	I	I	I				I	I	I	I						O	O	I	O		I	I		I	?	I	I	M	O	O	I	I
Toronto Parking Authority	I	I	I				I	I	I	M		O	I	O	O	O	O	I	O		I	O		O	O	O	O	O	O	O	O	
Toronto Police Services		I	I C				I	I	I	I C		C	C	C	C	C	C	C I	O		I C	I C		I C	I	C	I C	C	C	C O	C	I
Toronto Public Library	I	I	I				I	I	I	I			I C	I C	C	O	O	M	O		I	I		I	O	O	I	M	M	O	O	I
Toronto Transit Commission		I	I				I	I	I	I			I	C	C	O	O	?	?		I C	I		I	?	I	I	I	M	M	I -> O	
Toronto Zoo		I	I				I	I	I	I			I C			M	M	M	M		I	I		I	I	I	I	M	M	O	I	I

C = Utilizes Corporate FM & RE I = In-House Staff O = Out-Tasked M = Mixed Model

Source: City of Toronto – FM & RE, Division and Agency interviews, KPMG Analysis

Using the Reference Model as a base, we observed a variety of issues and opportunities for change

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Strategy

- A single cross-organization FM & RE strategy is not followed nor has been defined
- No single, comprehensive system of record for City's portfolio that facilitates property level analysis e.g. matching occupancy, locations and cost
- Services are currently defined from provider perspective vs. client
- Uncommon grouping of responsibilities in some areas (e.g. space allocations standards under Energy, Finance in same group as custodial services, Leasing and Site Management includes tax revenue team)
- Potential for optimizing costs of leasing external space and revenue from property leased to 3rd parties by the City
- Extensive security access data can be used in occupancy planning
- No benchmarking to public or private sector

Management

- FM & RE types of activities exist in many divisions and agencies
- Clients have multiple contact points within FM & RE
- Parts of FM organization segmented by geography – potentially underutilized resources and excess management
- No use of industry standard cost code categories that can be used for cost analysis
- Extensive use of blanket purchase agreements for external vendors – clients are issuing and managing individual contracts
- Lack of overall vendor/contract management and evaluation processes in place
- Non-standard industry contracts used for construction projects
- Spreadsheets used as the primary tool to manage Design and Construction projects

Operations

- Custodial, Security, & Maintenance services has a mix model of internal staff and external contracted staff – requires City to assume responsibility for all delivery and administration
- Key processes are paper-based and highly manual such as IDC
- Moves tracked using a separate system from service/work orders within DCAP
- Custodial requests not tracked in work order system
- Little evidence of work order status and closure communications - no leverage of work order system to facilitate this
- Many resources organized by district e.g. dedicated district clerk for maintenance calls
- Building maintenance is mostly reactive vs. preventative (no preventative maintenance system is in use) – which may lead to higher costs

We subsequently concentrated our analysis on these areas of focus

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Focus Area	Description	Analysis
Outsourcing	Investigate the opportunity to fully outsource services including but not limited to: custodial services, security services, maintenance services (facilities and building systems), ‘moves’, and project management of smaller projects.	• Conducted Interviews with in-scope divisions & ABC’s, and collected high-level FTE information • Received 2010 accounting for FM & RE • Collected FTE data from divisions • Constructed base FTE model on which to build outsourcing and shared service scenarios • Conducted analysis
Organizational Effectiveness	Investigate the opportunity to establish an FM & RE shared services organization, improve spans & layers and realign work groups. Evaluate service delivery methods to improve customer service and satisfaction, and assess information management opportunities.	
Workflow Automation	Investigate the opportunity to automate the work order process from work order request to inter-divisional chargeback. This will include evaluating process improvements related to how chargebacks are calculated and process administration and management.	• Interviewed district managers • Received work order and chargeback data • Assessed efficiency opportunity
Procurement	Investigate the opportunity to reduce FM’s overall spend through improved procurement methods and processes, such as strategic sourcing, aggregating purchases, and industry-standard specifications.	• Collected blanket contract, PO and DPO data for facilities related spend • Added procurement data to base model • Conducted analysis
City as a Lessee	Investigate the opportunity to reduce the number of City leased properties and repatriate workspaces to City owned properties.	• Received leasing information • Conducted review meeting with Leasing Manager • Assessed opportunity
Major Project Tools	Investigate the opportunity to provide Project Managers of major projects with more robust PM tools and training.	• Considered risk and cost avoidance opportunity within primary options • Conducted analysis
Process Efficiency (Maintenance)	Investigate the opportunity to increase standardization of methods and tools across districts, improve productivity of maintenance services, and streamline processes for small projects and transactions.	• Interviewed district managers • Received process information • Assessed efficiency opportunity

We found that the City operates with significant limitations and constraints

- **Lack of Standardized Data and Systems:** The City lacks detailed facilities and real estate data in standard industry cost categories which impair effective strategic decision-making and day-to-day management related to space optimization and cost reduction. The city also does not use comprehensive FM & RE systems which affects its ability to effectively gather and analyze data as well as monitor and control of facilities.
- **Restrictive Collective Agreement:** Initiatives to date tend to follow a “ring-fence” approach of geographically consolidating full-time positions, eliminating part-time or temporary positions, and contracting out what remains – this is due to current collective bargaining provisions that limit contracting out:
  - *No permanent employees with 10 years seniority shall lose employment as a result of contracting out or privatization* (2000)
  - *There shall be no contracting out of work that results directly or indirectly in the layoff or loss of employment of permanent employees* (2005)
- **Fair Wage Policy:** In addition (but to lesser extent than the contracting out provisions), the City’s fair wage policy for procuring Provincial Trade labour services – as required by legislation – may impact potential out-tasking savings

Our Findings

Understanding these constraints, the City has pursued some lower complexity approaches for cost savings

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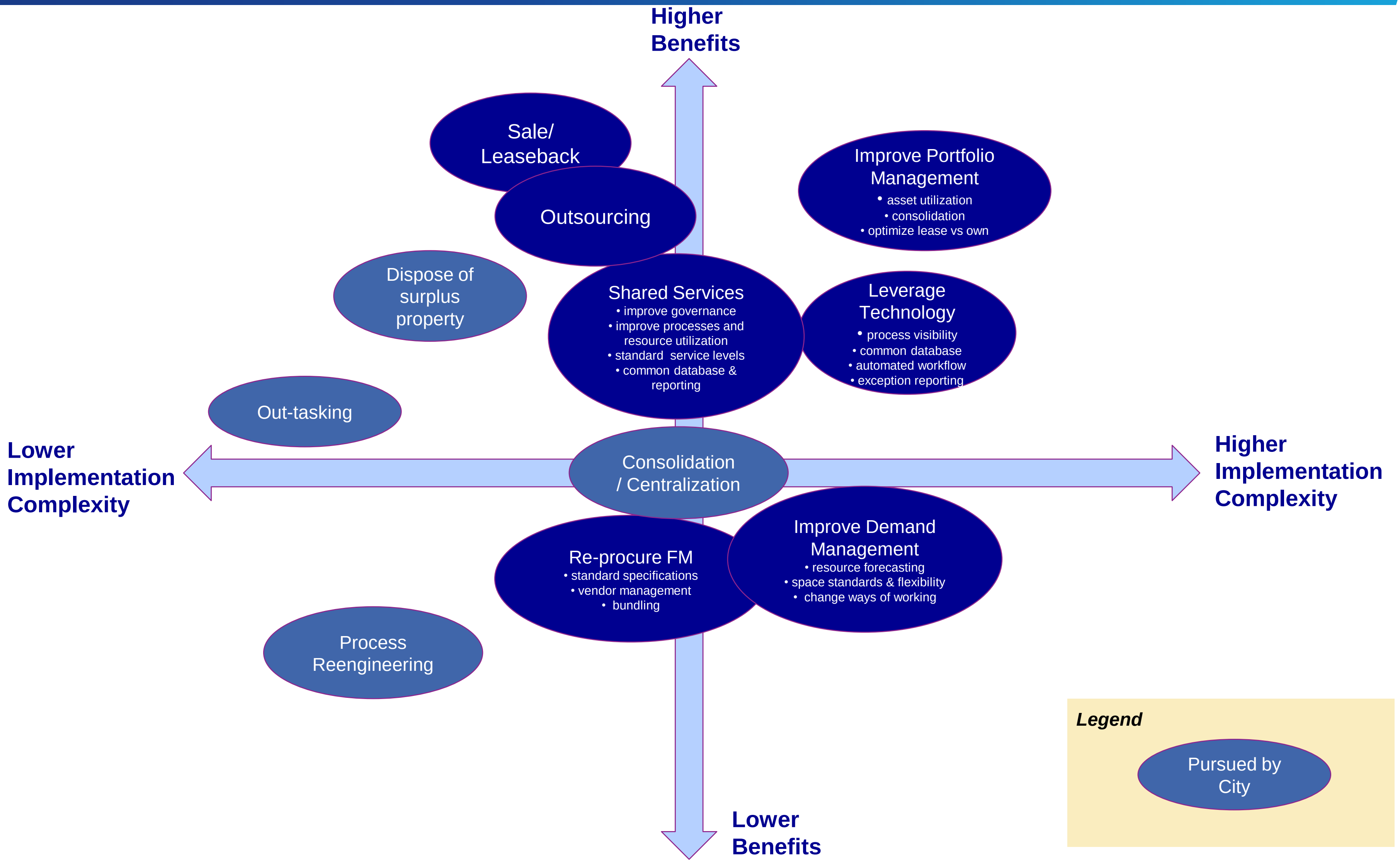
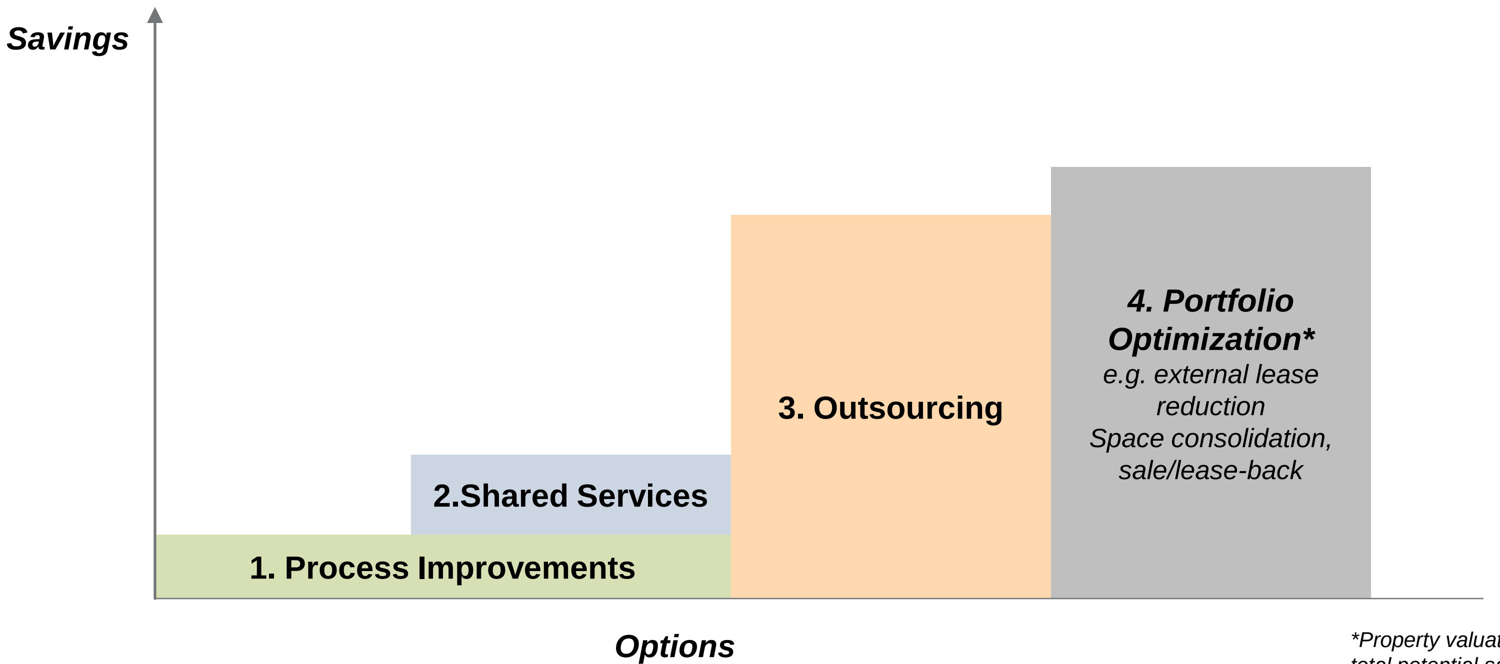


Overview of Opportunities

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Opportunities for the City of Toronto

- Our analysis revealed commonalities in potential opportunities across the seven areas of focus
- Consequently, we distilled the opportunities into four primary areas for the City of Toronto to improve the efficiency and effectiveness of the FM and RE groups
- The opportunities range from internal process improvements to significant operating model changes that require the City to change its approach to provision of accommodation and operation of the FM function



Property valuations required to assess total potential savings for this option – this was not in-scope of this study

Option #1 Process Improvements

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Opportunity Summary and Findings

Opportunity Summary:

Administrative processes for Facilities Management across the city are highly manual and are not standardized. There is an opportunity to reduce costs associated with administrative processes by:

- Automating much of the internal client invoice/chargeback process by generating invoices in SAP
- Increasing level of automation in work order management, e.g. wireless solution to reduce supervisor desk time and increase time for contractor work oversight
- Aggregating facilities management spend to reduce the number of vendors and obtain better discounts for materials and services

Overall Annual Estimated Savings: $740k with one-time costs of $700k-$2.3m

Findings

Work order Management

- Approximately 25,000 work orders generated last year
- Managing work orders involves district supervisors, (40%) and district admins, (20%)
- Work order management and administration, although initiated in SAP, is mainly paper based and consumes a significant amount of time of district supervisors. The current process has limited the amount of time supervisors can spend overseeing the $30m+ of external contractor work.
- Current approach to managing work orders requires significant amount of manual time tracking and work detail entry

Source for work order data: City of Toronto – FM & RE interviews

Findings

Findings (cont'd)

Work order Management

- Each district works autonomously and has its own administrative staff that generate work orders, DPO numbers, monthly invoicing reports and perform general admin
- Supervisors typically manage work orders using work order print-outs and non-standardized coding
- Supervisors spend significant time doing work order administration limiting on-site contractor oversight
- In many cases, completed contractor work is not inspected due to time constraints
- FM management have begun investigating tablet solution to address some issues with managing work orders

Invoicing

- Approximately 2000 invoices generated last year
- Facilities Management produce detailed invoices for internal clients on a regular basis. Administration of these inter-department invoices require a significant amount of data entry, invoice formatting, manual approvals and multiple reviews. This process involves staff from across all districts and a team within the corporate unit.
- 7 to 10 different invoice formats are used depending on client requests
- Invoice generation involves district teams, 5 admins (10%) and 5 managers (5%) , corporate team, 5 Budget Analysts (30%) and 1 AR Clerk (100%)

Source for invoice data: City of Toronto – FM & RE interviews

Findings (cont'd)

Invoicing

- Current approach to invoicing requires significant of manual invoice formatting , multiple reviews and non-automated confirmation
- Separate software program used to generate invoices, track approvals and generate journal entries to update SAP system
- System requires manual data entry for each invoice upon receipt of approval from client

Procurement

- Approximately $36.5m external FM & RE related spend was identified.
  - Corporate: $9.6m
  - Divisions : $11.2m
  - Agencies : $15.7m
- Over 1000 vendors were identified providing custodial services, security services, maintenance services, building systems services and materials
- Within each category, typically 90% of the spend is spent with less than 20% of the category vendors

Source for procurement data: City of Toronto – Purchasing and Materials Management reports, KPMG Analysis

Leading Practices

- **Work Order Management**
  - Highly leveraging technology to minimize the cost associated with administration of facilities management services
  - Performance tracking through detailed data collection to identify service/cost improvement opportunities, and assessing against industry benchmarks
  - Standardization of common processes
  - Understanding and addressing drivers of work order activities (such as older buildings and client moves)
- **Internal Chargebacks and Invoicing**
  - Highly leveraging technology to minimize the cost associated with invoice creation, processing, tracking and approvals
  - Standardization of invoice formats
  - Assess impact effectiveness on client behaviour of chargeback system – need to balance against cost and effort
- **Procurement**
  - Consolidation of spend across similar procurement categories to obtain better discounts and volume pricing
  - Vendor rationalization to reduce overall costs associated with vendor management, invoice processing and invoice payments

Savings Opportunity

Savings can be achieved by:

- Automating much of the internal client invoice/chargeback process by generating invoices in SAP
- Increasing level of automation in work order management, e.g. wireless solution to reduce supervisor desk time and increase time for contractor work oversight
- Aggregating facilities management spend to reduce the number of vendors and obtain better discounts for materials and services

Savings Estimate:

1) Automate invoice process

Reconfigure SAP to generate invoices for internal clients. Retire existing external software system.

- Invoicing: 2.5 FTEs = 5 Analysts @ 30%, 1 AR Clerk @100%
- Invoicing: 80% reduction in time
- Gross Savings estimate of 2 FTEs or $150k

Technology Costs:

- Configuration of SAP: $200-$300k (estimate)
- On-going license fees: $10k (estimate)

– **Net Annual Savings:** **$140k per year**

– **Payback:** **1.3-2 years**

Savings Opportunity

Savings Estimate (cont'd)

2) Automate work order management process

Deploy a wireless solution to reduce manual effort and increase data collection

- Work Order Management: 8 FTEs = 18 Supervisors (@40%) and 5 admins @ 20%
- Work Order Mgmt: 50% reduction in time
- Savings estimate of 6 FTEs or $0.5m

Technology Costs:

- Initial Hardware/Software: $500k-$2m (estimate)
- Ongoing fees: $50k (estimate)

– **Net Annual Savings: $450k per year**
– **Payback: 2.2 – 4.4 years**

3) Aggregate Spend and Vendor Rationalization

Group common spend and reduce total number of vendors

- Value of spend with bottom 80% of vendors : $3.6m
- Industry average savings due to spend aggregation : 3-5%
- **Spend Aggregation Savings: 4% of 3.6m = $150k**

Option #1: Process Improvements
Risks

- Requires new technology adoption and re-configuration of existing SAP system
- Will require clients and staff to be trained on new technology
- Vendors that provide limited, specialized services may be required and savings may not be obtainable
- Procurement across Divisions and Agencies will require a higher level of co-ordination

Option #1: Process Improvements

Implementation Plan – Automate Invoicing

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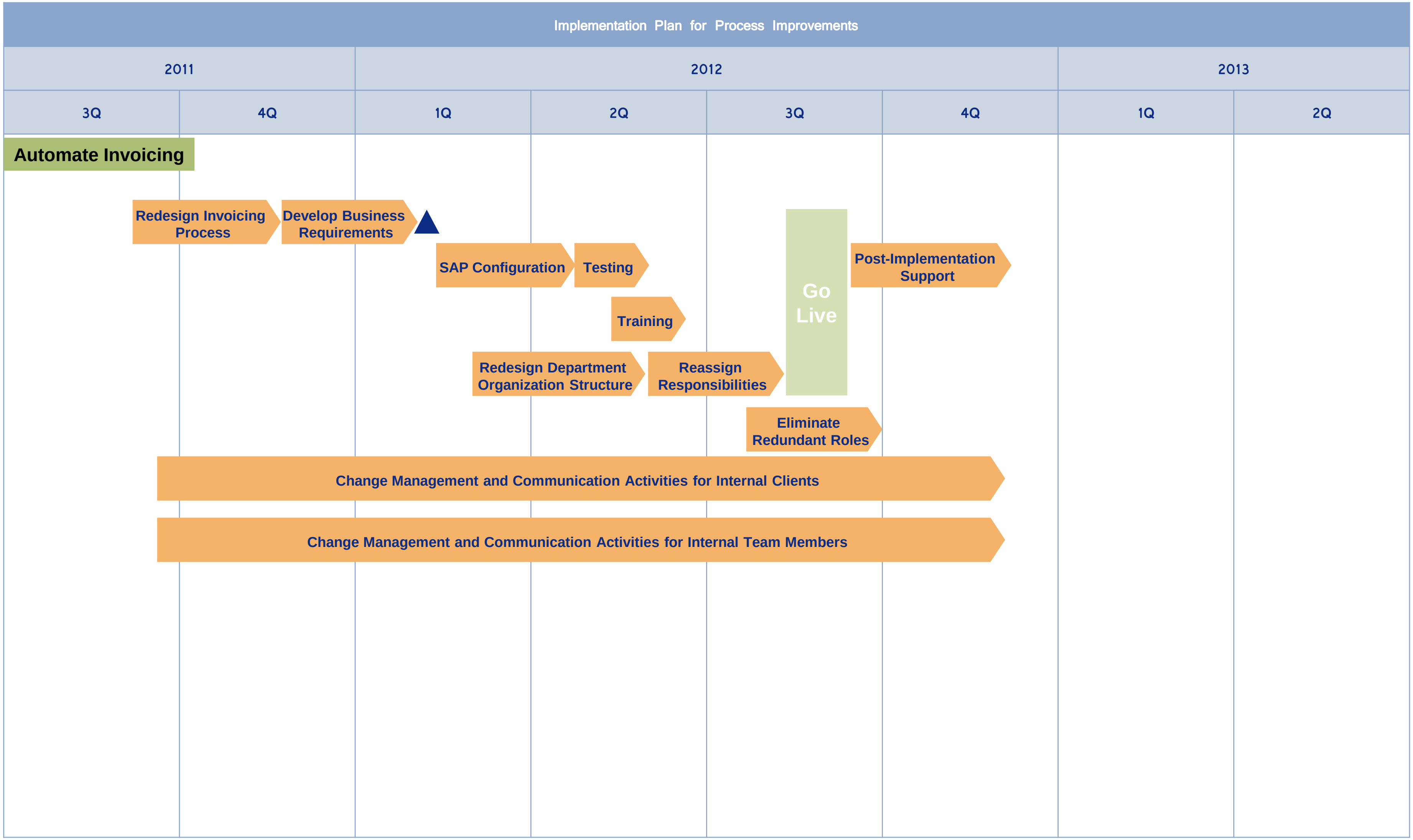

Option #1: Process Improvements

Implementation Plan – Work Order Management

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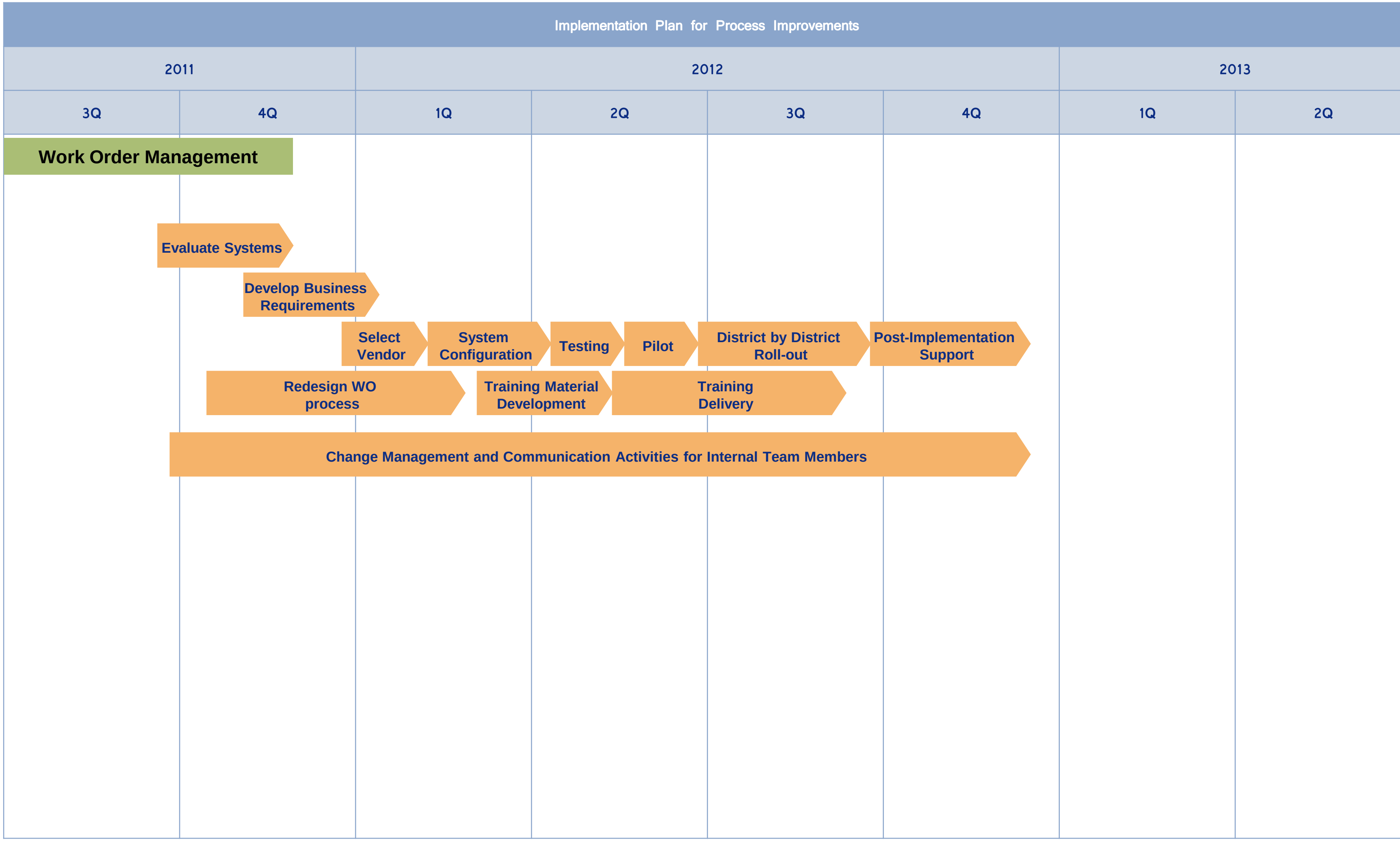

Option #1: Process Improvements

Implementation Plan – Procurement

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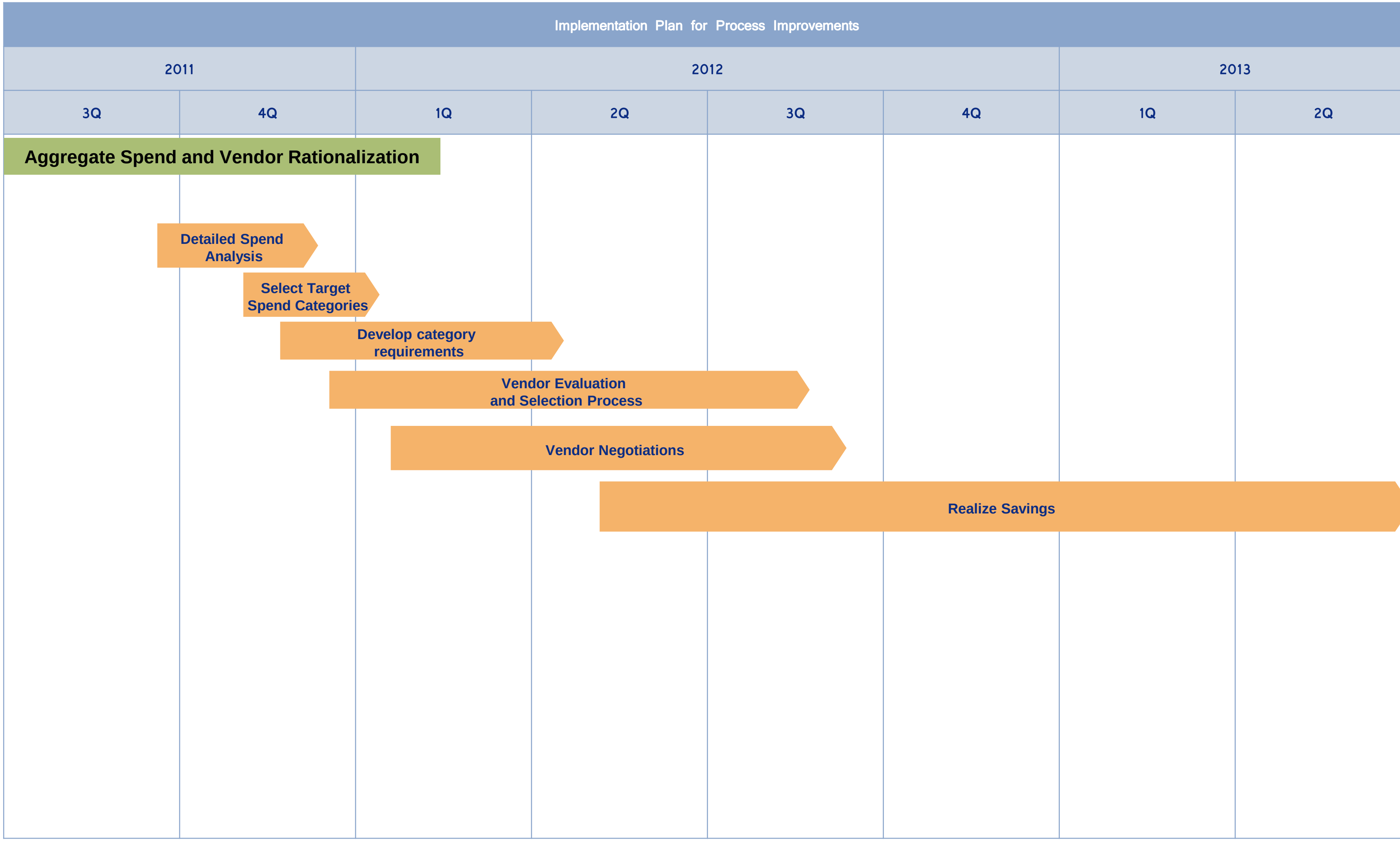

Option #2
Shared Services

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Opportunity Summary and Findings

Opportunity Summary:

Staff performing facilities management activities are distributed across the City. There is an opportunity to reduce costs associated with this hybrid structure by:

- Combining these staff into one centrally managed organization
- Reducing the level(s) of management required
- Standardizing service levels and processes
- Improving processes

In effect, we are proposing a revision to the operating model for facilities management and real estate envisioned as part of the Facilities Transformation Project (see sidebar), but guided by the principles and leading practices associated with shared services organizations (see next slide).

Facilities Transformation Project

The Facilities Transformation Project (FTP) was conceived to establish a common approach to facilities management for City-owned facilities and to implement the revised Corporate Security framework – the main goals of the project include:

- New governance model and organizational structure with clearly defined roles, accountabilities and responsibilities for facilities management
- Improved and responsive client service delivery model, adaptable to changing client needs
- Consistent application of improved facility management standards
- Improved monitoring and controlling of facility operations, maintenance costs and contracted services
- Consolidation of capital and operating budgets, within City-wide priority setting

Revising the FM & RE Operating Model

To establish a "true" shared services organization, the underlying principles for a new operating model should include:

- Consider the full range of facilities management and real estate services as an integrated set, and operate under a comprehensive city-wide strategic plan
- Delineate transactional (operational) from advisory (management) services
- Account for costs by service types (and charge-back where required), and regularly update cost models
- Define the scope of core facility-type services versus program-specific facility services
- Set service level standards, from a client perspective based on industry standards, and regularly monitor/report service quality and customer satisfaction, leading remedial action where warranted
- Separate policy, governance and budget control from the service delivery organization, thus allowing it to concentrate on effective and efficient service delivery
- Adopt a culture of continuous improvement for operational processes and project management, and assess against leading practices and benchmarking
- Provide extensive automation support, facilitating efficient management

A graphic representation of a new operating model is shown on the following slide.

Option #2: Shared Services

Recommended Functional Model

This report is subject to the disclaimer in the Table of Contents

The model reflects a streamlined management structure, and separates strategy from management and operations.

Strategy

- Separate the "Strategy" processes into its own organizational unit, with senior executive reporting
- Resources from various units within FM & RE need to be transferred to consolidate these functions

Real Property Strategy, Policy and Budgets

- Portfolio Management
- Accommodation & Standards
- Client Service Agreements & Reporting
- Capital & Operational Budgets

Management & Operations

- Establish a "Management & Operations" organizational unit, representing service delivery
- Re-create a limited client support role, reporting directly to FM & RE Service Management

Facilities Management & Real Estate Service Management

Client Support: Cluster A, Cluster B, ABCs

Portfolio Transactions
- Appraisals
- Acquisitions
- Dispositions
- Leasing

Asset Preservation & Enhancement
- Planning & Design
- Building Condition Assessments
- Project Services

Facilities Support
- Energy & Waste
- Vendor Management
- Work Order Management
- Back Office Support

Facility Operations
- Security
- Custodial
- Maintenance & Repair (Building & Systems)
- External Grounds

Option #2: Shared Services

Implications for the Current Structure

This report is subject to the disclaimer in the Table of Contents

The transition to the new operating model addresses a number of alignment issues, including but not limited to:

- Under **Real Property Strategy, Policy and Budgets**
  - Development & Portfolio Planning, plus aspects of Portfolio Management, shifts from Real Estate Services
  - Space Allocation & Standards shifts from Energy and Strategic Initiatives
  - Accommodation Planning shifts from Design, Construction and Asset Preservation
  - Client & Decision Support (responsible for Service Level Agreements and reporting) shifts from Facility Services, along with Capital and Business Analysis
- Under **Management and Operations**
  - Portfolio Transactions: The functions of Acquisitions, Dispositions, Appraisals, and Leasing from Real Estate services remain, although it is recommended that:
    - Site Management responsibilities for St. Lawrence Market be transferred to the new Facility Operations group
    - Project Managers within Appraisals be transferred to the new Project Services group
  - Asset Preservation & Enhancement: This group remains largely the same as current Design, Construction and Asset Preservation
  - Facilities Support: This group retains the support functions of the current organization, most of which are located within the current Facility Services group, along with Energy and Waste Management
  - Facility Operations: This group consolidates operational activities, within one management structure

A more detailed investigation of the organizational structure implications is required.

Span of Management Analysis*

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In addition to categorizing the type of FM & RE activities by City staff, we conducted an analysis of the degree to which roles were management oriented.

Entity Name	Management	Support	Project Management	Supervisor	Staff	Total
Facilities Management	57.0	76.0	50.0	52.0	498.0	**733.0**
Parks, Forestry & Recreation		1.8		14.8	271.5	**288.1**
Toronto Transit Commission					280.0	**280.0**
Long-Term Care Homes & Services	3.8			2.0	168.4	**174.1**
Real Estate	6.0	16.0	8.0	6.0	43.0	**79.0**
Toronto Public Library	6.5	11.0		3.0	56.0	**76.5**
Shelter, Support & Housing Admin.	0.4	0.2		2.2	66.4	**69.2**
Toronto Zoo	1.5	4.0		6.0	52.0	**63.5**
Exhibition Place	10.0	4.0			28.0	**42.0**
Emergency Medical Service	2.0			1.0	25.0	**28.0**
Solid Waste Mgmt. Services	0.0			0.1	25.7	**25.8**
Theatres	2.4			1.0	16.9	**20.3**
Economic Development & Culture	4.0			1.0	13.0	**18.0**
Toronto Parking Authority	4.0				13.0	**17.0**
Children's Services	5.5	1.2		9.6		**16.2**
Toronto Police Services	2.0	1.0		4.0	3.0	**10.0**
Transportation Services					9.2	**9.2**
Toronto Public Health	0.3	3.6		1.9		**5.7**
Toronto Water				0.5	1.0	**1.5**
Employment & Social Services	1.3					**1.3**
Court Services	0.2	0.2		0.0		**0.4**
Fire Services	0.4					**0.4**
Total FTE	**107**	**119**	**58**	**105**	**1570**	**1959**

* Note: Partial FTE's have been accumulated in this summary, based on the allocations provided by Divisions. ABC's did not provide that level of detail.

Source : FM & RE organizational charts, Division and Agency reports, KPMG Analysis

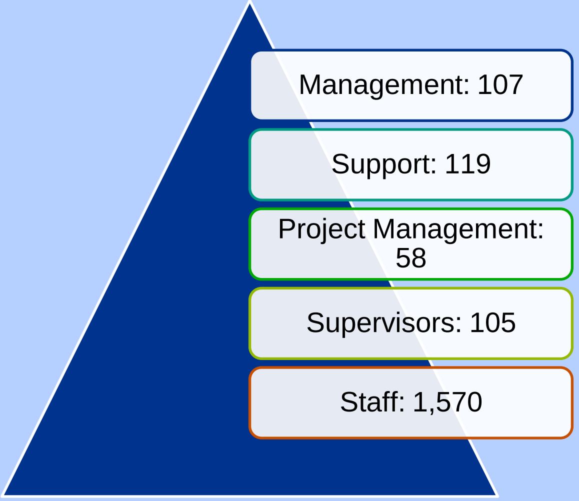
Opportunity to Reduce Overheads

This report is subject to the disclaimer in the Table of Contents

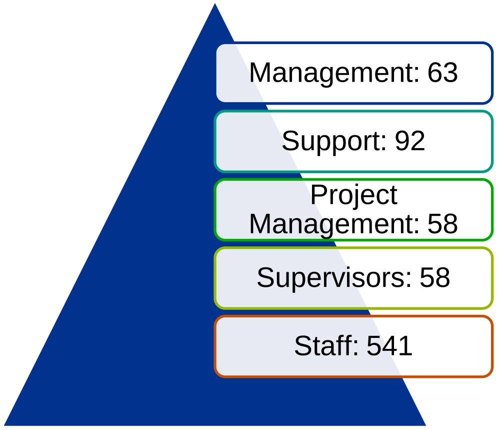
Through the implementation of a technology-enabled shared services model, there is an opportunity to reduce management overhead, as well as the levels of support and supervision.

Because partial FTE allocations were used to generate this analysis, caution must be applied to potential consolidation scenarios.

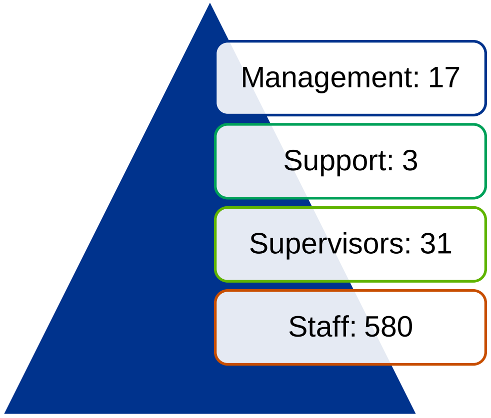
Overall – Corporate, Divisions & Select ABC's



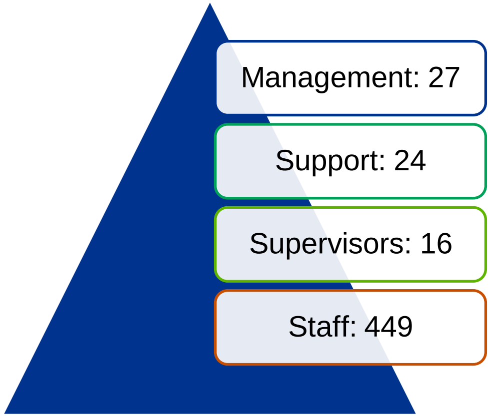
Corporate



Divisions



Select ABC's



Source : FM & RE organizational charts, Division and Agency reports, KPMG Analysis

Cost Savings Calculations

The following scenarios were considered in developing the potential cost savings through a shared services model:

Scenario	Description	Savings Estimate
Base	Management, Support and Supervisory can be reduced by 10%, for Corporate and Divisions	$2.6m
Stretch	Management, Support and Supervisory can be reduced by 15%, for Corporate, Divisions & Select ABC's	$4.9m

	Base Savings				Stretch Savings			
FTE Group	Number of FTE	FTE Reduction	Avg. Compensation $	Savings $	Number of FTE	FTE Reduction	Avg. Compensation $	Savings $
Management	81	8.1	$130,000	$1,053,000	107	16.1	$130,000	$2,093,000
Support	95	9.5	$70,000	$665,000	119	17.9	$70,000	$1,253,000
Supervisors	89	8.9	$100,000	$890,000	105	15.8	$100,000	$1,580,000
Total	**265**			**$2,608,000**	**331**	**49.8**		**$4,926,000**

Risks and Implications

- KPMG views the establishment of a shared services model as necessary for the continued roll-out of the Facilities Transformation Project – resistance of many divisions would be overcome by the separation of policy and governance from day-to-day management and operations.
- Significant attention will need to be paid to the development and agreement on service level standards and related costs.
- The City will continue to manage a complex model of services, using a mix of in-house and contracted staff, at a cost higher than with other options.
- Effective shared services models depend on technology enablement – investment prioritization is a cross-City challenge area
- The transition to a shared service model will largely follow the project plan and time line associated with the Facilities Transformation Project.

Option #3 Outsourcing

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Opportunity Summary

Opportunity Summary:

The City currently manages and provides administrative support services for staff performing custodial, security, maintenance and project related activities. There is an opportunity to reduce costs by outsourcing these services to a third party vendor.

Overall Annual Savings Estimate of $8.8m to $26m with one-time costs of $9m - $23m

Findings

- The City is responsible for delivering custodial, security and maintenance services for all owned facilities
- The City has 1016 custodial staff, 188 security staff and 288 maintenance staff on its payroll
- Much, although not all, of the custodial, security and maintenance work is general in nature and does not require specialized skills
- About 80% of City FM & RE staff are unionized. The current collective agreements do not allow contracting out of work that results directly or indirectly in the layoff or loss of employment of permanent employees. These agreements expire at the end of 2011.

Source of staff data : FM & RE reports, Division and Agency reports and interviews

Outsourcing Overview

Outsourcing Overview

Outsourcing is different from contracting out:

- In contracting out, the City is responsible for managing contracted staff, managing multiple contractor payments. The City assumes the risk and management responsibility for the work performed by staff and selected contractors, and assumes the management overhead of administering the work
- In outsourcing, the City enlists a single service provider to deliver a portfolio of services. It is the outsourcer's responsibility to orchestrate the required staff, contractors and materials to provide the agreed upon services. The service provider takes full responsibility for the delivery of services – the City determines "what" needs to be achieved and "to what" quality level, but no longer is responsible for "how" it is achieved.

The role of Corporate FM & RE shifts from service delivery to service management:

- From managing staff to managing a single service provider
- From directing work to monitoring service levels
- From procuring contractors to ensuring quality of service delivered

Opportunity Overview

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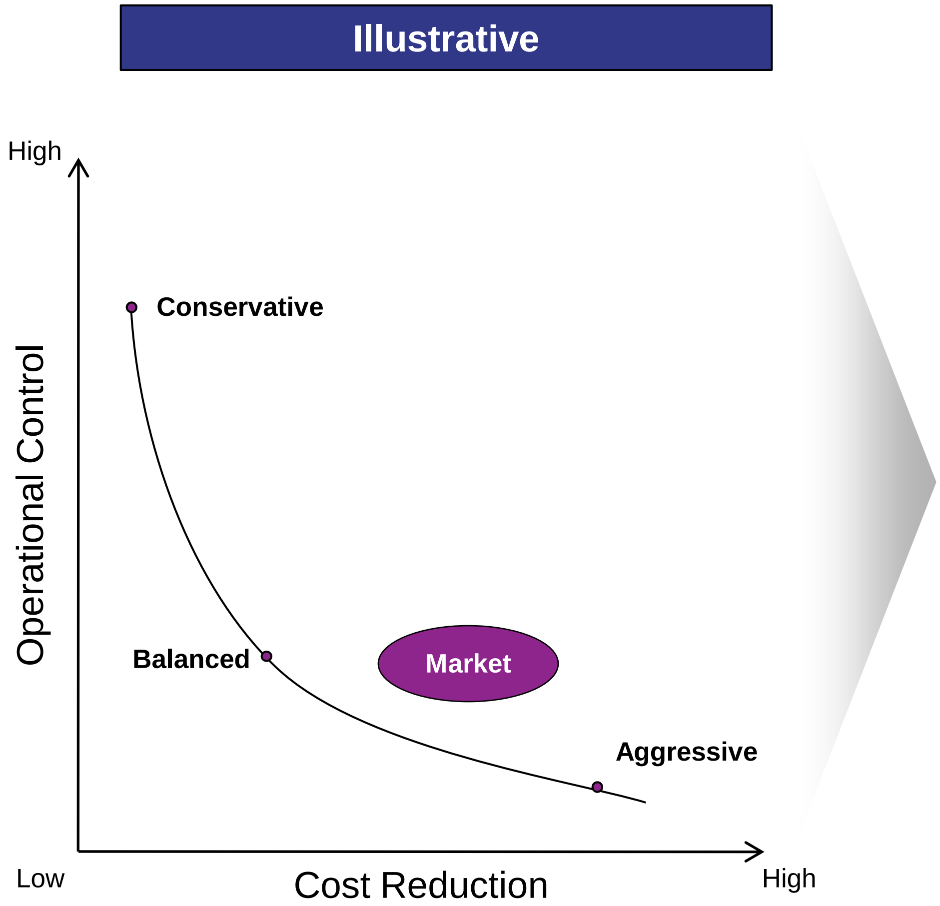

Conservative Model

- Maximum Approval Rights w/ Subs and Operational Control
- Minimal Service Level Modification
- Basic Headcount and organizational streamlining
- 6% - 12% Total Savings over 5 years driven by contract aggregation and leverage

Balanced Model

- Approval Rights w/ Subs and Operational Control in critical areas only
- Some modification to service levels, outcome based
- Market organizational staffing levels (i.e., levels similar to other industries) w/ “soft” landing
- 12% - 18% Total Savings over 5 years driven by aggressive contract aggregation and/or self performance

Aggressive Model

- Minimal Approval Rights w/ Subs and Operational Control
- Modification to service levels, outcome based
- Lean Retained Organization
- “Market Wages” of Impacted Staff
- 18%+ Total Savings over 5 years driven by more aggressive contract aggregation, self performance and headcount right sizing

Opportunity Overview

Cost Reduction Levers used by Outsourcing Vendors

Labour Efficiency (30%)

- Planning/Scheduling
- Skills Matching
- Standardization
- Cross-skilling/Multi-tasking

Subcontract Management (40%)

- Materials Management
- Efficiency Gains
- Procurement Process
- Preferred Supplier Agreements
- Tight Scope and Specification Definition

Application of Technology (30%)

- Centralized Financial Control
- Work Order Management
- Remote Operations

Opportunity Overview

Outsourcing Overview

Scope

- Outsourcing typically includes all staff-driven and contractor-involved activities within Operations, except for program-specific/specialized building maintenance and repair, with Project Services and Lease Management as options
- To provide a single point of responsibility, leased facilities can be included in outsourcing agreements

The transition to an outsourced model takes 1-2 years to complete

- Impacted staff are generally given the choice to transfer to the outsourcer or to accept a buyout package, whereas selected staff are incented to be retained as part of the stay back team
- Longer-term contracts are assigned to the outsourcer, whereas short-term contracts are allowed to elapse
- Outsourcer uses transition time to conduct due diligence, to define services and service levels, and implement/configure systems (e.g. work/service orders, project management)

Outsourcing Case Studies

We have evaluated several Canadian FM & RE outsourcing case studies:

- Infrastructure Ontario (formerly Ontario Realty Corporation): 1999 and 2009
- Public Works and Government Services Canada, Real Property Branch (PWGSC RPB): 1997 and 2005
- Shared Services BC: 2004

Commonalities across the case studies:

- First outsourcing wave tends to be cost-savings driven, including operational/transactional activities
- Subsequent waves shift to innovation and flexibility, expanding to include project management services
- Both exempt and union staff are transferred to the service provider, under current agreements with a term guarantee
- Portfolio scope of public sector cases is extensive
- Program-specific or specialized functional space continues to be managed by program area
- ***Initial savings from outsourcing range from 10-15%***

Option #3: Outsourcing

Infrastructure Ontario

- 1999: 2 contracts worth $442.5M to **ProFac** for the GTA and South Western Ontario for all owned and leased facilities (including Queen's Park), with other regions remaining with ORC

Consideration	Description			
Primary Driver(s)	• Cost-savings: baseline budget was set, with reduction targets by year of contract			
Benefits	• Starting in Year 2 of the Contract: 10%, 3%, 2%, 1%, 1%			
Staff Impact	• Up to 80% of impacted staff shifted to ProFac, including union members who continued under applicable collective agreements • Positions offered to current staff first, before additional hiring			
Scope of Services	• Call Centre • Security • Some named exclusions by property	• Custodial • Projects up to a max value (leasehold, MAC's, refits, etc.)	• Technical (maintenance & repairs, energy mgmt, building systems) • Contract assignments	• Lease Administration • Coordination of requests for leased space
Retained	• Project management (not covered by scope and the regions excluded) and capital planning			
Cost Structure	• Management Fee, based on cost/sq. ft. • Flow through costs • Gain-sharing of productivity improvements beyond base agreement – many suggestions, few implemented			
Performance Management	• Process related metrics – "very prescriptive"			
Critical Factors	• Allow sufficient time for transition: 1-2 years needed • Management and portfolio data was lacking at the start, which significantly improved during contract • Prescriptive nature of contract led to inflexibility over time • Immature contract management capability			

Infrastructure Ontario (continued)

- 2009: 1 contract for **CB Richard Ellis** (CBRE) for entire Ontario portfolio of ~2,000 buildings and 50,000 acres of land

Consideration	Description			
Primary Driver(s)	• Output driven, with an emphasis on flexibility, innovation and value opportunities			
Staff Impact	• Remaining ORC staff transferred, except CBRE not required to take everybody (screening process) • Staff from ProFac transferred as well			
Scope of Services	• Call Centre • Security • Some named exclusions by property	• Custodial • Projects up to a max value (leasehold, MAC's, refits, etc.)	• Technical (maintenance & repairs, energy mgmt, building systems) • Contract assignments	• Lease Administration • Coordination of requests for leased space • Work Order System
Retained	• Oversight staff – project management handled by separate contract (see below)			
Cost Structure	• Management Fee, based on cost/sq. ft. • Flow through costs			
Performance Management	• A suite of 37 KPI's, within16 categories			
Critical Factors	• 10 year agreement, with options for a further 5 years • Beginning to focus on a more limited set of KPI's, reducing reporting overhead and costs			

- Project Services: 3 regional contracts, awarded in 2009
  - CB Richard Ellis: Toronto, South Western Ontario, North West Ontario
  - MHPM Project Managers: Central Ontario (excluding Toronto), North East Ontario
  - SNC-Lavalin ProFac Inc.: Eastern Ontario

Option #3: Outsourcing

Public Works & Government Services Canada (PWGSC)

- 1997: 13 provincially-grouped contracts for **Brookfield LePage Johnson Controls** (BLJC), covering 300 buildings across the country
  - BC and Saskatchewan facilities outsourced to those provincial governments

Consideration	Description			
Primary Driver(s)	• Reduce cost, improve responsiveness, and eliminate perception that PWGSC was competing with the private sector			
Benefits	• 10% ($20M) out of a budget of $200M			
Staff Impact	• Staff transferred to BLJC, including union members who continued under applicable collective agreements			
Scope of Services	• Call Centre • Some named exclusions by property	• Custodial • Security	• Technical (maintenance & repairs, energy mgmt, building systems) • Contract assignments	• Work Order System
Retained	• Project management, design/construction coordination and capital planning			
Cost Structure	• Agreed annual cost			
Performance Management	• Over 35 KPI's with information coming from both PWGSC and BLJC to assess performance and access to additional fees by achieving an overall rating of 85% or higher in 75% of the KPIs • Managing this number of KPIs proved challenging and costly			
Critical Factors	• Treasury Board applied savings percentage directly to PWGSC budget, in first year			

Option #3: Outsourcing

PWGSC (continued)

- 2005: 8 regionally-grouped contracts for **SNC-Lavalin ProFac**, covering 319 buildings across the country (2.9 million m^2).
  - BC and Saskatchewan facilities returned to portfolio
  - In 2007, PWGSC closed sale/lease-back of 7 office properties

Consideration	Description			
Primary Driver(s)	• Reduce cost, improve performance, and provide greater flexibility to innovate			
Benefits	• Additional 15% ($30M) for first two years • In 2007, savings grew to $45M – total savings are therefore $65M out of a budget of $450M, a 14.4% saving overall			
Staff Impact	• Staff transferred from BLJC to ProFac			
Scope of Services	• Call Centre • Some named exclusions by property	• Custodial • Security • Work Order System	• Technical (maintenance & repairs, energy mgmt, building systems) • Contract assignments	• Options: project delivery, lease administration, commercial operations
Retained	• Oversight staff – project management handled by separate contract (see below)			
Cost Structure	• Agreed annual cost			
Performance Management	• More rigorous regime of a reduced number of KPI's (as compared to previous contract) • ISO-certified quality management systems			
Critical Factors	• Treasury Board applied savings percentage directly to PWGSC budget, in first year • Four year contract with options for an additional 6 years			

Option #3: Outsourcing

Shared Services British Columbia (SSBC)

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- 2004: Five year Property Management contract to **Brookfield LePage Johnson Controls** (BLJC) Workplace Services, recently renewed through 2014 (with an option for 5 more years), for $90M/year

<table>
<tr><th>Consideration</th><th colspan="4">Description</th></tr>
<tr><td>Primary Driver(s)</td><td colspan="2">• Maintain or enhance the quality of customer services
• Increase flexibility to respond to customers and provide the appropriate scope of services</td><td colspan="2">• Achieve cost savings
• Avoid future costs such as investment in technology , transfer appropriate costs and risks related to infrastructure investment to the private sector</td></tr>
<tr><td>Benefits</td><td colspan="2">• Cumulative savings of 10% achieved in first 3 years of contract</td><td colspan="2">• More efficient and streamlined service delivery model
• Continuous focus on cost management</td></tr>
<tr><td>Scope of Services</td><td>• Operation & maintenance (O&M) supervisory services
• Management services for general management and oversight related to the provision of the Services.</td><td colspan="2">• Direct day-to- day building operations and maintenance services (e.g. cleaning, security, grounds, mech/elec, emergency response/repair, fabric maintenance, asset management, pollution prevention, equipment repair and maintenance, utilities and energy management)</td><td>• Project management services
• Project construction services (projects under $2 million)
• “New Out of Scope Services” can be added</td></tr>
<tr><td>Retained</td><td colspan="4">• Oversight staff (Facilities Contract Management Branch)</td></tr>
<tr><td>Cost Structure</td><td colspan="2">• Management Fee, with an at-risk component and a performance bonus
• O&M Supervision Fee, with a cap recalculated, as necessary, on an annual basis</td><td colspan="2">• Project Management Fee, for project management services for projects having a budgeted cost =>$50K but less than $2 million
• Additional Service Fee</td></tr>
<tr><td>Performance Management</td><td colspan="4">• KPIs are reviewed and re-calibrated annually to focus behaviour , in three categories: Service Delivery, Financial Management, and Business Performance
• Service levels were based on the existing service levels performed by SSBC at handover</td></tr>
</table>

Outsourcing Savings Opportunity

We have developed scenarios evaluating savings that an be achieved by outsourcing portions of Custodial, Security, Maintenance and associated management activities.

Addressable Spend for Outsourcing

The following table shows the total addressable spend that can be outsourced. This includes expenditures associated with strategy, real estate, security, custodial and maintenance services as well as the associated management activities. The scenarios that we have modeled only include custodial, security, maintenance and associated management services.

Outsourcing Addressable Spend

Category	FTE (Total)	Direct Labour - Corporate ($ '000)	Direct Labour - Divisions ($ '000)	Direct Labour - Agencies ($ '000)	Direct Labour - Total ($ '000)	External Material and Labour -Corporate ($ '000)	External Material and Labour - Divisions ($'000)	External Material and Labour - Agencies ($'000)	Ext Material and Labour - Total ($ '000)	Total Spend ($ '000)
Strategy	40	2,314	1,640	968	4,922					4,922
Real Estate	45	4,309	29	170	4,507	1,627	4	40	1,671	6,178
Management	203	11,471	4,287	2,371	18,128					18,128
Preserve and Enhance	80	8,160		1,098	9,258	20	1,947	128	2,095	11,353
Security	188	10,345	1,621	1,111	13,076	4,257	747	2,863	7,867	20,943
Custodial	1,031	20,789	22,605	18,202	61,596	6,487	2,193	1,819	10,498	72,095
Maintenance	449	12,239	11,110	10,384	33,732	32,678	6,330	10,844	49,852	83,584
Total	**2,035**	**69,626**	**41,291**	**34,304**	**145,220**	**45,068**	**11,222**	**15,694**	**71,984**	**217,204**

Source : FM & RE, Division and Agency reports and interviews, Purchasing and Materials Management reports, KPMG Analysis

Outsourcing Savings Opportunity

Savings Scenarios

We have analyzed the benefits of four outsourcing scenarios . In each case we have used a savings base estimate of 10% and a stretch of 15%.

Scenario 1: Outsourcing selected activities managed by Corporate Facilities Management team

In this scenario, we model outsourcing *custodial, security, general maintenance and associated management activities* for the divisions served by the Corporate Facilities Management team.

Scenario 2: Outsourcing selected activities managed by Corporate Facilities Management team and Divisions delivering FM services

In this scenario, we model outsourcing *custodial, security, general maintenance and associated management activities* for the divisions served by the Corporate Facilities Management team and City divisions performing these activities themselves. The Divisions are Children's Services, Court Services, Employment & Social Services, Economic Development & Culture, Emergency Medical Service, Long-Term Care Homes & Services, Parks, Forestry & Recreation, Shelter, Support & Housing Admin, Social Development, Finance & Admin, Fire Services, Solid Waste Mgmt. Services, Technical Services, Toronto Water, and Transportation Services.

Scenario 3: Outsourcing selected activities managed by Corporate Facilities Management team, Divisions delivering FM services and some agencies

In this scenario, we model outsourcing *custodial, security, general maintenance and associated management* activities for the divisions served by the Corporate Facilities Management team, City divisions performing these activities themselves and selected ABCs. These include Exhibition Place, Theatres, Toronto Police Services, Toronto Public Library, and the Toronto Transit Commission.

Scenario 4: Extend Scenario 3 to include project-based services across Corporate Facilities Management team, all Divisions and most agencies

In this scenario, we model the inclusion of project-based services (such as management of construction and renovation projects).

Option #3: Outsourcing

Outsourcing Savings Opportunity – Scenario 1

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Scenario 1: Outsourcing activities only managed by the Corporate Facilities Management team

- In Scenario 1, the total expenditure is **$88m**
- Potential savings in this scenario range from **$8.8m - $13.2m** annually
- One-time costs are estimated at **$9m – $10m** which includes severance and transition fees
- All divisions and agencies that perform their own facilities management services would continue to do so

Corporate	FTE	Direct Labour ($ '000)	External Material and Labour ($ '000)	Total Expenditures ($ '000)
Management	34	$2,628	$	$2,628
Security	149	$10,345	$4,257	$14,601
Custodial	331	$20,789	$6,487	$27,276
Maintenance	131	$10,865	$32,678	$43,544
Total	**644**	**$44,627**	**$43,422**	**$88,049**

Corporate - Base Savings (10%)	Savings - Direct Labour ($ '000)	Savings - External Material and Labour ($'000)	Total Savings ($ '000)
Management	$263	$	$263
Security	$1,034	$426	$1,460
Custodial	$2,079	$649	$2,728
Maintenance	$1,087	$3,268	$4,354
Total	**$4,463**	**$4,342**	**$8,805**

Corporate - Stretch Savings (15%)	Savings - Direct Labour ($ '000)	Savings - External Material and Labour ($'000)	Total Savings ($ '000)
Management	$394	$	$394
Security	$1,552	$638	$2,190
Custodial	$3,118	$973	$4,091
Maintenance	$1,630	$4,902	$6,532
Total	**$6,694**	**$6,513**	**$13,207**

One time costs estimated at 1%-1.5% of outsourced spend based on prior deals
Severance estimated at 25% of annual average salary of $52k

Source : KPMG Analysis

Outsourcing Savings Opportunity – Scenario 2

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Scenario 2: Outsourcing activities managed by Corporate Facilities Management team and any Divisions that are delivering FM services independently

- In Scenario 2, the total expenditure is **$127m**
- Savings from outsourcing the corporate services functions are **$12.7m - $19m** annually
- One-time costs are estimated at **$16m - $17m** which includes severance and transition fees
- All agencies that perform their own facilities management services would continue to do so

One time costs estimated at 1%-1.5% of outsourced spend based on prior deals Severance estimated at 25% of annual average salary of $52k

Corporate and Divisions	FTE	Direct Labour ($ '000)	External Material and Labour ($ '000)	Total Expenditures ($ '000)
Management	34	$2,628	$	$2,628
Security	173	$11,966	$5,004	$16,969
Custodial	716	$43,394	$8,680	$52,074
Maintenance	211	$16,339	$38,985	$55,325
Total	**1134**	**$74,327**	**$52,669**	**$126,996**

Corporate and Divisions - Base Savings (10%)	Savings - Direct Labour ($ '000)	Savings - External Material and Labour ($'000)	Total Savings ($ '000)
Management	$263	$	$263
Security	$1,197	$500	$1,697
Custodial	$4,339	$868	$5,207
Maintenance	$1,634	$3,899	$5,532
Total	**$7,433**	**$5,267**	**$12,700**

Corporate and Divisions - Stretch Savings (15%)	Savings - Direct Labour ($ '000)	Savings - External Material and Labour ($'000)	Total Savings ($ '000)
Management	$394	$	$394
Security	$1,795	$751	$2,545
Custodial	$6,509	$1,302	$7,811
Maintenance	$2,451	$5,848	$8,299
Total	**$11,149**	**$7,900**	**$19,049**

Source : KPMG Analysis

Outsourcing Savings Opportunity – Scenario 3

Scenario 3: Outsourcing FM activities across Corporate Facilities Management team, all Divisions and most agencies

- In Scenario 3, the total expenditure is **$160m**
- Savings from outsourcing the corporate services functions are **$16m - $24m** annually
- One-time costs are estimated at **$21m - $22m** which includes severance and transition fees

One time costs estimated at 1%-1.5% of outsourced spend based on prior deals
Severance estimated at 25% of annual average salary of $52k

Corporate, Divisions and Agencies	FTE	Direct Labour ($ '000)	External Material and Labour ($ '000)	Total Expenditures ($ '000)
Management	34	$2,628	$	$2,628
Security	188	$13,076	$7,867	$20,943
Custodial	1016	$60,655	$10,498	$71,153
Maintenance	288	$22,395	$43,048	$65,442
Total	**1525**	**$98,754**	**$61,413**	**$160,167**

Corporate, Divisions and Agencies - Base Savings (10%)	Savings - Direct Labour ($ '000)	Savings - External Material and Labour ($'000)	Total Savings ($ '000)
Management	$263	$	$263
Security	$1,308	$787	$2,094
Custodial	$6,065	$1,050	$7,115
Maintenance	$2,239	$4,305	$6,544
Total	**$9,875**	**$6,141**	**$16,017**

Corporate, Divisions and Agencies - Stretch Savings (15%)	Savings - Direct Labour ($ '000)	Savings - External Material and Labour ($'000)	Total Savings ($ '000)
Management	$394	$	$394
Security	$1,961	$1,180	$3,142
Custodial	$9,098	$1,575	$10,673
Maintenance	$3,359	$6,457	$9,816
Total	**$14,813**	**$9,212**	**$24,025**

Source : KPMG Analysis

Outsourcing Savings Opportunity – Scenario 4

Scenario 4: Extend Scenario 3 to include project-based services across Corporate Facilities Management team, all Divisions and most agencies

- In Scenario 4, the total expenditure is **$172m**
- The incremental savings from outsourcing project-based services functions are **$1.1m - $1.7m** annually
- The total savings from outsourcing project-based services functions are **$17m - $26m** annually
- One-time costs are estimated at **$22m - $23m** which includes severance and transition fees
- This scenario can be added to any of the other scenarios
- An additional opportunity is the provision of project management software by the outsourcer (costs not estimated)

Corporate, Divisions and Agencies	FTE	Direct Labour ($ '000)	External Material and Labour ($ '000)	Total Expenditures ($ '000)
Scenario 3 Total	1525	$98,754	$61,413	$160,167
Project Based Services	80	$9,258	$2,095	$11,353
Total	**1605**	**$108,012**	**$63,508**	**$171,520**

Corporate, Divisions and Agencies - Base Savings 10%	Savings - Direct Labour	Savings - External Material	Total Savings ($ '000)
Scenario 3 Base Savings Total	$9,875	$6,141	$16,017
Project Based Services	$926	$210	$1,135
Total	**$10,801**	**$6,351**	**$17,152**

Corporate, Divisions and Agencies - Stretch Savings 15%	Savings - Direct Labour	Savings - External Material	Total Savings ($ '000)
Scenario 3 Stretch Savings Total	$14,813	$9,212	$24,025
Project Based Services	$1,389	$314	$1,703
Total	**$16,202**	**$9,526**	**$25,728**

One time costs estimated at 1%-1.5% of outsourced spend based on prior deals
Severance estimated at 25% of annual average salary of $52k

Source : KPMG Analysis

Risks

The City should anticipate strong resistance of the initiative:

- Restrictions on certain contracting-out provisions will be a challenge
- However, in the Canadian public sector the City is not a first adopter of facilities outsourcing
- The potential savings and benefits should provide a strong basis for the City to negotiate
- If the no-contracting out clause cannot be changed, continue with the ring-fence approach and evaluate associated benefits

No "silver bullet" exists – a multi-faceted approach is required, so that the City can demonstrate that the context for facilities work is sufficiently different from the general labour contracts:

- Work with the unions to build understanding of the need to change and adapt
- Negotiate a separate agreement for FM & RE staff, reflecting provisions from industry
- Offer attractive buyout alternatives
- Incent key staff to remain with stay back team

Some vendor contracts may not include contract assignment clauses

- This may temporarily limit the City's ability to transfer some responsibilities to the outsourcing vendor and consequently delay realization of some outsourcing savings
- All new vendor contracts should include assignment clauses

Implementation Plan – Outsourcing

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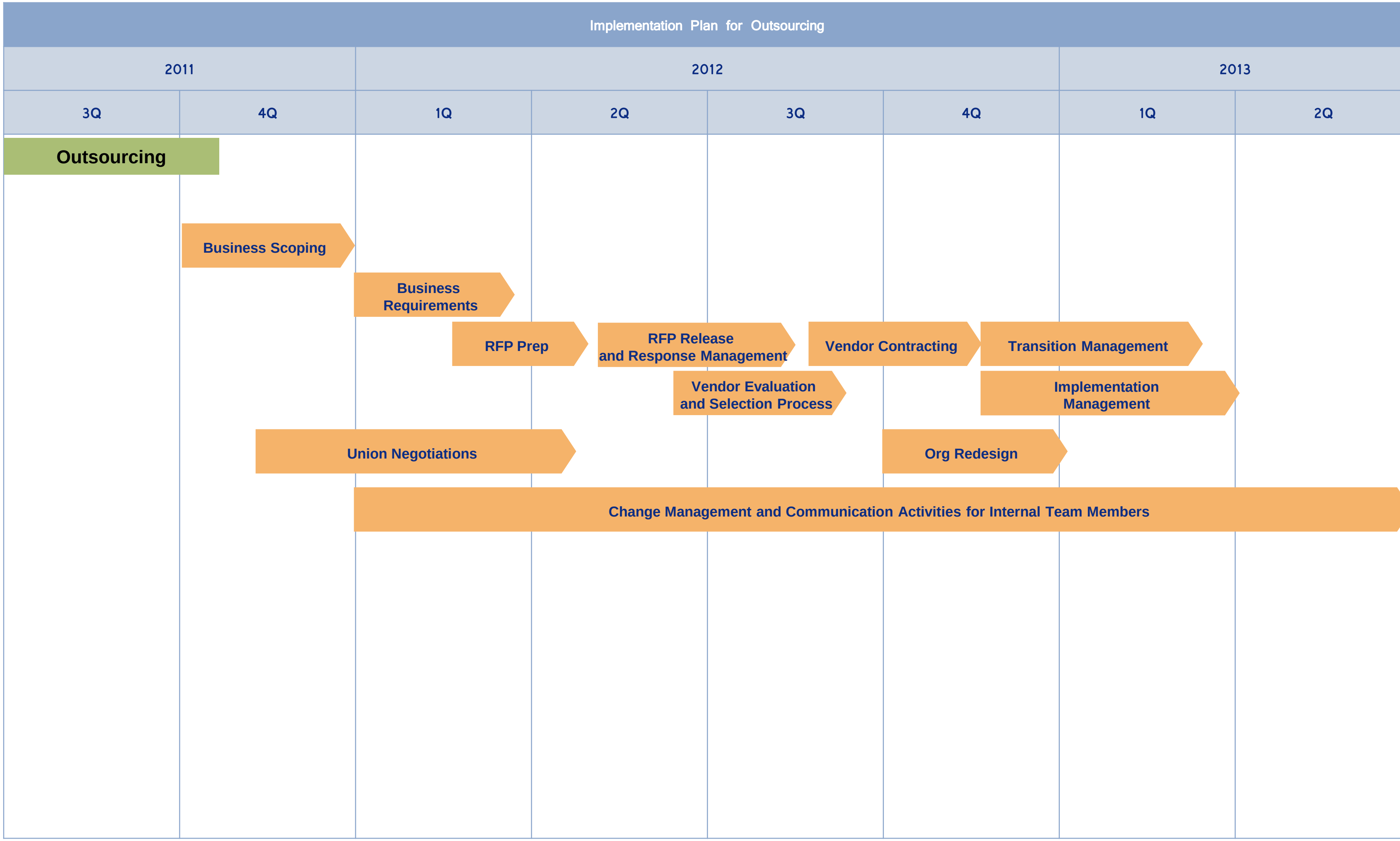

Option #4 Portfolio Optimization

Readers are cautioned that the potential savings outlined in this report are estimates which are predicated on the City reducing its personnel resources, capital assets, and other future events. Actual results achieved as an outcome of implementing recommended opportunities will vary from the information presented and these variations may be material.

Opportunity Summary

Opportunity Summary:

There is an opportunity to reduce facility operating costs by actively managing the City's property portfolio. The city can use the following methods to reduce operating costs:

- Consolidate externally leased space
  - **Savings: $1.4m to $4.1m annually with one-time moving costs between $0.25 - $0.5m**
- Rationalize existing space and property
- Sale/Lease-back of owned buildings

Overall Findings

- Currently, Divisions appear to develop/drive their own real estate strategies with some input from Real Estate Services
- Real Estate Services used as the executor of Divisional strategy
- Organization-wide real estate strategy not in place
- Adequate space usage data is not collected or maintained to enable determination of optimal space requirements
- City owns most buildings used for office space

Future directions for FM & RE at the City should be formulated in a larger strategic context

An overall strategic framework for Facilities Management and Real Estate would include:

- Direction for the long term portfolio mix (owned and leased), taking into consideration the potential:
  - To shift from "expensive" downtown space and consolidate into cheaper, more flexible space that is well connected to transit
  - To capture value through redevelopment of City-owned properties and leasing back required space
- Principles and guidelines for general and program-specific accommodation within the mix, such as space standards, minimum floor plate sizing, required densification, and the role of corporate facilities management and real estate
- Comprehensive understanding of current accommodation fulfillment (information about the physical location of people and the costs associated by building/floor/section) and detailed scenarios for future accommodation needs
- Roadmap spanning 20-25 years of the initiatives and investments to arrive at a consolidated, optimized accommodation portfolio

Implications for the City include:

- Significant value can be derived from portfolio optimization, both for the City itself and within a broader economic development mandate
- Short-term initiatives to drive cost-savings, such as external lease consolidation and outsourcing operations, can be pursued as long as they do not restrict portfolio mix optimization in the long term
  - For example, densifying Metro Hall as part of lease consolidation only to decide on a subsequent sale/leaseback would require close scrutiny
  - Provincial funding requirements may need to be reviewed or renegotiated to allow for alternate accommodation scenarios

Option #4: Portfolio Optimization

Consolidate externally leased space

This report is subject to the disclaimer in the Table of Contents

There is an opportunity to reduce the cost of externally leased space through consolidation or repatriation of work space to City owned properties.

Findings:

- City is currently leasing 189 external facilities for city divisions and agencies costing $25m per year
- Lease space is mainly used for service delivery, office and admin
- Approximately $11.6m of lease contracts expire in the next two years and $4.2m of additional lease contracts can be terminated with 12 months notice
- New office space is typically allocated at approximately 200 sq. ft per person[1]

Leading Practices:

- UK Government benchmarks show median office allocation are 150 sq ft per employee[2]
- IFSA 2010 Space management benchmark report found that the average allocation for clerical or administrative staff (non-management) was between 69 and 95 sq. ft. per employee[3]. Mid management staff averaged 120 sq ft per employee.

Sources:

1. Interview with the City of Toronto, Leasing and Site Management
2. Benchmarking the Back Office, HM Government, 2009
3. Space Management Benchmarks 2010, IFMA Research Report #34

Source for Facility data : FM & RE reports

Option #4: Portfolio Optimization

Consolidate externally leased space

This report is subject to the disclaimer in the Table of Contents

Savings Rationale

Savings can be achieved by:

- Consolidating and relocating existing leased facilities

or

- Consolidating and repatriating leased facilities (office/admin)

Savings Calculations:

Consolidate and relocate existing leased facilities

- $14.8m of lease contracts expiring by end of 2013 or have 12 month notice clauses
- $6.9m of $14.8m are office, admin or relocation candidates (see slide 69)
- Estimate 20% savings through space consolidation and space aggregation
- **Savings estimate: 6.9m x 20% = $1.4m**
- **One time moving costs: 225k sq ft @$2/sq ft = $0.5m**

Consolidate and repatriate office space to City owned facilities

- $14.8m of lease contracts expiring by end of 2013 or have 12 month notice clauses
- $4.2m of $14.8m are office or admin space (see slide 70)
- Assume 100% savings due to elimination of lease agreement
- **Savings estimate: $4.2m**
- **One time moving costs: 117k sq ft @$2/sq ft = $0.25m**

Source: Lease costs and Moving cost estimate provided by City of Toronto, Real Estate Services group

Consolidate externally leased space

Risks

- If the city consolidates and relocates existing leased facilities, the city will need to find a suitable building space that can accommodate relocated staff and reasonably address geographic or physical access concerns. The city will also need to revise its space allocation policy to allow for more dense allocation of office space.
- If the city consolidates and repatriates office space to City owned facilities, the city will need to densify existing office space to accommodate relocated staff. This will require a survey of existing space and revision of space allocation policies to allow for more dense allocation of office space.
- In some cases, Provincial funding related to facility space for shared programs is not available when using City-owned space. This may require legislative changes or renegotiation with the respective governmental body.
- This may require short term reassignment of staff to dedicate to this effort. This may impact the current work-load levels within the Real Estate group.

Option #4: Portfolio Optimization

Consolidate External Leases – Base Case

This report is subject to the disclaimer in the Table of Contents

Base Case: Consolidate and relocate external Lease space - office, admin, and relocation candidates

Tenant	Contract Location and Name	End Date	Annual Total Rent	Sq. Ft.	FTEs	Cost per Sq. Ft.	Cost per FTE	Building Type/Usage
TPH	235 DANFORTH AVE - (F&RE - PUBLIC HEALTH)	10/14/2011	$ 584,800	18,444	121	$ 31.71	$ 4,833	Office / administration, health clinic, dental clinic
Health	2340 DUNDAS ST W - THE CROSSWAYS (CNEI - HEALTH)	12/13/2011	$ 979,453	33,047	162	$ 29.64	$ 6,046	Retail Commercial / administration and employment services programs delivery
TPH	2300 SHEPPARD AVE W - 3RD FL (CNEI - HEALTH)	1/31/2012	$ 161,220	7,232	56	$ 22.29	$ 2,879	Retail Commercial / administration and clinic
Social Services	5639 FINCH AVE E (CNEI - SOCIAL SERV)	4/30/2012	$ 988,688	49,385	128	$ 20.02	$ 7,724	Office / administration and employment & social services programs delivery
Social Services	220 ATTWELL DR (CNEI - SOCIAL SERV)	5/31/2012	$ 539,968	20,396	119	$ 26.47	$ 4,557	Office / administration
TPH	44 VICTORIA ST -(AKA 25 ADELAIDE ST E, SUITE 1800) (CNEI - HEALTH)	6/30/2012	$ 222,523	7,098	33	$ 31.35	$ 6,743	Office / administration
Social Services	45 SHEPPARD AVE E (CNEI - SOCIAL SERV) SUITE 212	9/30/2012	$ 164,757	4,456	16	$ 32.30	$ 8,994	Office / administration
Childrens services	1118 FINCH AVE W - (CHILDRENS SERVICES)	10/31/2012	$ 398,579	11,483	n/a	$ 34.71	n/a	Office / administration
Social Services	789 DON MILLS RD (CNEI - SOCIAL SERV)	10/31/2012	$ 324,190	15,025	77	$ 21.58	$ 4,210	Office / administration
IT	200 WELLINGTON ST W - UNIT 1600 - (MULTIPLE OCCUPANTS)	8/31/2013	$ 1,086,814	21,202	150	$ 51.26	$ 7,245	Office / project office
TPH	225 DUNCAN MILL RD (PUBLIC HEALTH)	1/31/2014	$ 521,582	16,142	124	$ 32.31	$ 4,206	Office / administration
Social Services	225 KING ST W - (SOCIAL SERVICES)	3/31/2015	$ 418,125	6,947	33	$ 60.19	$ 12,670	Office / administration
SSHA	625 CHURCH ST, 5TH FLOOR (HOUSING)	5/31/2015	$ 491,001	14,012	66	$ 35.04	$ 7,439	Office / administration
		Total	**$ 6,881,699**	**224,869**	**1,085**			

Notes:

- Locations were identified by reviewing i) lease end date and ii) a usage review with the City's Leasing and Site Management unit. Most service delivery centres and shelters were not identified as consolidation/relocation candidates due to geographical requirements
- Lease agreements at 225 King and 625 Church allow for vacating the property with 12 months notice
- 5639 Finch and 2340 Dundas have already been identified as candidates for relocation or consolidation

Source for Facility data : FM & RE reports, KPMG Analysis

Option #4: Portfolio Optimization

Consolidate External Leases – Stretch Case

This report is subject to the disclaimer in the Table of Contents

Stretch Case: Repatriate external leases to City owned buildings: office, admin only

Tenant	Contract Location and Name	End Date	Annual Total Rent	Sq. Ft.	FTEs	Cost per Sq. Ft.	Cost per FTE	Building Type/Usage
Social Services	220 ATTWELL DR (CNEI - SOCIAL SERV)	5/31/2012	$ 539,968	20,396	119	$ 26.47	$ 4,557	Office / administration
TPH	44 VICTORIA ST -(AKA 25 ADELAIDE ST E, SUITE 1800) (CNEI - HEALTH)	6/30/2012	$ 222,523	7,098	33	$ 31.35	$ 6,743	Office / administration
Social Services	45 SHEPPARD AVE E (CNEI - SOCIAL SERV) SUITE 212	9/30/2012	$ 164,757	4,456	16	$ 32.30	$ 8,994	Office / administration
Childrens services	1118 FINCH AVE W - (CHILDRENS SERVICES)	10/31/2012	$ 398,579	11,483	n/a	$ 34.71	n.a	Office / administration
Social Services	789 DON MILLS RD (CNEI - SOCIAL SERV)	10/31/2012	$ 324,190	15,025	77	$ 21.58	$ 4,210	Office / administration
IT	200 WELLINGTON ST W - UNIT 1600 - (MULTIPLE OCCUPANTS)	8/31/2013	$ 1,086,814	21,202	150	$ 51.26	$ 7,245	Office / project office
TPH	225 DUNCAN MILL RD (PUBLIC HEALTH)	1/31/2014	$ 521,582	16,142	124	$ 32.31	$ 4,206	Office / administration
Social Services	225 KING ST W - (SOCIAL SERVICES)	3/31/2015	$ 418,125	6,947	33	$ 60.19	$ 12,670	Office / administration
SSHA	625 CHURCH ST, 5TH FLOOR (HOUSING)	5/31/2015	$ 491,001	14,012	66	$ 35.04	$ 7,439	Office / administration
		Total	**$ 4,167,539**	**116,761**	**618**			

Notes:

- Locations were identified by reviewing i) lease end date and ii) a usage review with the City's Leasing and Site Management unit.
- Lease agreements at 225 King and 625 Church allow for vacating the property with 12 months notice

Source for Facility data : FM & RE reports, KPMG Analysis

Option #4: Portfolio Optimization

Implementation Plan – Consolidate External Leases

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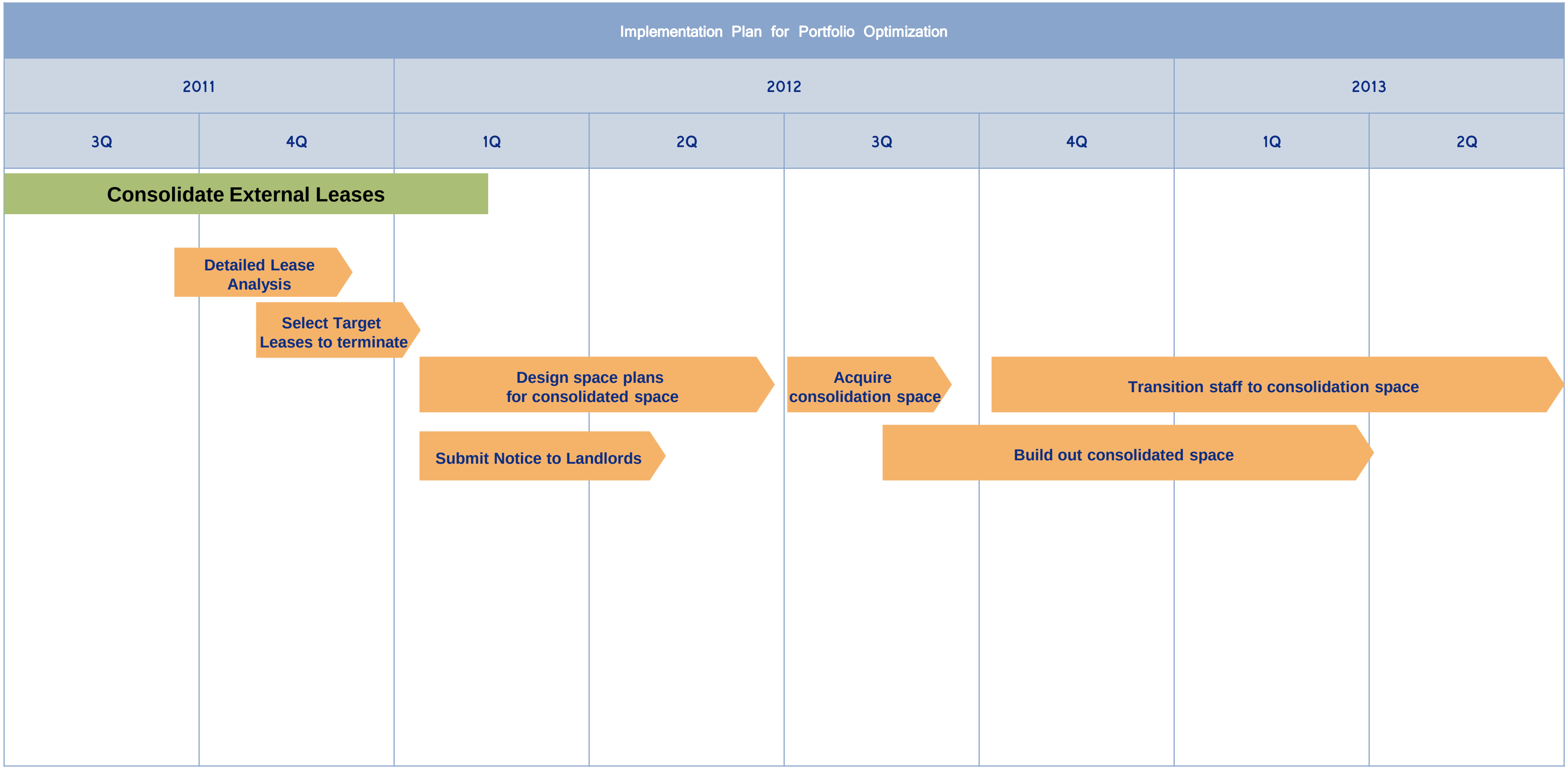

Rationalize existing space and property

There is an opportunity to reduce overall space usage by rationalizing office space and city owned properties.

Findings:

- City does not actively track space usage in office buildings
- Historically, the City did not have a standard regarding space allocation
- New office space is now allocated at approximately 200 sq. ft per person[1]
- The City is undergoing staffing level changes
- A City-wide space densification effort has never taken place

Leading Practices and Benchmarks:

- Leading practices include:
  - Consolidate small spaces to larger buildings to reduce overall space and support costs
  - Establish organization-wide space allocation policies for job types and building types
  - Track space usage on an on-going basis
  - Centralize space tracking using standardized floor-planning software
- UK Government benchmarks show median office allocation are 150 sq ft per employee[2]

Sources:

1. Interview with the City of Toronto, Leasing and Site Management.
2. Benchmarking the Back Office, HM Government, 2009

Rationalize existing space and property

Leading Practices and Benchmarks (cont'd)

- A 2009 survey by Corenet, Jones Lang Lasalle identified that half of survey participants allocate between 125 and 199 sq. ft. per employee[3]
- IFSA 2010 Space management benchmark report found that the average allocation for clerical or administrative staff (non-management) was between 69 and 95 sq. ft. per employee[4]. Mid management staff averaged 120 sq ft per employee. (does not include common space)

Savings Estimate

- Anecdotal evidence from Real Estate Services team indicates that most city building space can be more densely populated without significantly affecting work environments. However, without detailed space usage data, we are not able to properly estimate the potential savings for this opportunity.

Sources:

3. Perspectives on Sustainability: Results of the 2009 Global Survey on Corporate Real Estate and Sustainability, November 2009
4. Space Management Benchmarks 2010, IFMA Research Report #34

Option #4: Portfolio Optimization

Implementation Plan – Rationalize existing space and property

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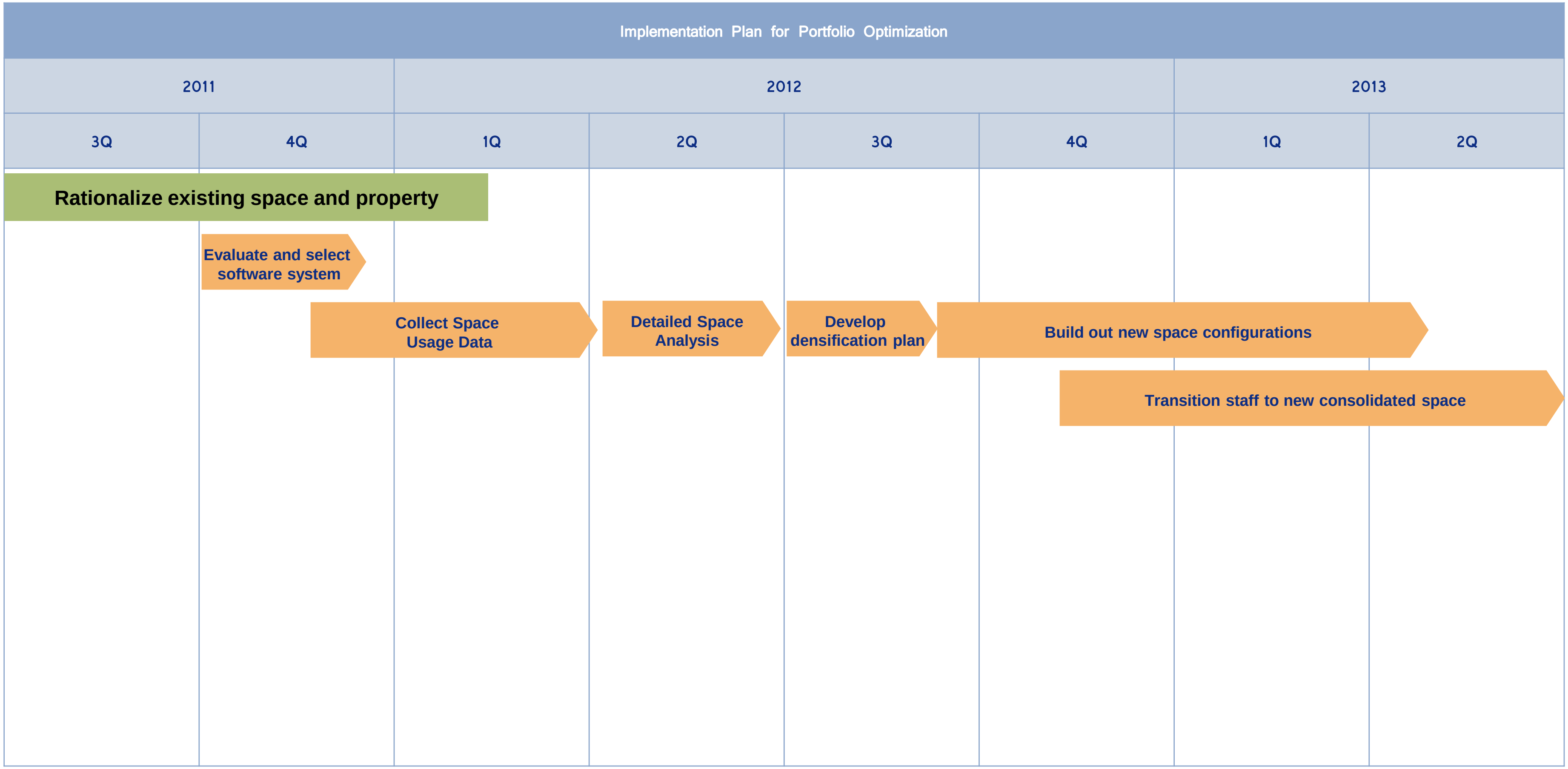

Sale/Leaseback of owned buildings

There is an opportunity to reduce costs by converting the current operating model of managing owned buildings to occupying building space as tenants.

Findings:

- City owns 15 office locations that are home to most office based city employees
- City is responsible for property management and delivering building maintenance, security and custodial services at sites
- Government organizations such as the Government of Canada and the State of California have entered sale/lease-back agreements to reduce their role as property owners

Sale/Leaseback Definition

- Sale/Leaseback is a financing technique whereby a business sells real estate it already owns to a third party for its fair market value ("the sale") and then immediately enters into a long-term net lease and continues to occupy the property ("the leaseback")
- Typically, Sale/Leasebacks are triple net leases with repair and replacement obligations for 10 years or more
- There are numerous accounting and tax issues that must be considered in structuring a Sale Leaseback to ensure for financial reporting purposes the leaseback will be an operating (i.e. off balance sheet) lease as opposed to a capital lease

Source for Facility data : FM & RE reports and interviews

Sale/Leaseback Overview

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Appeal of Sale/Leaseback Agreements

- The most frequent drivers of sale leasebacks relate to accessing the value of assets to obtain cash, flexibility and control over future costs
- Transfer deferred maintenance costs to new owner who can make improvements more cost efficiently
- Transfer property management and risk to the new owner
- Allows seller to focus on managing the core business rather than FM/RE operations

Drawbacks of Sale/Leaseback Agreements

- Lease rate and term must be renegotiated at the end of the lease
- Annual costs can be higher (but needs to be assessed against total financial cost of continued ownership)
- Seller is locked into a long term agreement

Sale/Leaseback Industry Scan

- All of the major real estate firms are experienced in Sale/Leaseback agreements e.g. CB Richard Ellis, Cushman & Wakefield, Jones Lang LaSalle, Studley
- Although the commercial real estate market has been hit hard over the past 3 years, good real estate, with tenants that have strong Balance Sheets remain in high demand for investors
- Sale Leaseback results vary from transaction to transaction (some are in the $ millions while others are in the $ billions)
- There are no typical results – therefore evaluation is on a case by case basis
- Some companies enhance the value of the Sale/Leaseback by signing leases longer than average and sometimes extend for as long as 20-25 years

Option #4: Portfolio Optimization

Sale/Leaseback Overview

Sale/Leaseback Case Studies

Government of Canada

- In 2007, Government of Canada entered a sale/leaseback agreement with Larco Investments Ltd
- Seven office properties involved located in Edmonton, Calgary, Toronto, Ottawa and Montreal
- Deal value worth $1.41b under a 25-year leaseback agreement
- Government now a tenant in these buildings and has transferred responsibility for building improvements to Larco Investments.

State of California

- In 2010, State of California entered a sale/leaseback agreement with California First LLC, a partnership led by Hines and Antarctica Capital Real Estate LLC
- 11 office properties involved located in Sacramento,
- Deal value worth $2.33b under a 20-year leaseback agreement - deal exceeded SoC estimates of $2b
- State sheds responsibility for deferred and major capital improvements, as well as the obligation to pay for unforeseen and unpredictable repairs

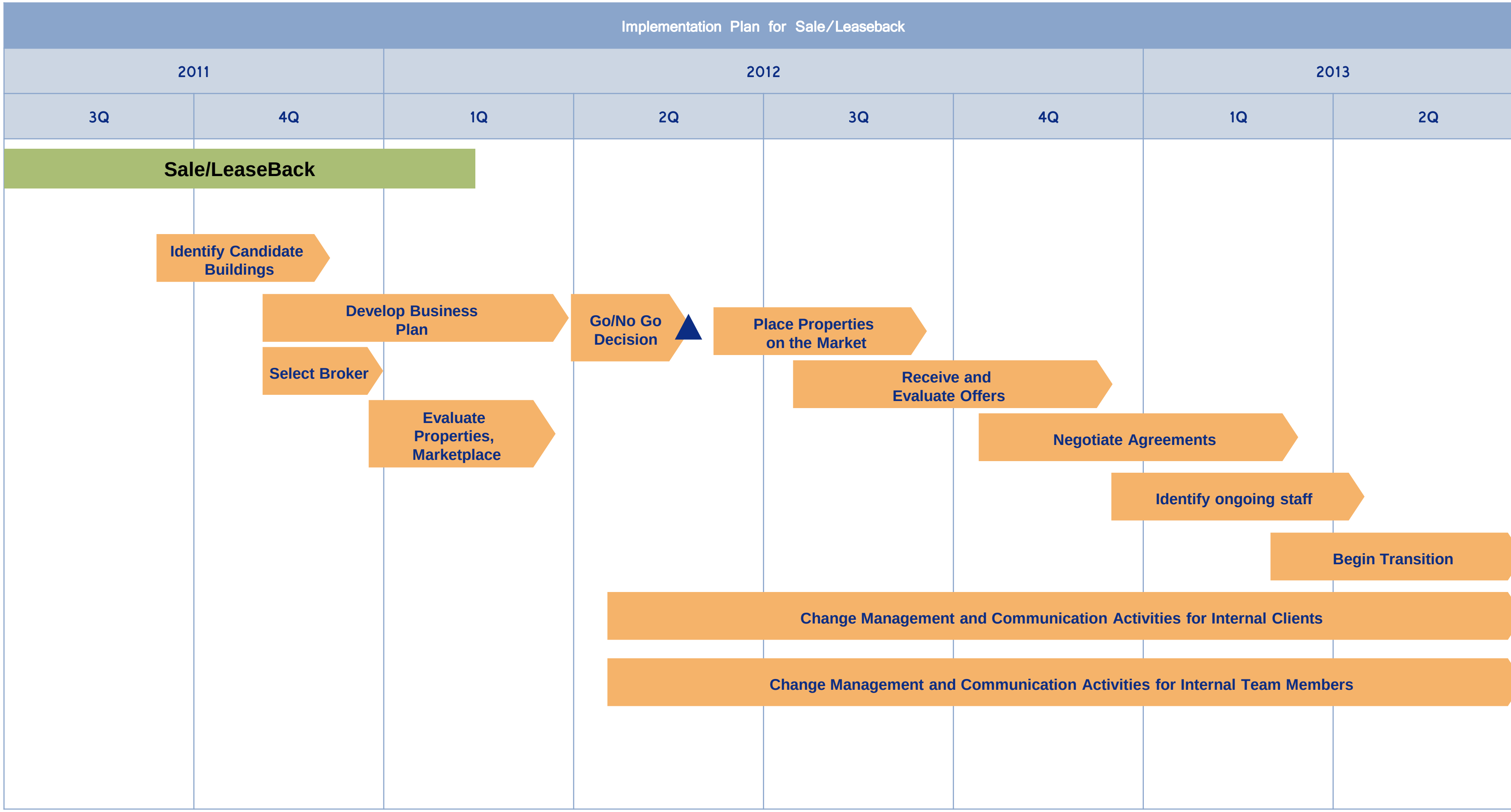
Other Canadian examples

- 12/06 – MTS Allstream - $51.1 million
- 02/07 – EnCana Corporation - $1.3 billion
- 12/08 – Gemini Corporation - $2.9 million
- 03/10 – Promax Energy - $8.0 million
- 03/10 – Ballard Power - $19.5 million

Option #4: Portfolio Optimization

Implementation Plan – Sale/Leaseback

This report is subject to the disclaimer in the Table of Contents



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