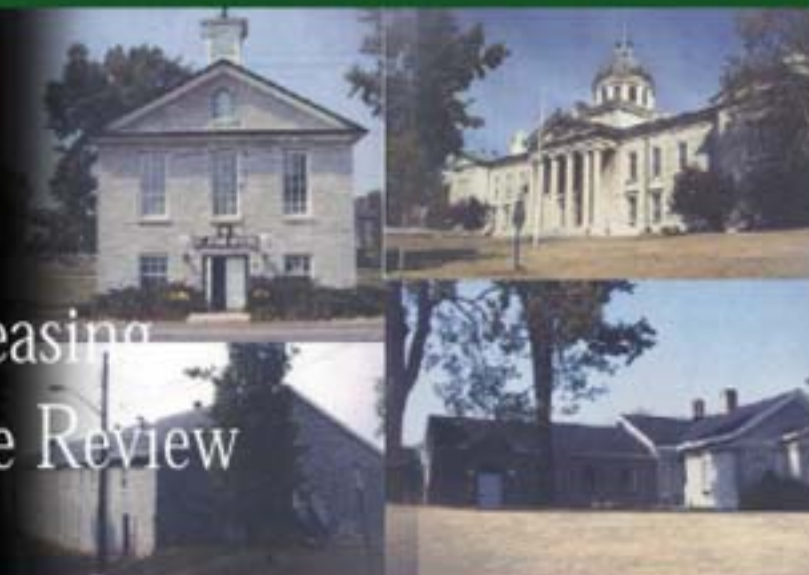


BMA

Management Consulting Inc.

City Property and City Leasing
City of Kingston – Service Review



Report of Draft Recommendations

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Section 1—INTRODUCTION

The Review of Services is a long-term strategy, which is being conducted in two phases, to identify sustainable solutions to ongoing budget challenges and ensure municipal services and programs are provided in the most efficient, effective manner to best meet the needs of the community.

Phase 1, which is the focus of this report is to:

The Review of Services is being undertaken in a 2 phased approach...this draft report addresses the objectives identified in Phase 1

- ◆ Develop a better understanding to what extent the services identified help achieve public policy goals
- ◆ Determine the degree of fit or necessity of those services and programs in terms of the achievement of public policy and strategic value
- ◆ Investigate why the City provides a service, how the service is delivered and whether or not the City should continue providing a service.
- ◆ Identify any services that do not serve the purpose of achieving public policy and/or strategic intentions
- ◆ Assess financial implications of discontinuing any services that do not serve the public policy objectives
- ◆ Create an exit strategy as required for those services that are deemed to be non-essential

This plan was developed on the principles of openness, transparency, inclusion and accessibility. The following statements put those principles into the context of the **Review of Services**:

- ◆ City of Kingston employees, who take pride in delivering municipal services and programs, deserve to be informed and consulted about the Review of Services.
- ◆ Members of the public, who live, work and play in the City of Kingston and receive the services, deserve to be informed and consulted about the Review of Services

An assessment of the process will be undertaken to refine as required for future service reviews

Five services/programs were selected for review, including City Property and City Leasing programs, currently provided by the City of Kingston.

By looking at a limited number of smaller services areas, the expectation is that the City will be able to assess and refine the process and testing before engaging in a review of larger service areas. Phase I of the Review of Services will not necessarily result in fewer services and will not address contracting out or other Alternate Service Delivery models. The Review of Services will allow the municipality to confirm and clarify the reason it has decided to continue to deliver a service or services.

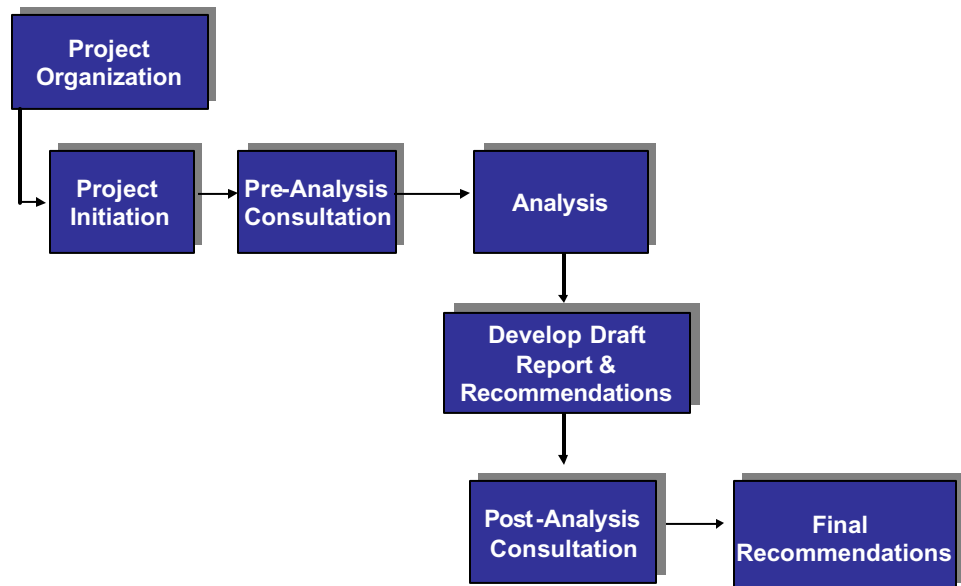
Phase 2, which would be the next phase of the project, focuses on:

- ◆ What level of services should be provided?
- ◆ How the services should be provided?
- ◆ How the service could be improved?

This focuses on ensuring that the most appropriate management and service delivery models are being used.

The following provides a high level overview of the review process undertaken in Phase 1.

Extensive consultation was undertaken in Phase 1...additional consultation will be held after the release of the draft recommendations



Pre-analysis included gathering information from stakeholders, the general public as well as from other municipalities that provide similar services

Pre-Analysis Consultation included:

- ◆ Meetings with staff providing the service to gather information
- ◆ Focus group session with staff providing the service
- ◆ Open house sessions for all staff within the municipality
- ◆ Open house sessions with the general public and users of the service
- ◆ Citizen surveys and comment cards
- ◆ Confirmation of Council's public policy objectives
- ◆ Received correspondence by email and regular mail

Every effort was made to provide ample opportunities to provide input into the service review. Staff developed a detailed communication plan to ensure that the public were well informed of the process and were given preliminary information upon which to understand the service under review. This included brochures, radio advertisements, extensive use of the City's website, newspaper notification of meetings and direct mail out to identified stakeholders.

The information gathered during the pre-analysis consultation phase sessions has been documented and included as appendices to the report. Highlights have been included throughout the report to assess the alignment of the service with public policy objectives.

In addition to the information gathered during the pre-consultation phase, information was gathered from other municipalities to better understand the rationale of other municipalities in the provision of **City Property and City Leasing**, who is not providing this service, policies and practices used in the municipality to determine when and to whom to lease and whether the leasing policies are tied into the grant processes.

This report presents draft recommendations and the analysis conducted to date. Further consultation will be undertaken in January/February. Following the post-analysis consultation, final recommendations will be presented to Council for consideration.

An evaluation was undertaken using 6 distinct tests

To ensure consistency, internal data gathering for each service followed a predetermined general framework. This format was also used in the assessment section of the report to evaluate the service in the context of 6 separate and distinct tests.

1. Clarity of Purpose Test

This includes defining the primary clients and stakeholders, defining other departments that are impacted by the provision of service, defining the purpose or intent of the service.

2. Public Interest Test

To determine how important the service is to meet the needs of the primary clients and stakeholders. Is there sufficient public interest?

3. Role of Government Test

Is there a legitimate and necessary role for municipal government in this service (public policy)? Determine if the service is legitimate and necessary to meet the municipality's legal/policy mandate. Who else is involved in the delivery of the service? Can the public interest needs be met if service was no longer provided by municipal government?

4. Strategic Value Test

Is the service important and necessary for the municipality to achieve the strategic objectives defined in the community and/or corporate vision?

5. Cost/Benefits Test

What is the net cost/revenue of the service? How is it funded? Is it affordable? Are city assets required to provide this service? How are they accounted for in the net cost/revenue calculation? What are the expenditures, revenues and staff associated with providing this service?

6. Performance Test

What is the evidence that this service is meeting its intended policy and public needs objectives as identified above? Are there established service levels for this service? Are there performance measures in place to monitor the achievement of established service levels?

Section 2—PROGRAM/SERVICE OVERVIEW

City Property and City Leasing

Clearly Defining The Study Focus

The focus of this service review is to be able to answer the following questions:

- ◆ **Should the City be leasing properties?**
- ◆ **If so, to whom should the City be leasing properties?**
- ◆ **Is so, what criteria should be used?**

The focus is first on determining the public policies with an underlying review of the asset

While there is a desire by some of the stakeholders that offered their opinions during the public consultation process for the study to also include an analysis of which buildings should be maintained, which to sell, as well as to comment on the historical significance of some of the buildings currently being leased, this is beyond the mandate of the review. The focus of the study is on the services provided by the City rather than the assets. As such, only facilities where the City currently holds leases were included in the scope of the study.

Description of the Current Leases and Tenants

The City owns a number of buildings that are deemed surplus to the City's needs and have been leased to various groups. Many of these leases have been in place for a number of years. The current leases under review include agreements with:

- ◆ The Private Sector;
- ◆ Other Public Sector Organizations; and
- ◆ Not-For-Profit and Service/Community Oriented Organizations

Leases have been established with the private, public and not-for-profit sector

The review includes in excess of 30 leases in 15 different City owned properties. Some of the leases are for the land only (Airport properties).

Many of the leases date back well before the City's amalgamation and are historical in nature. To date, there has been no City service rationalization. The leases range from one dollar to rates set close to or at market value. The City's policy is to invoice tenants for the property taxes associated with the leased properties.

No policies are currently in place to identify and evaluate which properties should be disposed of

There are currently no Council approved policies to govern the asset management of properties deemed to be surplus to the City. For example, there are no guidelines to identify surplus properties nor is there a process to evaluate whether to dispose of the properties. As such, traditionally, the City has continued to manage a portfolio of assets that exceeds the City's current direct needs for these properties.

In addition to the absence of asset management policies, which impact the leasing service provided by the City, there is no approved policy to determine or evaluate to whom the City should lease space or policies to define what would be considered acceptable leasing terms and conditions. There are no policies that define when it is appropriate to charge below market rates, unlike the City's Community Services Investment Program and the Healthy Community Fund, where clear evaluation and eligibility criteria have been established to provide grants.

Summary of Leases

The current City leases are largely to not-for-profit organizations and other public sector organizations

Building	Occupants/Tenants
Properties Leased To Not-For Profit/Service Oriented Organizations	
J.K. Tett Centre	Limestone District Kennel Club Kingston Potters' Guild Girl Guides Theatre 5 Kingston Symphony Volunteers Kingston Handloomers Weavers & Spinners Kingston Lapidary and Mineral Club Kingston School of Dance Domino Theatre
247 Elmwood	Boy Scouts
640 MacDonnell	Boy Scouts
935 Sydenham Road	Lions Club
150 West Street	Red Cross
56 Francis Street	Seniors Association
623 King Street	St. John Ambulance
23 Carlisle Street	Yellow Bike Action Group
21A Queen St.	Modern Fuel Artists-Run Centre
Properties Leased To Other Public Sector Organizations	
Tercentennial Lodge	Frontenac Mental Health Services
Registry Office	Ministry of Consumer & Commercial Relations
Court House	Ministry of the Attorney General
Properties Leased To Private Sector	
Airport Buildings	Kingston Flying Club A.O.G. Heliservices Central Aviation Security Imperial Oil Nav Canada Landings Golf Course Royal Canadian Air Force Club Avis Central Airways Ontario Fun Flyers Brian Reid Wayne Gay & Associates
87-89 Norman Rogers Drive	Darren Prout
251 Ontario Street	Lone Star Restaurant

The majority of the airport leases are for the land only

<p><i>Direct costs as well as administrative overhead have been calculated to provide the cost to the municipality of providing leasing services</i></p> <p><i>Department linkages were identified in the provision of leasing services</i></p>	<p><i>Financial Information</i></p> <p>A review of the revenues and expenditures was undertaken over the past 3 years to determine the net position for each of the leased facilities on an annual basis. Consistent with current financial practice across the City of Kingston, administrative costs are not included in the Department's accounts, nor are capital costs specifically allocated to departmental budgets. In assessing the cost of service delivery, these expenses must be identified and considered as part of full costs.</p> <p>The allocation of administrative costs is a component of the Financial Information Return (FIR) that every municipality is required to report to the province on a yearly basis. The issue of indirect costs deals with the operating expenses that are identified as "General Government" on the FIR and include such expenditures as Corporate Services, Accounting, Payroll, Taxation, Communications, Human Resources and IT. The FIR uses an allocation model to apportion these costs. The allocation model, referred to as a "Modified Percentage" basically allocates the costs proportionately, based on the percentage of department expenses to total expenses for each department.</p> <p>As such, to show the actual cost of operations, capital costs have also been included and cost allocation methodology has been employed, consistent with accounting practices used by Ontario municipalities to allocate administrative overhead. The capital contribution is included to recognize the need for a regular (annual) contribution for on-going and regular maintenance of the building assets. This capital contribution is calculated annually at 3% of the current replacement value for each building. A contribution of 3% is standard in the industry and has been applied to each City facility as an estimate, however, it is recognized that the actual requirements will vary by building based on a condition assessment. A recent Building Conservation Master Plan, undertaken by the City, identified significant capital costs on a number of these facilities, which have deteriorated over the years and have not been adequately maintained.</p> <p>Through the course of the study, a number of departments were identified as providing direct/indirect support for facility leasing. These include:</p> <ul style="list-style-type: none">◆ Cultural Services◆ Operations Administration◆ Properties Division◆ Airport◆ Finance—budgeting, accounting, payroll, accounts payable etc◆ Legal◆ Utilities
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City of Kingston
City Property and City Leasing —Report of Draft Recommendations

Lease Property Financial Summary	2001	2002	2003	3 Year Average
Summary				
Total Operating Revenue - All Buildings	616,289	686,983	778,612	693,961
Total Operating Expenses - All Buildings	<u>373,033</u>	<u>423,576</u>	<u>424,065</u>	<u>406,891</u>
Net Operating - All Buildings	243,256	263,407	354,547	287,070
Total Capital Contribution - All Buildings	<u>1,001,922</u>	<u>1,001,922</u>	<u>1,001,922</u>	<u>1,001,922</u>
Net Profit(Loss) Before Overhead Costs	(758,666)	(738,515)	(647,375)	(714,852)
Overhead/Support Costs				
Corporate Overhead	21,045	24,299	21,841	22,395
Leasing Administration Costs	45,000	45,000	45,000	45,000
Leasing Maintenance Staff and Equipment Costs	<u>35,653</u>	<u>35,653</u>	<u>35,653</u>	<u>35,653</u>
Total Overhead Support Costs	<u>101,699</u>	<u>104,952</u>	<u>102,494</u>	<u>103,048</u>
Net Profit(Loss) Including Overhead/Support Costs	(860,365)	(843,467)	(749,869)	(817,900)

Leasing services are supported through taxpayer contributions

The total average annual cost to the taxpayers is \$818,000 over the past 3 years. Over the past 3 years, the average net direct operating position for the leasing of City facilities is a profit of approximately \$287,000 annually. The inclusion of capital contributions of \$1 million, based on 3% of the asset value results in a net cost to the taxpayer of \$715,000 on average over the 3 year period. The inclusion of administrative overhead increases the contribution from taxpayers by approximately \$103,000 on average over the 3 year period.

The detailed financial information is provided in Appendix A. This provides a breakdown by facility as requested during the review process.

Section 3—PUBLIC POLICY OBJECTIVES

Municipal governments exist to serve two primary purposes:

1. To act as a political mechanism through which a local community can express its collective objectives for community development; and
2. To provide various services and programs to local residents.

To determine public interest, we can assess the extent to which a service or program helps Council to address broad community needs. We refer to these broad community needs as “Public Policy Objectives”.

Every municipal service or program should support, to some extent, the ability of Council to fulfill the following six common Public Policy Objectives

1. Public Health and Safety
2. Environmental Sustainability
3. Wealth Redistribution
4. Program and Services Accessibility
5. Economic Sustainability
6. Community Development

[Note: These objectives are not listed in order of priority or importance.]

These public policy objectives help define and set objectives for our municipal services and programs. To determine what services to provide, the municipality should determine the extent to which services and programs fulfill each of the public policy objectives.

For each of the services under review, it was necessary to identify, in principle, the public policy objectives that each of the services supports. To do this the Task Force to Review Services and some members of Council considered the provision of **City property and City leasing services** and the extent to which it fulfils the above public policy objectives.

Council identified one public policy objective that is minimally met in the provision of leasing services....one of the key objectives of Phase 1 of the Service Review is to determine the degree of fit or necessity of those services and programs in terms of the achievement of public policy and strategic value

Through this exercise Council approved the following motion:

On October 26, 2004, Council passed the following resolution with respect to the Review of Services:

WHEREAS Council has adopted a set of Public Policy Objectives that will be used to help us define and review our municipal services and programs

AND WHEREAS The Task Force to Review Services and some members of Council participated in a workshop to identify what Council wants to achieve through the delivery of the five services and programs under review

THEREFORE BE IT RESOLVED

THAT Council adopt in principle the following Public Policy Objectives that will be communicated to the public and staff as part of the consultation exercise.

AND FURTHER it being understood that the Public Policy Objectives will be brought back for final approval after public consultation.

City Property and City Facility Leasing

That the provision of the City Property and City Facility Leasing contributes minimally to Programs and Services Accessibility

Rationale:

- ◆ Provides space to not-for-profit agencies that they might not otherwise be able to afford

Programs and Services Accessibility is one that provides or ensures equal access to services or community programs of choice not considered essential life services and facilitates the planning, development and/or provision of programs, services and opportunities to individuals and families to ensure that all members of the community, regardless of social or economic circumstance can access the service or program.

Community Development was identified at the open house session, in addition to the Council approved public policy objective of Accessibility.

Section 4—ANALYSIS

This section of the report summarizes the information gathered during the pre-analysis consultation. The appendices included in this report provide the full detail that supports the analysis undertaken.

This section includes:

- ◆ Summary of Citizen Survey
- ◆ Summary of Comment Cards/Comments Received
- ◆ Summary from Open House Session
- ◆ Other Municipal Experiences

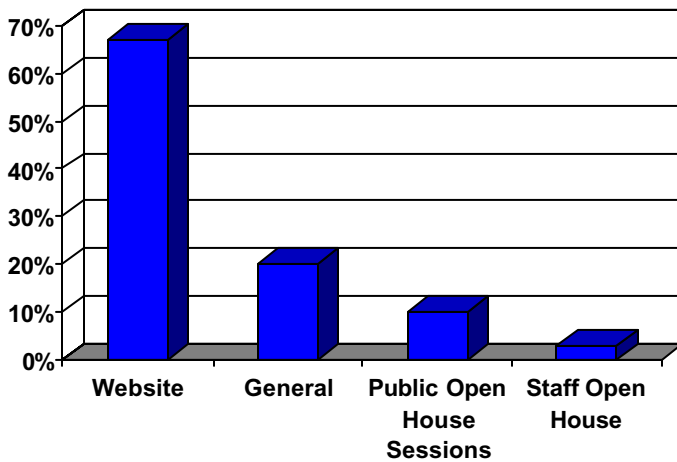
This information will be used extensively in the assessment of the service provided and the alignment to public policy objectives.

Summary of Citizen Survey

In total, 233 surveys were completed:

- ◆ 67% were completed on the website
- ◆ 20% were completed in general
- ◆ 10% were completed from the public open house sessions
- ◆ 3% were completed during staff open house sessions

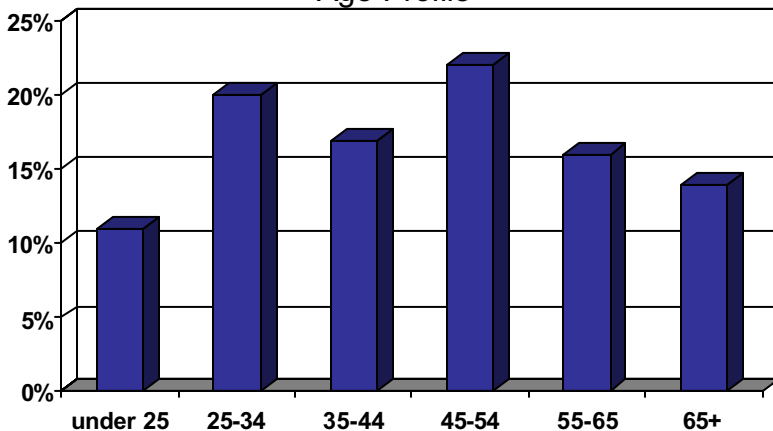
Composition of Where Survey Was Completed



While not a statistically valid sample, consistent with the other services reviewed clear trends were identified.

Based on the comments associated with the survey, there were many surveys completed by organizations that are currently in leasing arrangements with the City or by stakeholders of the organizations. Many of the respondents identified their affiliation to the existing tenants. As such, this survey is not representative of the population at large since it is evident that many of the respondents have a vested interest in the service..

Age Profile



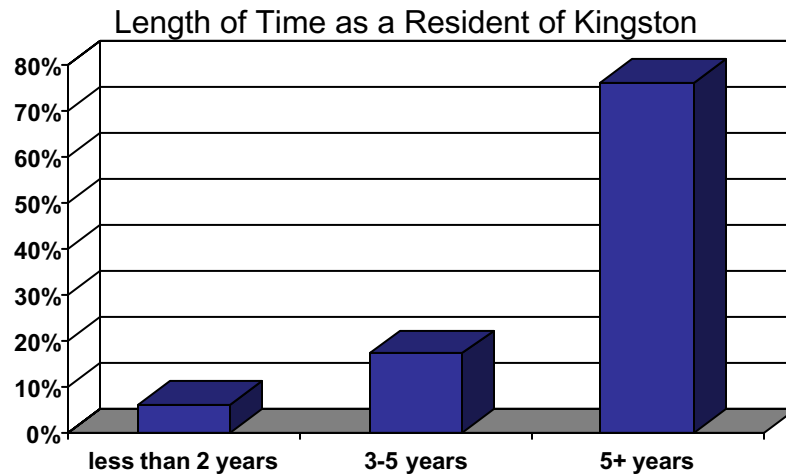
Age Profile

The following graph summarizes the age of the respondents.

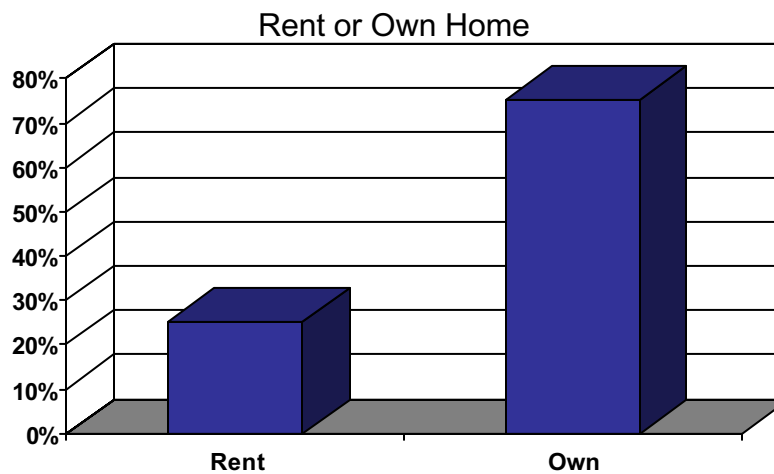
Approximately 22% of the respondents are ages 45-54, with 20% of the respondents 25-34.

Residency Information

Approximately 92% of respondents are residents of the City of Kingston. Of the residents that responded, 76% have been living in the City for 5 years or more.



Approximately 75% of the respondents own their home, with the remaining 25% renting.



There is strong support that the City should provide subsidized lease space for not-for-profit agencies

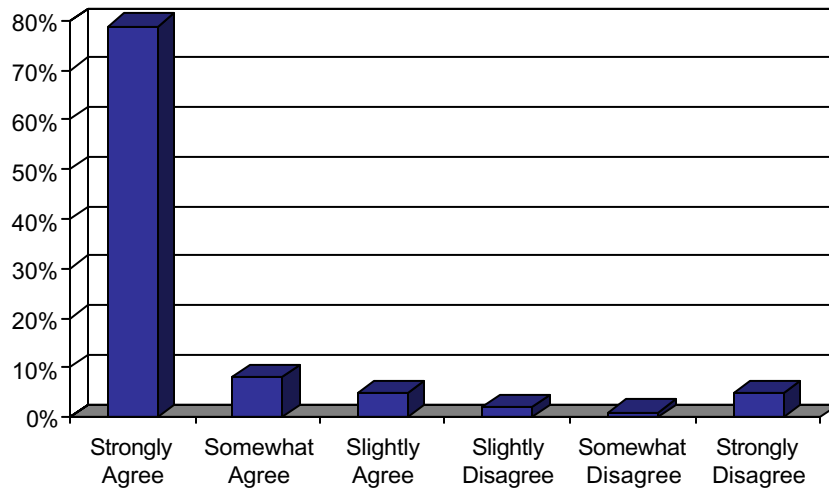
Public Policy Objectives

Opinions were sought to test the key public policy objectives identified by Council for each of the services. The only reason that the City provides leasing services as identified by Council is that it **minimally** contributes to **Programs and Services Accessibility** as it provides space to not-for-profit agencies that they might not otherwise be able to afford. The following statement was raised to gauge support for leasing services for this reason:

“the City should provide subsidized lease space for not-for-profit agencies that might not otherwise be able to afford a lease”

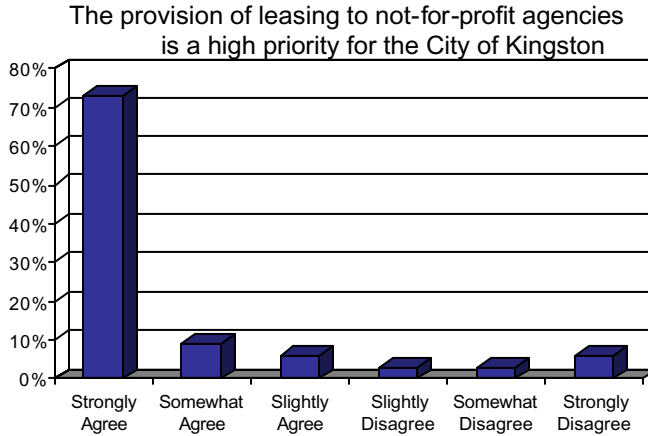
Approximately 79% of the respondents strongly agree with this statement. Only 8% of the respondents did not agree with this statement, with the remaining 13% agreeing somewhat or slightly.

The City should provide subsidized lease space for not-for-profit agencies that might not otherwise be able to afford a lease



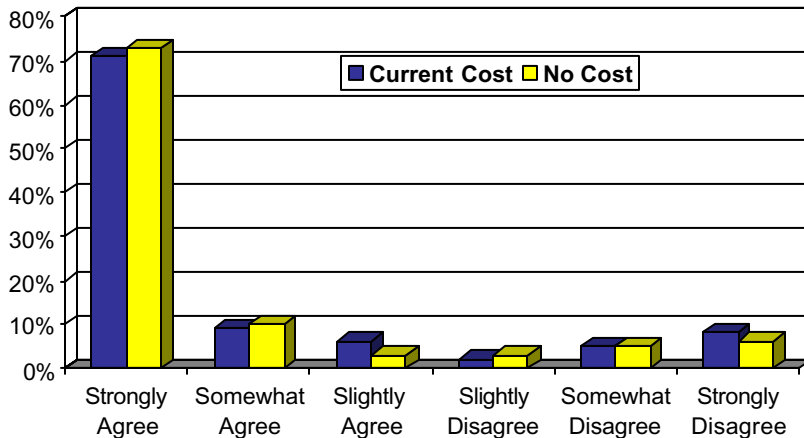
Almost three quarters of the respondents strongly agree that leasing is a high priority

When asked whether the provision of leasing to not-for-profits is a high priority, 73% of the respondents strongly agree that this is a high priority for the City. Approximately 12% did not agree that this is a high priority for the City.



As shown previously, the annual cost to the taxpayers of leasing facilities is estimated to be approximately \$800,000. The survey queried whether the benefits of the service outweigh the costs.

A second question was posed to determine the extent to which there would be support for the ongoing provision of leasing services if there were **no costs** to the taxpayer. The following graph reflect the opinions of those surveyed. Approximately 71% of the respondents strongly agree that the benefits outweigh the costs of service at the current cost of \$800,000. If there were no costs, the number strongly agreeing was 73%. Cost is not a factor for many respondents. This is unusual, given the significant cost identified in the provision of the existing service however as pointed out earlier, many of the respondents identified themselves as having an affiliation with a tenant or are an existing tenant and therefore may not be representative of the population at large. Therefore, this information should be used with caution in drawing conclusions with respect to the opinions of the population at large.



Summary of Survey Comments - City Property and City Leasing

There was a significant number of comments included in the survey for City Property and City Leasing. The following provides some of the key messages identified on the survey. The fully transcribed comments have been included in appendix B.

Importance of supporting the not-for-profit sector

Many reasons were provided as to why the City should support not-for-profit organizations

- ◆ Many of the organizations provide a wide ranging benefit to the entire community by developing/enriching Kingston's arts and cultural life.
- ◆ Many organizations provide vital services for the life of the citizens at large, e.g. Red Cross, Scouts, Volunteer Committee of the Kingston Symphony Association
- ◆ Services that are provided by the not-for-profit organizations are very valuable to the community and should be considered a priority
- ◆ Many organizations attract a significant number of people from outside Kingston who contribute to the local economy through purchases in various stores, restaurants and hotels therefore they also meet tourism related objectives
- ◆ If the City wants to attract new businesses to the community, then there is a need to support the groups that would make the City attractive to potential employees and the people who would move here
- ◆ Members of the community also need a creative outlet. The loss of support for these organizations cannot be measured in dollars. Many not-for-profits could not exist without City support. Cost is minute in comparison with cultural enrichment
- ◆ Many of the not-for-profits in question have programming that targets youth, particularly north end youth, which study after study demonstrates has a positive impact on society and City's budget
- ◆ Should not take away the programs that help build stepping stones for the future

Many felt the City has a responsibility to the not-for-profits

City's responsibility to support the not-for-profits

- ◆ City has a responsibility to provide not-for-profit agencies subsidy so they can continue to exist. City does not do enough to encourage cultural organizations
- ◆ The arts organizations that receive subsidized rent are an integral part of society and must be nurtured
- ◆ The Court House should remain in public as opposed to private control to ensure that the historical significance of this facility is maintained. Any historic properties owned by the City should be maintained in City ownership.
- ◆ The City must make long term commitments to the tenants (10 year leases) to ensure ongoing viability and stability
- ◆ Preference to directing tax dollars to support local non-profits rather than LVEC
- ◆ City bureaucrats could provide professional advice to better the business operations of these fundamentally not-for-profits

Others felt that the City should consider, in the financial analysis, all the social costs saved by supporting not-for-profits that would otherwise fall to the City

Cost/Benefits

- ◆ Many of the organizations expressed a serious concern regarding affordability of space by non-profit organizations if they were rented at market rates. Many comments were received indicating that without City support, some organizations would be unsustainable. \$800,000 is a small price to pay for what the City as a whole gains. Consideration should be given to the impact on the City's costs if these organizations are unable to continue their operations as there is a significant level of social service needs being met by these organizations that would then fall to the City.
- ◆ \$800,000 is not the true cost of this service, but less than one tenth of that. If the total hours worked by every volunteer in all these groups was calculated and billed at just minimum wage, and the materials donated added, perhaps the City would more easily see the value therein. The prevailing attitude seems to be that if you can't list something in a ledger or on a balance sheet, it has no value.

Note: comments not listed in any specific order

Evaluation criteria should be developed to provide City support based on need....some supported selling the assets and exiting the leasing business

While the vast majority of responses were in support of maintaining the status quo, whereby the City would continue to support not-for-profits through low lease rates, there were several suggestions for change. The following summarizes the comments.

Alternative Options to be Considered

- ◆ Council should reduce this cost
- ◆ The City should exit this business as soon as possible and save the \$800,000
- ◆ Services using the Tett Centre (interest groups such as potters, weavers, dance, and theatre) should be charged fair market rates
- ◆ Not-for-profits should be assessed on extreme need and given priority
- ◆ Sell the properties cheap to the non-profits and get out of the service. It isn't run properly or efficiently
- ◆ Make the companies that lease responsible for the operating and capital requirements to maintain the facilities
- ◆ Charge market values. If that isn't sufficient to cover costs, then the City should divest itself of the property

Submissions were received from many of the existing not-for-profit organizations

Summary of Comments Cards and Comments Received By Letter/ Email

Many of the submissions were received from either current lessees or individuals affiliated with the services provided by the not-for-profit organizations leasing City space. In addition, many of the submissions made by the not-for-profit organizations provided an overview of the operations and services provided to the community as well as the importance of the City’s ongoing support to ensure sustainability of the services. Every comment card, letter and email has been included in appendix C to allow the reader an opportunity to better understand the mandates and services of the lessees. These comments were consistent with those included in the survey. The following table provides a summary of submissions received from existing lessees.

Leasing Submissions	
# Submissions	Organization
33	Kingston Potters Guild
20	Kingston School of Dance
11	Modern Fuel Artist Run Centre
2	Girl Guides of Canada
2	Yellow Bike Action
2	Theatre 5
1	Kingston Lapidary & Mineral Club
1	Kingston Symphony

The following provides the key themes identified in all the submissions received (tenants, stakeholders and general comments from the public):

- ◆ For a City which prides itself on its Arts Community, providing low cost accommodation for not-for-profit agencies is an appropriate use of taxpayer’s money. These organizations have provided significant benefits to the citizens of Kingston over the years and every effort should be made by the City to support not-for-profit organizations
- ◆ Research shows that development will more likely occur in places which have a rich cultural life. As such, the City should play a role in supporting not-for-profits

Many reasons were identified as to why the City should support not-for-profit organizations

- ◆ Many of the organizations could not cope with a large increase in their lease rates
- ◆ Caution should be exercised before making any decisions that would detrimentally impact the heart and soul of the community
- ◆ Arts are at the centre of national and local identity. The contributions made by these organizations far outweigh the dollar support that the City currently provides
- ◆ Many of the not-for-profit groups add greatly to the quality of life of Kingston residents
- ◆ Cultural organizations contribute to arts and entertainment which are an essential part of a City's life. They all run largely on volunteer or under-paid effort worth far more than the \$800,000 "cost to taxpayers"
- ◆ Organizations would incur significant costs if the City were to sell these assets and require the existing tenant to find alternate accommodation. This would include moving costs, costs to renovate other facilities to meet the unique requirements of some of the operations as well as increases in lease payments
- ◆ Tourists are attracted to the area because of the presence of such a wide range of arts and culture
- ◆ If the organizations that currently benefit from low/no lease costs were no longer able to maintain their operations, there would be a huge loss to the community, particularly those in most need
- ◆ Some of the organizations act as "business incubators" for individuals that will then establish their own business, likely within the City thereby increasing the local economy. By incubating arts-based businesses, the City is able to increase the profile of the community as a whole

Again, the vast majority of the submissions were very positive, however, there were a few submissions that did not endorse the City continuing in its current practices. The following summarizes these comments:

- ◆ Even non-profit organizations should pay to cover maintenance, property tax, utilities, and future capital enhancements
- ◆ The City needs to look at alternative options with these properties
- ◆ It appears this is costing the City considerable \$-is this prudent business?

Summary of Open House Comments

A public meeting was held October 28, 2004, to present some preliminary information and to seek input from the public. Approximately 47 citizens attended. A summary of the meeting has been included in appendix D. The following provides some highlights, with respect to the comments and opinions shared at the meeting.

- ◆ The community as a whole needs to invest in youths—not-for-profits make a significant contribution to youths by offering opportunities to learn and grow. The programs offered by the not-for-profits keep children off the streets and out of trouble. This contribution outweighs the costs to the City of providing below market lease rates
- ◆ Attempts should be made to harness the energy and the enthusiasm of the not-for-profits to reduce the overall cost to the City
- ◆ Issues were raised on specific facilities and the historical agreements that were reached with the City. In some cases this included examples where not-for-profits incurred costs to undertake renovations on City owned properties. In another example (JK Tett), one of the representatives from a not-for-profit indicated the City approached them to become a tenant therefore, the City should continue to approach this as a partnership
- ◆ Other issues were raised with respect to the overall condition of the facilities being leased—problems were identified specifically at the JK Tett Centre
- ◆ Question as to why the Court House is included as there is a long term lease in place
- ◆ A number of questions were raised regarding the financials, whether the City would be renegotiating leases, how the information would be made available to the lessees, whether other municipalities offer the same service and the overall short time frame of the study
- ◆ Request to provide a breakdown of the revenues and expenses by facility

Note: comments not listed in any specific order

Municipal Experiences

The review of other municipalities focused largely on municipalities of similar populations as well as municipalities that have undergone amalgamations which would increase the likelihood that policies on surplus assets may exist. In total, 14 municipalities were contacted to review the existing programs and services and how these services are offered and co-ordinated across the community. The following table summarizes some of the results of the survey.

Municipality	Est. Population	Does the Municipality Lease Facilities?	Policies/Comments	Type of Tenants
Barrie	118,950	No	Private sector own 3 buildings that are leased to not-for-profits. Received Provincial and Federal Funds as they are Heritage buildings	
Brantford	90,673	Limited	Sell off surplus assets including Heritage buildings that do not serve a municipal use. Only rent space in portions of buildings that are vacant. If the full building is vacant than the City would make every effort to sell.	Not-for-profits slightly below market rates
Chatham-Kent	109,714	Limited	Sold off many of the former town halls deemed to be surplus. Only lease out community halls where there are no interested buyers. These are rented to the not-for-profits at below market rates	Not-for-profits
Guelph	113,457	No	Only buildings purchased for future road developments are leased until project commenced	
Hamilton	516,776	Criteria established moving forward	Sell surplus property unless there is compelling reason to retain. Rent at fair market value even to other public sector agencies or non-profits - City may choose to provide a grant to offset all or part of the lease costs	Not-for-profits, public and private sector
Kingston	120,848	Yes	No clearly defined policies. First come first serve approach	Not-for-profits, public and private sector
Kitchener	202,923	No	Committee struck to review future of surplus properties	
London	355,169	No	Sell surplus property	
Markham	241,127	No		
Oshawa	146,206	Yes	No clearly defined policies. Try to sell surplus properties	Not-for-profits, public and private sector
Ottawa	823,608	No	Only buildings purchased for future road developments are leased until project commenced	
Sarnia	73,930	Yes	No clearly defined policies. Historical in nature	Limited leases -some offered below market rates
Sudbury	160,113	Yes	Largely historical. First come first serve. Tied into the municipal grant process – the municipal grant bylaw passed for each space and grant.	Not-for-profits
Waterloo	93,700	No		
Windsor	221,091	Yes	Grandfathered existing leases and phasing in increases of lease rates. Provide a grant to the JCC that owns buildings and rents to not-for-profits at below market rates. Actively selling when facilities become vacant.	Market Rates, Some special arrangement for non-profits, grant every year for term of the lease for taxes.

It is common practice for municipalities to dispose of surplus properties

Summary of Municipal Experiences

With a few notable exceptions, the majority of municipalities surveyed do not have clear policies governing the practice of leasing surplus properties. However, the majority surveyed are not in the practice of leasing facilities. Surplus assets are typically disposed of if there is no municipal need anticipated in the future. This is the practice followed by Ottawa, Barrie, Markham, London, Brantford, Chatham-Kent and Waterloo.

Most municipalities lease facilities when a property is acquired for future municipal use, but not required for some years. For example a number of municipalities indicated that they lease properties purchased for future roads projects. In these cases, the road development project may not be scheduled for a number of years and the buildings located on the purchased land can generate revenue. In these circumstances, municipalities typically enter into short term lease agreements set at fair market value. The City's of Guelph and Ottawa are examples where this is the practice.

Some municipalities such as the City of Brantford only lease out surplus space within a facility that is also occupied for municipal purposes. While not adhering to a formal policy, their practice has been to dispose of any properties that are not needed for municipal purposes, including properties designated as heritage buildings. Some of these buildings were sold for nominal fees.

Other municipalities have taken the approach that all surplus properties are sold and the municipality has established programs to provide incentives for refurbishing the properties designated as heritage. In some of these cases, for example, the City of Barrie, the private sector has been able to take advantage of Provincial and Federal grant programs associated with heritage facilities.

A number of amalgamated municipalities have inherited long term leases from former municipalities. Chatham-Kent, for example, has sold a number of former town halls. As buildings are deemed surplus and there is a potential market for the property, efforts are made to dispose of these properties. Leasing is only undertaken for buildings where there is no market for sale. In these cases, the properties are leased to not-for-profit organizations serving the community.

Efforts in some of amalgamated municipalities have been made to establish clear guidelines to ensure that consistency is applied across the municipality.

Hamilton has made strides to develop clear real estate portfolio management strategies

City of Hamilton

The City of Hamilton is a good example of where a Real Estate Portfolio Management Strategy was adopted after the amalgamation. This includes such clauses as:

- ◆ Any surplus property will be sold unless there is a compelling reason to retain it
- ◆ The City will acquire property only in support of municipal programs
- ◆ Except where Council specifies, all City of Hamilton real property transactions, including leases, will be based on fair market value, even when the other party to the transaction is another level of government, public sector agency or non-profit organization providing services to the City residents. In the latter case, the City may choose to use its grant process to wholly or partially offset the amount involved
- ◆ Procedures will be developed to ensure consistency in the way the City handles all property acquisitions, disposals and leasing.

City of Windsor

The City of Windsor currently owns a number of facilities that are currently being leased to not-for-profit organizations. Typically these facilities are leased at market rates. While the City has a number of historical leases of City owned facilities to non-profit agencies, the City is moving toward eliminating this practice.

There are examples where long term tenants have been historically paying well below market rates. In these cases, the City is gradually increasing the lease payments over a 10 year period to move toward fair market rents. There are however, special arrangements that have been approved by Council to address the needs of the not-for-profit sector. For example, as part of the grant process, some organizations receive a grant to offset the property taxes.

Another approach undertaken by the City of Windsor is to assist the non-profit sector, without directly leasing City owned facilities. The City provides an annual grant to the local Junior Chamber of Commerce that owns two heritage buildings which they lease out to non-profits. The provisions of the grant requires that the spaces leased out by the JCC be provided at below market rents. The JCC is able to operate on a break even basis, through a combination of fund-raising, lease revenues and the City's grant. There are currently 15-20 tenants at these facilities and there is a waiting list.

The City of Windsor is working with the private sector in ensuring that there is support for not-for-profit organizations

City of Sudbury

The City of Sudbury has a number of historical leases in place with both the private sector and non-for-profits. Similar to some of the practice in Kingston where leases were entered on an ad hoc basis, leases in Sudbury were originally provided to the not-for-profits based on a first come first serve approach, with no evaluation criteria. The City now recognizes below market rents in their municipal grant process as de facto grants.

Assessment of leasing services in Kingston considered all input gathered during the pre-analysis phase of the project, along with information gathered through reviewing other municipal experiences

Section 5—ASSESSMENT

This section of the report focuses on:

- ◆ Developing a better understanding to what extent the services identified help achieve public policy goals
- ◆ Determining the degree of fit or necessity of those services and programs in terms of the achievement of public policy and strategic value
- ◆ Investigating why the City provides a service, how the service is delivered and whether or not the City should continue providing a service.
- ◆ Identifying any services that do not serve the purpose of achieving public policy and/or strategic intentions
- ◆ Assessing financial implications of discontinuing any services that do not serve the public policy objectives
- ◆ Creating an exit strategy as required for those services that are deemed to be non-essential

The assessment is based on all the information gathered in the study including:

- ◆ Staff input from within the department and across the organization
- ◆ Council approved public policy objectives for the service
- ◆ Information gathered from the department
- ◆ Client (user) input from the surveys and open house sessions
- ◆ Public input from the surveys and open house sessions
- ◆ Research
- ◆ Other municipal experiences

The approach to the assessment is to review each of the evaluation criteria developed:

1. Clarity of Purpose Test
2. Public Interest Test
3. Role of Government Test
4. Strategic Value Test
5. Cost/Benefit Test
6. Performance Test

<p><i>Leasing facilities at below market rates to not-for-profit agencies indirectly supports program and service accessibility</i></p>	<p>1. Clarity of Purpose Test</p> <p>This includes defining the primary clients and stakeholders and defining the purpose or intent of the service. The purpose or intent identified by Council in the provision of City Property and City Leasing is Program and Services Accessibility. Council considered that the provision of these services <u>minimally</u> meets this objective in that the City is providing space to not-for-profit agencies that they might not otherwise be able to afford.</p> <p>As shown earlier in the report, <u>Program and Services Accessibility</u> is defined as one that provides or ensures equal access to services or community programs of choice not considered essential life services and facilitates the planning, development and/or provision of programs, services and opportunities to individuals and families to <i>ensure that all members of the community, regardless of social or economic circumstance can access the service or program</i>.</p> <p><u>Not-for-Profit Sector Leases</u></p> <p>Leasing City owned facilities to the not-for-profit sector at below market rates <u>indirectly</u> supports opportunities for individuals and families to participate in programs and services offered by the not-for-profit sector. Based on extensive feedback from the lessees in the not-for-profit sector, without the City’s support, many of the programs and services provided to the community would not exist. The City’s current approach to support these organization’s is through providing space at City owned facilities well below market rates, rather than directly providing a grant to the organizations and charging market rates.</p> <p>There is no question that there is <u>significant benefit</u> to the community to ensure the ongoing viability of not-for-profit organizations. These organizations are providing valuable services and opportunities to the community as communicated through the extensive submissions received during the review process, not only from the organizations themselves but also from individuals and families that benefit from the programs offered by not-for-profit agencies.</p> <p>By leasing space, in some cases for a dollar a year, the City helps to significantly reduce the operating costs of the organizations, which, as indicated by the submissions, is vital to ongoing viability of many of the programs.</p>
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No criteria has been used to evaluate who should be in receipt of these de facto leases nor have they been quantified

As indicated in the submissions, many of the organizations provide a wide range of benefits to the entire community by developing/enriching Kingston’s arts and cultural life. In addition, many of the not-for-profits have programming that targets youth which has a positive impact on society.

As stated in the Community Services Investment Program, September 2001, A New Approach to Building Healthier Communities “currently, community organizations that lease space in City facilities are charged varying percentages of current market value. A policy that rationalizes lease costs in City facilities for not-for-profit organizations would be beneficial.” To date, this has not been undertaken.

Unlike the City’s grant process, which provides support to a number of non-profit organizations and registered charities and requires careful scrutiny and approval using established eligibility and assessment criteria through the Healthy Community Fund, a component of the Community Services Investment Program, leasing properties has been on an ad hoc basis, with no criteria defined to select which organizations should be receiving City assistance or the extent to which assistance should be provided. As such, there are issues with respect to fair and equitable treatment of organizations that may be offering similar benefits to the community.

For example, the assessment criteria used by the City in allocating Healthy Community Funds included an evaluation of:

- ◆ **Does the proposed project address the priorities of the City’s Community Strategic Plan?** To what degree? Does it address more than one priority?
- ◆ **Is there evidence that this is needed in Kingston?** Is the project different and unique from other existing projects/programs in the community?
- ◆ How has the need for this project been demonstrated?
- ◆ **Is it feasible?** Do they have adequate financial, personnel (staff/volunteers/partners), and other resources to implement the project/program? Do they have timelines, with milestones and checkpoints, in place for project/program implementation?

Clear assessment criteria have been used for years to evaluate cash grants to organizations

- ◆ **Have they involved other partners?** Is there evidence of community involvement, collaboration among different organizations and partnerships in the proposal development and/or program delivery? Have they documented the details of these partnerships clearly?
- ◆ **Is it sustainable?** If applicable, is there evidence the project is sustainable beyond the Healthy Community Fund? Have they secured any other sources of funding?
- ◆ **How are they going to assess if the project is successful?** Does the proposal explain how they are going to measure the success of the project?
- ◆ **What else have they done?** Do they have the business experience and/or the experience as it relates to the services to be provided and target group?

In addition to being evaluated against specific assessment criteria, the grant program has stringent eligibility criteria, including but not limited to:

Eligibility criteria also exists for cash grants provided by the City but has not been developed for in-kind grants

- ◆ Project must be sponsored by a non-profit organization and/or a registered charity—the status must be verified
- ◆ Organizations may submit only one application per project
- ◆ Applicant and any sponsoring organization must be in good financial standing with the municipality
- ◆ Funds will not be provided to recover the cost of an organization's financial deficits
- ◆ **No more than 20%** of the project budget can be for administration/overhead costs
- ◆ Funds will not be provided to organizations that do not provide equal access to services to individuals of diverse cultures or with disabilities, where appropriate and feasible
- ◆ **Funds will not be provided for project activities already receiving municipal funds through other programs**

Providing low cost leases should be considered a de facto grant

In 2003, it appears that two organizations are benefiting from direct grants as well as below market leases with the City. The City's current grant policy is not aligned with the provision of below market rate leases. Those benefiting from rent free accommodation provided by the City are not held to the same level of scrutiny as the City has not recognized these benefits as in-kind grants.

In addition, the Healthy Community Fund sets maximum grant levels based on the type of service provided whereas the provision of below market leases has not been quantified. Using the Healthy Community Funds criteria, it appears that some of the benefits afforded through leases would exceed the limits established in the grant program. This again poses problems in terms of the equitable treatment of organizations that may be offering similar benefits to the community.

Providing in-kind support to community groups through the use of municipally owned facilities constitutes a de facto grant and should be subject to the same degree of scrutiny as a cash grant. This will ensure consistency and fairness in the treatment of all organizations.

In addition, there has been no evaluation of whether this is the most suitable means to offer support to the not-for-profit sector. In no area of the real estate industry are below-market leases considered a best practice. Below market leases do not provide the funds necessary to operate and maintain the assets appropriately which typically leads to unfunded capital requirements. Providing space for their operations in facilities owned by the City at below market rates may not be the most cost effective way of providing assistance to not-for-profit organizations.

As indicated in a number of submissions made by existing lessees, these organizations contribute by improving the quality of life through various programs and services including arts, culture and entertainment which are an essential part of a City's life. This is not being disputed. Nor is there dispute that the benefits of the programs that are offered may exceed the cost to taxpayers. The problem with the City's existing approach to leasing municipal facilities to not-for-profit agencies at below market rates however is:

- ◆ the lack of cost/benefit analysis undertaken to determine whether this is the most appropriate form of support to provide;
- ◆ the absence of fairness and equity in the treatment of organizations;
- ◆ the inconsistency of the City's grant policies and leasing practices; and
- ◆ the absence of recognition that leases below market rates are de facto grants and should be treated as such

Private Sector Leases and Lease to Other Public Sector Agencies

The provision of leasing services to the private sector and other public sector organizations does not meet the purpose or intent defined by Council as these are typically leased out at market rates, therefore, accessibility is not facilitated through the provision of these leases.

Not-for-profit agencies provided substantial evidence to support the importance of City support

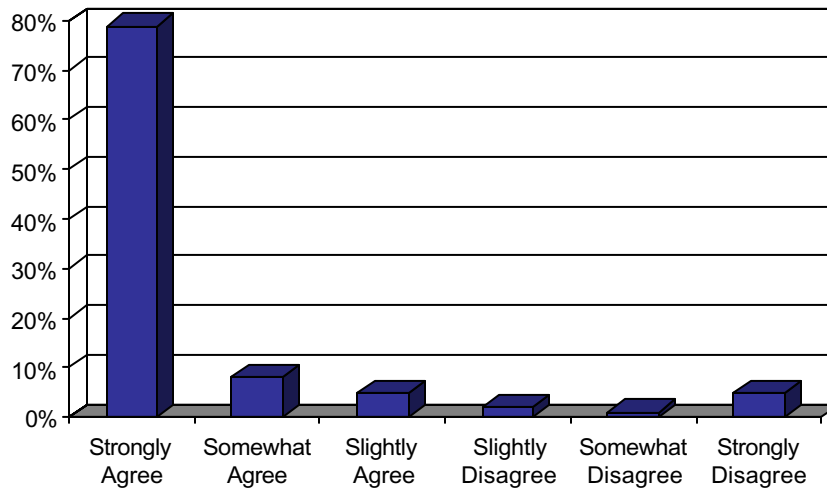
2. Public Interest Test

The second area in which an assessment was conducted focused on determining **how important the service** is to meet the needs of the primary clients and stakeholders.

Clients and Stakeholders

The **primary clients** of the City’s Property and City Leasing programs and services are the existing lessees (not-for-profits, private sector and other public sector agencies). Residents of Kingston are stakeholders as well as visitors to the City. Through the survey, open house session and comments received during the process, substantial evidence was presented by the not-for-profit sector that the support of the City is vital to maintain the viability of many of the programs and services provided by this sector of the market. Evidence from the survey, as shown below, reflects that there is significant support for the City providing assistance for not-for-profit agencies.

The City should provide subsidized lease space for not-for-profit agencies that might not otherwise be able to afford a lease



There was limited evidence to support the importance of the City leasing to the private sector or other public sector agencies.

3. *Role of Government Test*

This form of assessment is to determine whether there is a legitimate and necessary role for municipal government in the provision of City property and leasing services. Other areas explored included a determination of whether the service is legitimate and necessary to meet the municipality's legal/policy mandate, who else is involved in the delivery of the service and whether the public interest needs could be met if service was no longer provided by municipal government.

There is no legal or mandatory requirement that the City provide leasing services. As shown previously in the report, a number of municipalities surveyed sell surplus assets and do not enter into long term leasing agreements with underlying assets deemed to be surplus to municipal needs. The identified purpose of leasing City owned facilities within Kingston has been focused on providing support to not-for-profit organizations, however, there are agreements that have been entered into with the private sector and also other public sector agencies.

Relevant Legislative Requirements/Provisions/Opportunities

Municipal Act restricts bonusing to commercial or industrial enterprises

The ***Municipal Act*** states that **106.** (1) Despite any Act, a municipality shall not assist directly or indirectly any manufacturing business or other industrial or commercial enterprise through the granting of bonuses for that purpose. 2001, c. 25, s. 106 (1).

(2) Without limiting subsection (1), the municipality shall not grant assistance by,

- (a) giving or lending any property of the municipality, including money;
- (b) guaranteeing borrowing;
- (c) leasing or selling any property of the municipality at below fair market value; or
- (d) giving a total or partial exemption from any levy, charge or fee. 2001, c. 25, s. 106 (2).

Exception

(3) Subsection (1) does not apply to a council exercising its authority under subsection 28 (6) or (7) of the ***Planning Act*** or under section 365.1 of this Act. 2001, c. 25, s. 106 (3); 2002, c. 17, Sched. A, s. 23.

107. (1) Despite any provision of this or any other Act relating to the giving of grants or aid by a municipality, subject to section 106, a municipality may make grants, on such terms as to security and otherwise as the council considers appropriate, to any person, group or body, including a fund, within or outside the boundaries of the municipality for any purpose that council considers to be in the interests of the municipality. 2001, c. 25, s. 107 (1).

Loans, guarantees, etc.

- (2) The power to make a grant includes the power,
- (a) to guarantee a loan and to make a grant by way of loan and to charge interest on the loan;
 - (b) **to sell or lease land** for nominal consideration or to make a grant of land;
 - (c) to provide for the use by any person of land owned or occupied by the municipality upon such terms as may be fixed by council;
 - (d) to sell, **lease** or otherwise dispose of at a nominal price, or make a grant of, any personal property of the municipality or to provide for the use of the personal property on such terms as may be fixed by council; and
 - (e) to make donations of foodstuffs and merchandise purchased by the municipality for that purpose. 2001, c. 25, s. 107 (2).

Section 106 of the Municipal Act clearly states that the City is not permitted to provide leases to industrial or commercial enterprises at below market value rates, except if the municipality has established a community improvement plan.

A community improvement area is an area within the municipality of which, in the opinion of Council, is desirable because of age, dilapidation, overcrowding, faulty arrangement, unsuitability of buildings, or for any other environmental, social or community economic reason. Using the provisions of the *Planning Act*, municipalities have offered incentives for property improvements within the area. This can be provided through interest free, partially forgivable loans, grants, realty rebate programs, no fee zones (building permits, zoning, DCs etc). Municipalities that have implemented these types of programs include Barrie, Brantford, Cambridge, Guelph, Hamilton, Kawartha Lakes, London, Ottawa, Sarnia and Sudbury.

Programs are available to the private sector to improve and maintain heritage buildings

Section 107 of the Act permits the sale and lease of property for nominal consideration to entities other than commercial and industrial enterprise (which would include not-for-profits and other public sector entities). Therefore, the City is within its legal authority to offer leases to these agencies at or below market value. As stated previously, criteria and principles surrounding leasing at other than market value should be established to recognize the support.

Commercial Heritage Properties Incentive Fund

The Federal Government has recognized the importance of preserving heritage properties and has developed a program to permit businesses to access Federal funds. In the 2003 Federal Budget, the Government of Canada announced that it would provide financial incentives to the private sector to preserve historic properties. An annual budget of \$10 million was established to provide businesses with a portion of the costs incurred in restoring and rehabilitating commercial heritage properties. By contributing to the rehabilitation of historic places for commercial use, the Commercial Heritage Properties Incentive Fund encourages more businesses to return old buildings to day-to-day community life and preserve their historic character.

The sale of heritage buildings, through this program has the potential to provide the City with additional property tax revenues and some additional funds to provide through the grant program.

In addition, a number of municipalities have established heritage programs to provide incentives to improve/maintain historically significant buildings. This may include interest free loans, façade programs, matching grant programs and tax increment equivalent financing.

As shown earlier in the report, there are opportunities, as developed by other municipalities to develop partnerships with the private sector and/or programs to meet the needs of not-for-profit organizations.

Other Pertinent Legislative Requirements (Airport Lands)

As part of the 1974 agreement with the Federal Government, municipalities cannot sell airport properties; they must revert back to the Federal Government. The majority of the leases are for land only and are established based on market rates.

The public interest could be met if the City were to cease leasing municipal properties

Can the public interest needs be met if service was no longer provided by the City?

The focus of this analysis, given that the leases to the private sector and the leases to the public sector do not meet the accessibility criteria is on the City's objective to provide space to not-for-profit agencies that they might not otherwise be able to afford.

As stated previously, it is well recognized that the municipality's support of the services that are provided to not-for-profit agencies is important to the overall viability of the operations, however, the extent to which, on a case by case basis is not known as there is no analysis undertaken on the costs/benefit of providing the below market rates to the existing tenant base. While no detailed analysis was undertaken, in the absence of criteria, because the low cost lease rates are in fact grants to these agencies, the public interest needs could be met if the City no longer provided leasing. Other approaches could be to provide outright grants to organizations meeting the City's eligibility criteria.

The City competes with the private sector in the provision of leasing services

Does the City directly compete with the private sector or other agencies in the provision of leasing services?

The City does compete against the private sector in the provision of space. Any space currently occupied by the organization's leasing with the City would need to seek alternate space if the properties were no longer available, therefore, the City is competing with the private sector.

Is the City pricing their services appropriately?

There is no recognition of the in-kind value of the leases that are provided to the not-for-profit agencies benefiting from the provision of space in City owned facilities.

There is no formal process in place to evaluate the extent or appropriateness of providing subsidized leases by the municipality. Best practices dictates that the full market value of the lease should be identified to reflect the cost of the service that is being provided in-kind. As stated previously, without a recognition of the value of the service provided, it is difficult for Council to assess the appropriateness of the in-kind grants provided by the municipality to not-for-profit organizations.

A number of the buildings that are being leased require a significant degree of capital improvements. The costs of maintaining the buildings are not being recovered from the tenants and are expensive to operate and maintain.

Support to not-for-profits is the **core** service provided, not the building itself. To meet the City's defined public policy objective (Accessibility), there is no requirement for the municipality to own and operate the buildings. Support can be provided in the form of a grant or other incentives that would encourage private sector partnerships as has been undertaken in other municipalities. By not recognizing the true value of the lease arrangements with the not-for-profit sector and in the absence of municipal policy to support the revitalization of historic buildings by the private sector, opportunities to sell surplus properties are not optimal.

There is a window of opportunity that can be accessed through the Federal government that would encourage the rehabilitation of heritage buildings. This, combined with the development of complimentary municipal programs may provide sufficient incentive for the private sector to partner in the provision of leasing services.

4. Strategic Value Test

The City has a number of community objectives including the following:

- ◆ **Access to Information**
- ◆ **Culture, Heritage, Parks and Recreation**
- ◆ **Economic Prosperity**
- ◆ **Long-Range Infrastructure Plan**
- ◆ **The Environment**
- ◆ **Getting Our House In Order**
- ◆ **Planning: Official Plan and Transportation Master Plan**
- ◆ **Affordable Housing Strategy**
- ◆ **Support Volunteers**
- ◆ **Promotion of Neighbourhood Associations**
- ◆ **Our Young People**
- ◆ **Our Elders**

The following summarizes the community objectives which were identified by staff associated with the provision of City Property and City Leasing services.

Culture, Heritage, Parks & Recreation

Plan and manage our cultural programs and assets to ensure sustainability into the future.

Staff indicated that the provision of leasing services ensures that City assets are sustainable to house cultural and non profit groups. While in theory, maintaining these assets should ensure the ongoing sustainability of these assets, there are significant capital requirements to properly maintain the facilities. A recent building condition assessment evaluated the overall building condition of City assets. A number of the City facilities that are leased to not-for-profit organizations are rated as fair to poor and require extensive capital funds to restore the facility's historic, operational and public visibility condition.

The costs of properly maintaining the buildings are not being recovered from the tenants, therefore, with limited City budgets, these assets must compete with all the other capital requirements of the City.

Mere ownership of facilities by the City does not necessarily ensure that assets are well maintained...these surplus assets must compete against high priority projects for capital dollars

Economic Prosperity

Improve economic wealth while enhancing the social and environmental goals of the community.

The actual leasing function does not directly contribute to the economic prosperity of the community. Indirectly, by providing affordable space to not-for-profit organizations that provide services to the community, the City is indirectly contributing to the economic prosperity of the community. The impact of this is difficult to measure and is unknown.

Long-Range Infrastructure Plan

Plan for and manage our infrastructure in a fiscally responsible way to ensure our roads, sewer, water mains, gas and broadband networking is the best it can be

This involves having a building life cycle plan. As mentioned previously, there is currently no life cycle plan in place. Building assessments indicate significant capital is required for some of the City's leased facilities and the City has competing priorities for capital funds available.

Support Volunteers

Recognize and support our neighbourhood associations, community organizations, and volunteers who serve our community.

As stated previously, the majority of the leases are at or below market rates. While no formal process is in place to evaluate the leases, below market rates are typically provided to organizations that involve services that are provided by volunteers. As such, support of not-for-profit organizations that ensures their ongoing financial viability in turn supports neighbourhood associations, community organizations and volunteers that service the community.

The current leases do not recover the full cost of service provided

5. Cost/Benefits Test

The cost/benefit test explores the following questions:

- ◆ What is the net cost/revenue of the service?
- ◆ How is it funded?
- ◆ Is it affordable?
- ◆ Are city assets required to provide this service?
- ◆ How are they accounted for in the net cost/revenue calculation?
- ◆ What are the expenditures, revenues associated with this service?

The following table was previously presented in the financial information section of the report. As shown below, the analysis of actual revenues and expenditures indicates that revenues have exceeded the direct operating expenditures. The annual revenues for the leased facilities under review averaged over the past 3 years are \$694,000, while direct expenditures averaged \$407,000, resulting in a net direct operating profit of approximately \$287,000. The inclusion of capital requirements and administrative overhead results in a net overall operating cost to the taxpayer of \$817,000 annually.

Lease Property Financial Summary	2001	2002	2003	3 Year Average
Summary				
Total Operating Revenue - All Buildings	616,289	686,983	778,612	693,961
Total Operating Expenses - All Buildings	<u>373,033</u>	<u>423,576</u>	<u>424,065</u>	<u>406,891</u>
Net Operating - All Buildings	243,256	263,407	354,547	287,070
Total Capital Contribution - All Buildings	<u>1,001,922</u>	<u>1,001,922</u>	<u>1,001,922</u>	<u>1,001,922</u>
Net Profit(Loss) Before Overhead Costs	(758,666)	(738,515)	(647,375)	(714,852)
Overhead/Support Costs				
Corporate Overhead	21,045	24,299	21,841	22,395
Leasing Administration Costs	45,000	45,000	45,000	45,000
Leasing Maintenance Staff and Equipment Costs	<u>35,653</u>	<u>35,653</u>	<u>35,653</u>	<u>35,653</u>
Total Overhead Support Costs	<u>101,699</u>	<u>104,952</u>	<u>102,494</u>	<u>103,048</u>
Net Profit(Loss) Including Overhead/Support Costs	(860,365)	(843,467)	(749,869)	(817,900)

On average, \$383,000 was provided to the not-for-profit sector annually over the past 3 years

The following table summarizes the net costs based on the type of lessee; private sector, public sector and not-for-profit. As shown below, on average, the not-for-profit leases are provided at a net cost to the City of approximately \$383,000 (includes capital contributions but excludes administrative overhead which has not been allocated to the various lease categories). It is interesting to note that in 2003, the not-for-profit in-kind grants were approximately \$400,000 as shown below, benefiting 17 organizations while the cash grants provided in 2003 through the Healthy Community Fund were \$305,000, benefiting 35 organizations.

	2001	2002	2003	
Private Sector Leases	(96,893)	(97,538)	(94,728)	(96,386)
Public Sector Leases	(302,876)	(248,529)	(153,859)	(235,088)
Not-For-Profit Leases	(358,897)	(392,448)	(398,788)	(383,378)
Administrative Overhead	(101,699)	(104,952)	(102,494)	(103,048)
	(860,365)	(843,467)	(749,869)	(817,900)

There are other ways that the City can provide support other than through low cost leases

The organizations felt that it is the City's responsibility to provide not-for-profit agencies subsidy so these operations can continue to exist. Many of the organizations also expressed a serious concern regarding affordability of space if the City were to discontinue this subsidy.

Clearly, there are benefits that the community is receiving in return for the in-kind grants provided to the benefiting organizations. However, because these organizations have not been required to apply to the City for these grants, there is no ability to measure the benefit or to determine if this is the most appropriate use of taxpayer funds. Further, it has not been determined if this is the most effective manner in which the City can support these organizations. City assets are not required to provide support. For example, it may be more beneficial for the City to sell these properties and increase the Healthy Community Fund.

The existing policies for issuing Healthy Community Funds do not recognize in-kind grants associated with below market leases. If the leases are deemed the most appropriate way to support the not-for-profits, then the policy must be updated to address these types of in-kind grants.

Private sector leases do not contribute to the defined public policy objective

The private sector leases have been provided, on a consolidated basis, at a net cost to the taxpayer of \$96,000 when the capital requirements for these facilities are factored in. The cost is largely attributed to the airport leases. As stated previously, the provision of leasing services to the private sector does not meet the Council defined public policy objective. There is no evidence that the cost of these services outweighs the benefits.

6. Performance Test

The Performance Test queried the following areas:

- ◆ What is the evidence that this service is meeting its intended policy and public needs objectives?
- ◆ Are there established service levels for this service?
- ◆ Are there performance measures in place to monitor the achievement of established service levels?

At this stage, there is significant qualitative evidence that providing support to the not-for-profit sector meets the intended public policy objective, however, with no evaluation process, it is unclear if those organizations that are benefiting from low cost leases are most deserving. There is no quantitative evidence to understand how those organizations are supporting the community objectives.

Without an evaluation process, the current practice runs the risk of being inequitable, particularly given that those benefiting were determined in many cases either on an ad hoc or on a first come first service basis. Consistency is needed in the provision of support by the City. In addition, there is a need, consistent with the Healthy Community Fund grant program to develop performance measures to monitor the achievement of established objectives and to monitor this on a regular basis.

Summary—Assessment

Clarity of Purpose

- ◆ Marginally meet the Clarity of Purpose Test

Pros

- ◆ Meets accessibility and affordability objectives in that it assists not-for-profit agencies which are offered space at lower rates than the private sector would charge
- ◆ The not-for-profit organizations provide valuable services to the community
- ◆ Promotes and contributes to the City as a caring community
- ◆ Some of the current practices indirectly meet the clarity of purpose test

Cons

- ◆ Not-for-profit organizations leasing property from the City are not put through the same scrutiny and evaluation process as cash grants provided by the City
- ◆ Leasing to the private sector and other government agencies does not meet the Clarity of Purpose Test as it does not contribute to the Council defined public policy objective

Public Interest Test

- ◆ Moderately meets the Public Interest Test

Pros

- ◆ Primary clients and stakeholders feel support by the City is vital to maintain their ongoing viability of their programs in the not-for-profit sector

Cons

- ◆ There are other ways that the City could provide support to not-for-profit organizations that should be evaluated to determine the most effective approach
- ◆ There was limited evidence to support the importance of the City leasing to the private sector and other public sector agencies

Role of Government Test

- ◆ Marginally meets the Role of Government Test

Pros

- ◆ City has legal authority to provide assistance to not-for-profits if it so desires

Cons

- ◆ No legal mandate to lease facilities
- ◆ There is no formal process to determine the extent or appropriateness of existing subsidies
- ◆ City competes with the private sector in leasing facilities

Strategic Value Test

- ◆ Marginally meets Strategic Value Test

Pros

- ◆ Indirectly supports volunteer activities by providing low cost accommodation to organizations

Cons

- ◆ Leasing facilities does not ensure sustainability of the assets, as evidenced from the Building Condition Assessment undertaken by the City

Cost/Benefits Test

- ◆ Questionable whether it meets the Cost/Benefits Test

Pros

- ◆ While recognized that the leasing of airport properties does not meet the public policy objective, given that the airports cannot be sold, leasing at market rates is the highest and best use of the asset

Cons

- ◆ Organizations receiving benefit are not required to report to Council, therefore, there is no ability to measure the benefits to the community of providing low cost leases
- ◆ There are other ways that may be more cost effective to assist not-for-profits and meet the accessibility objective that have not been pursued to date
- ◆ Business case analysis must be undertaken to support any leasing decisions, regardless of whether the property is leased to the private, public or not-for-profit sector

Performance Test

- ◆ Marginally meets the Performance Test

Cons

- ◆ Since there are no policies or objectives defined for leasing to the not-for-profit sector, there is no clear, measurable evidence that the service is meeting public policy objectives
- ◆ Consistency in the treatment of organizations is needed to improve fairness, equity and transparency of the processes

Section 6—OPTIONS UNDER CONSIDERATION

Three options were considered:

1. ***Exit the Service***
2. ***Maintain the Status Quo***
3. ***Next Steps – explore opportunities to better achieve the community objectives***

1. Exit the Service

In general, exiting the leasing business is recommended for the following reasons:

- ◆ Public policy and community objectives can be met through other means
- ◆ Some of the leases meet no defined public policy objective

2. Maintain the Status Quo

The status quo is not recommended for the following reasons:

- ◆ Cost/benefit analysis needs to be undertaken to evaluate whether leasing is the most cost effective means of offering service to the not-for-profit sector
- ◆ No criteria for determining which agencies should be in receipt of assistance or how the leases should be structured
- ◆ Inconsistent treatment of organizations and concerns with respect to fairness and equity of providing cash grants and the associated evaluation criteria compared to no requirements for low cost lease recipients
- ◆ No co-ordination of City efforts to support not-for-profits
- ◆ No public policy objective is met by leasing to the private sector in general, however, airport lands should continue to be leased as the municipality cannot sell the lands under the agreement reached with the Federal government at the time of transfer
- ◆ No business case analysis is currently undertaken to support decision-making
- ◆ Capital needs will continue to escalate and compete against other projects deemed of higher importance, resulting in a further deterioration of City owned surplus facilities
- ◆ Leasing below market values and not recognizing the value is not considered a best practice

3. Next Steps

We recommend the following steps be undertaken:

- ◆ Adopt criteria to determine which buildings and properties should be identified as surplus and sold, with the exception of airport properties which under Federal agreement cannot be sold.
- ◆ Attempt to sell the buildings which are determined to be surplus.
- ◆ For those assets not declared surplus (and those at the airport) or for those assets that do not attract a buyer, undertake the following analysis to make a recommendation on the next course of action:
 - ◆ Determine what the market rent would be to lease the space and the marketability of the space;
 - ◆ Determine the costs/benefits of demolition;
 - ◆ Determine the costs/benefits of leaving the space vacant
- ◆ Compare the market rent against the total cost of maintaining the asset (operating, capital, indirect) against other options to determine if leasing is the most feasible option.
- ◆ In preparing the cost/benefit analysis for evaluating opportunities to support not-for-profit organizations the analysis should compare the in-kind grant benefit against other forms of support such as:
 - ◆ Applicability of the eligibility and assessment criteria associated with the Healthy Community Grant Program—i.e. Would the existing lessee qualify under the program and what would be their potential/maximum entitlement compared with the benefit through the in-kind grant offered through below market leases
 - ◆ Increasing the allocation of funds within the Healthy Community Grant program
 - ◆ Providing revolving loan funds or loan guarantees to help not-for-profit organizations secure credit
 - ◆ Instituting a tax incremental financing program
 - ◆ Providing tax credits/rebates for not-for-profits
 - ◆ Facilitating public-private partnerships
 - ◆ Negotiating volume discounts on insurance
- ◆ Identify any and all transitional issues associated with the existing lease arrangements of City owned assets