

**Date:** 2019-11-21

**Subject:** **Business case for the possible creation of a Municipal Development Corporation (RM 55/2019)**

**Contact:** David Barrick, Chief Administrative Officer, 905.874.2625

**Recommendations:**

1. THAT the report from David Barrick, Chief Administrative Officer, dated November 21, 2019, to the Council Meeting of December 11, 2019, titled **Business Case for the Possible Creation of a Municipal Development Corporation (RM 55/2019)** be received;
2. THAT City Council approve a Brampton Municipal Development Corporation (MDC) in-principle, as per Option 1;
3. THAT the CAO's Office be directed to engage a third-party consultant to prepare a Business Work Plan for a Brampton Municipal Development Corporation; and
4. THAT the CAO's Office return to Council with the Work Plan for approval.

**Overview:**

- **At the June 23, 2017 City Council meeting, Council received the report titled *Authority to Modernize Mandate – Commence Revised Real Estate Acquisition, Disposal and Leasing Strategy*, increasing staff authorization for real estate negotiations to address 1) continuous improvement of Realty Services to increase efficiency and ability to address Council priorities, and 2) emerging long term City planning vision that would potentially expand Realty Services' business mandate. Part of the long-term strategy resulted in the formation of the Strategic Real Estate project team to address business needs by elevating the management of City real estate assets through portfolio strategy, asset management, and strategic acquisitions and disposals**
- **Staff identified a Municipal Development Corporation as a potential avenue**

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to further increase the scope of real estate activities, take on more risk, add value to strategic sites, mitigate market risk, and explore city building opportunities. Maximizing the potential of the CAA Lands, stimulating Queen Street Corridor regeneration, and growth acceleration in Brampton's Downtown, through initiatives like Downtown Flood Mitigation (Riverwalk) and a Brampton University, encouraged opening the conversation around a new Brampton MDC.

- A Municipal Development Corporation does not preclude the need to maintain in-house real estate services.
- Should a municipality wish to consider a development corporation, the Municipal Act requires a business case and consultation with the public. At the May 1, 2019 Committee of Council meeting, staff were directed to engage a third-party consultant to prepare a business case and seek advice for the possible establishment of a Brampton MDC.
- Staff engaged N. Barry Lyon Consultants (NBLC), a firm specializing in community renewal, development feasibility, and real estate strategy to develop the business case.
- NBLC's report states there is significant potential for a MDC to be successful; however, the ultimate success of a Brampton MDC requires more detailed analysis and development of a business workplan to understand the feasibility of generating suitable returns and being self-sustaining.
- Staff have presented two (2) options for consideration. *Option 1, Approval of MDC in-principle*, accepts NBLC's recommended approach for further analysis and development of a business workplan as steps the City must take prior to establishing a MDC. *Option 2, In-house Services*, maintains the City's current Realty Services Division and Strategic Real Estate Project Team, with continued focus on building successes within the existing corporate structure.
- Staff recommend *Option 1, Approval of MDC in-principle*; consultations with the cross-departmental working team made it evident that NBLC's recommendation for further research and analysis is required to flush out necessary details. Ample due diligence should be completed to ensure a MDC is the right model for the City of Brampton.

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## **Background:**

At the June 23, 2017 City Council meeting, Council received the report titled ***Authority to Modernize Mandate – Commence Revised Real Estate Acquisition, Disposal and Leasing Strategy***. This mandate provides the cross-departmental staff member team - led by Realty Services, Legal Services, Economic Development & Culture, and Finance - the authorization to enter into negotiations with property owners for the purpose of acquiring land and/or facilities for various identified City of Brampton (City) projects, identified municipal purposes, opportunity driven purchases, and to address Council-approved strategic priorities.

Part of the long-term strategy resulted in the formation of the Strategic Real Estate project team to address new business needs by the management of City real estate assets through portfolio strategy, asset management, acquisitions and disposals to address defined Council priorities.

In an effort to advance the successes of the *Modernized Real Estate Strategy*, staff identified the establishment of a Municipal Development Corporation as a potential avenue to further increase the scope of real estate activities, take on more risk, add value to strategic site(s), and leverage assets in a for-profit structure.

Municipal Development Corporations (MDCs), created through legislation (*Municipal Act, 2001*), are separate and distinct entities from municipalities and are guided by a defined mandate, typically focused on providing revenue to its shareholder (the City) and by actively improving the City economically, socially, environmentally, and aesthetically.

It is critical to understand from the onset that a MDC does not preclude the need to maintain in-house real estate services; rather, a MDC should be considered as a potential complimentary tool to advance city building and real estate objectives.

At the May 1, 2019 Committee of Council meeting the report ***Business Case for a Municipal Development Corporation (RE-19-200)*** was received. Staff were directed to engage a third-party consultant to prepare a business case and seek advice for the possible establishment of a Brampton MDC and return to Council to allow for more focused deliberation on next steps.

## **Current Situation:**

Staff engaged N. Barry Lyon Consultants (NBLC), a firm specializing in community renewal, development feasibility, and real estate strategy to develop a business case for the establishment of a Municipal Development Corporation in the City of Brampton. NBLC has extensive experience working with Waterfront Toronto, CreateTO, Canada Lands Company and other public development corporations.

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Community Services and Corporate Services managed the MDC business case with NBLC; however, acknowledging a Brampton MDC as a city building instrument, a cross-departmental working team was established to ensure representation of City-wide needs and objectives. Cross-departmental workshops held in August and September saw representation and collaboration from the Senior Leadership team and members of Corporate Services, Community Services, Economic Development & Culture, and Planning & Development Services.

## **Business Case Findings**

NBLC's report, entitled *Business Case Framework for a Municipal Development Corporation*, considers past initiatives to create capacity within the City of Brampton, reviews other Canadian MDC precedents, identifies areas of opportunity, and provides an initial opinion on the viability of a Brampton MDC. Sections of the report are summarized below; the entire report, dated October 2019, can be found in Appendix A.

### Historical Brampton Downtown Development Corporation

The Brampton Downtown Development Corporation (BDDC) was established in 2006 under the Municipal Act as a public-private partnership between the Downtown Brampton business community and the City of Brampton in an effort to attract new business and investment in residential, commercial, and institutional development in Brampton's downtown.

The BDDC was unique as it combined the traditional Business Improvement Association (BIA) function into a corporation that would also provide real estate development services in the downtown. Between 2006 and 2014, the BDDC's primary focus of activities was on BIA functions associated with marketing the downtown.

In 2014, Malone Given Parsons Ltd. (MGP) was retained to conduct the mandated 10-year review. MGP concluded that the BDDC was performing the BIA functions of its mandate successfully; however, it was not fulfilling its development mandate. The central issue was that the BDDC's unusual hybrid mandate as both BIA and development corporation was difficult to execute within a single organization.

MGP recommended the BIA function be separated and that a new development corporation should be considered, subject to a business case analysis to confirm the need, structure, mandate, geographic scope, focus, and purpose.

At the February 11, 2015 Council Meeting, direction was received to dissolve the BDDC and reactivate BIA services for downtown Brampton. Council Meeting Minutes are included in Appendix B. MGP's delegation presentation, *Recommendations for Delivery of BIA & Development in the Downtown*, is in Appendix C.

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## Municipal Development Corporation Precedents

NBLC reviewed the structure and prototypical projects across a sample of MDCs in Canada, including CreateTO, Surrey City Development Corporation, Oakville Municipal Development Corporation, and Ottawa Community Lands Development Corporation. Summaries are included in the report in Appendix A.

NBLC summarized the common success factors of the precedent MDCs as:

- Clarity of mandate and Council direction: successful MDC precedents demonstrate clarity about the role of the MDC and, at the outset, what exactly it would do in terms of a specific work plan or projects.
- Qualified Staff: the best examples of successful MDCs are led by senior personnel from either the public or private sector who have a track record of managing complex real estate transactions.
- Sufficient start up resources: successful MDCs are transferred land and/or financial resources to properly launch the MDC.
- Balanced Council oversight: the governance model should seek equilibrium between giving the MDC latitude to be entrepreneurial, yet still offer Council guidance and control at regular intervals.

## Areas of Opportunity for Brampton MDC

Building on discussions from the February 25, 2019 closed Council Workshop that considered 13 City land holdings, NBLC and City staff conducted a preliminary scan of City real estate assets that could have the greatest potential to create results for a Brampton MDC.

Resulting from the preliminary real estate scan, NBLC and staff identified some significant projects that may be appropriate for a Brampton MDC. The following projects are illustrative of the potential in Brampton, exactly what projects a Brampton MDC would assume would be determined through a detailed real estate review and Council input:

- Maximizing the potential of the CAA Lands
- Accelerating growth in Downtown Brampton
  - Support the Riverwalk initiative and resulting opportunities
  - Redevelopment of Four Corners Library lands
  - Student Housing
  - Arts Hub
  - Hotel
  - Other potential downtown joint ventures and partnerships
- Stimulating Queen Street Corridor regeneration

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Details of the potential MDC role within the above projects are included in the report in Appendix A.

Further analysis and cross-departmental collaboration on a strategic assessment of the projects that a Brampton MDC would take on in its initial years is necessary to assess a projection of the associated costs (such as salaries, seed capital, overhead) and to consider the risks and opportunities (including potential to generate financial or other benefits for the City).

## Key Features of a Potential Brampton MDC

Following review of the BDDC and MDC precedents, evolution of City Real Estate, and potential Brampton MDC projects, NBLC identified key traits that a MDC could offer the City, including:

- Ability to operate outside of the political system
- Ability to respond and negotiate on an equal basis with the private sector
- An opportunity to engage in a broader range of creative partnerships and real estate structure within the private sector
- The opportunity to achieve an enhanced set of municipal objectives
- The opportunity to return a dividend to the City of Brampton\*

\*NBLC highlights it is equally important to fully describe and understand the risk(s) of real estate investment, including market shifts and the potential for project failure and the loss of City funding.

## “Significant Potential” for a Successful Brampton MDC

NBLC’s report suggests there is “*significant potential*” for a MDC to be successful in Brampton for the following reasons:

- Enthusiasm and leadership: since at least 2005, the City has sought to have a more entrepreneurial real estate function. The *Modernized Real Estate Strategy* has only reinforced this enthusiasm. This entrepreneurial spirit is necessary to work through the complexities and properly address the risks while understanding the opportunities for public benefits.
- Strong potential work flow: a preliminary review of the City’s real estate portfolio by NBLC and City staff revealed several large-scale opportunities that could benefit from value added development activities, all while achieving City objectives.
- Market demand: NBLC expects the demand for property in Brampton will continue its positive trajectory. It is anticipated that areas designated for high density uses will provide the most significant opportunities for value enhancement though land consolidation, rezoning, and partnership models.

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NBLC's report states the following:

*"The conditions appear favourable for the establishment of a new MDC to assist the City in leveraging current market interest and recent City investments. A MDC would provide Council with additional capabilities that seem to align with the objective of creating a future ready City.*

*However, the ultimate success of a MDC in Brampton will require more detailed research and analysis into the work plan to understand the feasibility of generating suitable returns and being self sustaining."*

## **Options for Consideration**

The City is considering a MDC as a potential avenue to further increase the scope of real estate activities due to the evolution of the City's city-building and real estate business. There is the potential for further growth in how the City attracts and creates new development investment, including how the City uses real estate holdings to maximize value and regenerate Brampton.

Options for consideration include:

1. Approval of MDC in-principle, with Further Analysis and Development of Business Workplan
2. In-house Services

### **Option 1: Approval of MDC in-principle, with Further Analysis and Development of Business Workplan**

This option accepts NBLC's recommended approach and next steps that the City "must take prior to establishing an MDC," including a detailed review of the City's real estate portfolio.

This option would include additional analysis to flush out the details of a Brampton MDC, in particular the key activities in its first 24 to 48 months. NBLC outlines key work activities, including:

- Detailed real estate assessment to further evaluate where a MDC may add value and to prioritize properties/projects for short-term MDC work flow, including potential "quick wins" for a MDC.
- An analysis of the potential projects including associated costs, project revenues/benefits, cash-flow projections, City funding and endowment requirements, timelines, risks and opportunities, with a view to determining what projects are the most strategic and offer the best opportunity for success.

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- Based on the nature of the MDC work, further exploration and recommendation for an operating strategy that would address the appropriate governance, including the reporting requirements to Council, board composition, contents of the shareholder agreement, legal framework, and alignment with other City departments.
- Consultation with Council on the nature of the emerging work plan and governance/operating model.
- Development of the draft Business Workplan based on the above.
- Seeking Council endorsement of the draft Business Plan and authorization to consult with the community.
- Holding a community meeting to seek input from the public and stakeholders.
- Refining the Business Workplan and seeking Council direction with respect to moving forward with incorporating the MDC.

The business plan should also clearly articulate the profile of each project including forecasted outcomes and key risks, including the potential for a loss of its seed funding, a risk which needs to be fully assessed.

Key activities are further defined in the report in Appendix A.

Staff anticipate development of the workplan to cost approximately \$200,000, a rough estimate value based on precedent projects. Should funds be insufficient, staff will return to Council to request an amendment. The outlined activities are expected to require the services of interdisciplinary development and real estate advisory personnel to ensure adequate professional expertise is deployed.

Staff anticipate the workplan, including the detailed analysis of real estate and development opportunities, associated business case, implementation phasing, cash-flow projections, funding requirements, legal framework and governance structure establishment, implementation of performance reporting, management framework and KPIS, and potential staff recruitment plan and costs to take approximately twelve (12) months, not including the time required to procure a third-party consultant team to conduct the work.

Once the draft Business Workplan is complete, Staff would report to Council for consideration on the workplan and authorization to proceed with steps required to incorporate a Brampton Municipal Development Corporation.

### Option 2: In-house Services

This option recommends maintaining the City's current in-house services in Realty Services and Economic Development & Culture, with continued focus on building successes in a cross-departmental, collaborative approach within the existing corporate structure.

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Recent success in Economic Development & Culture's leadership through accomplishments like the Brampton Entrepreneur Centre illustrate the potential to continue to transform Brampton through in-house initiatives.

With respect to the 2017 *Modernized Real Estate Strategy* report to address the factor of providing resources to address emerging long term City planning vision that would potentially expand Realty Services mandate, the Strategic Real Estate project team was created to address term and task Council priorities. Staff have implemented significant strategic transactions over the last two (2) years, with results. Appendix D illustrates Realty Services' acquisition and disposal performance metrics from 2015-2018. Appendix E highlights the strategic acquisitions and disposals completed and in progress from 2017 to current.

Recognizing the City's future-building needs, Realty Services procured a roster of three (3) real estate brokerage firms to provide advisory services and support City staff in facilitating land transactions. These vendors are obligated to protect the City's confidential information, and to obtain the best prices and act in the best interest of the City.

While the in-house option does include the opportunity to "resource up" existing complements to increase efficiencies – whether through additional staffing resources or through increased administrative authority – existing staff resources are projected to manage more than a dozen strategic transactions throughout 2020.

### Staff Recommendation:

Staff recommend *Option 1: Approval of MDC in-principle, with Further Analysis and Development of Business Workplan.*

The successes of MDC precedents like CreateTO and Surrey City Development Corporation are intriguing in their entrepreneurial mandate and ability to unlock value; however; Municipal Development Corporations are still a relatively new service delivery model. As such, staff agree with NBLC's recommendation for further detailed assessment into the work plan. Ample due diligence should be completed to ensure a MDC is the right model for the City of Brampton.

While the business case conducted by NBLC provides a foundation for understanding the potential benefit to the City, consultations with the cross-departmental working team made it evident that NBLC's recommendation for further research and analysis is required to flush out necessary details.

In conjunction to NBLC's outlined work activities, staff recommend further due diligence regarding the following considerations:

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- Adoption of well-defined guiding principles to guide the MDC throughout its lifecycle and in all circumstances irrespective of changes to strategies, objectives, or leadership, and adoption of a governance model that provides a healthy balance between autonomy and decision-making that results from having a distinct legal entity with separate board and management carrying out municipal objectives.
- Detailed assessment is required to understand how a MDC would align with existing City departments to ensure there is no duplication of work, in particular where existing staff roles align with proposed MDC function(s).
- Investigation into financial considerations, both operational and capital, including seed money, anticipated revenues and projected timeline for dividend to City. Comprehensive consideration is required to address the opportunity cost of seed funding (potential foregone revenue) advanced to a MDC to operate, and what establishing and operating a MDC would cost the City compared to internal operations.
- A deep-dive into the City's real estate portfolio is required to determine what project(s) are most strategic and offer the best opportunity for success. As the City will need to provide seed funding for a MDC, an important criteria of MDC project selection would be the potential to return the seed funding and a dividend to the City. In-house staff are actively managing a number of real estate projects (both considered in NBLC's report and additional opportunities); staff will continue to work on these projects in the interim, unless otherwise directed, which may affect their future status for MDC consideration.

Further to the areas of opportunity identified in the report by NBLC, the following are additional potential projects for consideration as the City continues to push its real estate business and portfolio management forward:

- Flower City Community Campus (8990 McLaughlin Road South)
  - Master planning of existing City assets
- Bramalea City Centre (Bramalea Road and Queen Street East)
  - Master planning of existing City assets
  - Partnership opportunities with private ownership
- Siemens Property (2719 Bovaird Drive West)
  - Master planning of existing City assets
  - Recent land assembly of 2591 Bovaird Drive
  - Partnership opportunities
- Ability to leverage Master Plans
  - Queen Street Transit Master Plan
  - Transportation Master Plan
  - Parks and Recreation Master Plan
  - Culture Master Plan
  - Youth Hubs
- Transitional Properties & Meanwhile Strategy
  - Opportunity for interim cash flow

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- Active work assignment with potential identification of seed asset(s)

Staff believe a number of the characteristics of a MDC can be, and are currently being, completed by in-house resources; however, staff do not want to prematurely close the door on a potential opportunity to further elevate city-building objectives.

Regardless of Council direction, staff will continue to deliver high quality real estate and planning and development services. A MDC does not preclude the need to maintain in-house real estate services; rather, it is a potential complimentary tool to advance city building and real estate objectives.

## **Corporate Implications:**

### Financial Implications:

There is currently funding within the approved 2019 budget under the Office of the CAO for a third-party consultant to prepare a Business Work Plan for a Brampton Municipal Development Corporation, in the approximate amount of \$200,000 (inclusive of non-recoverable HST of 1.76%).

### Legal Implications:

Should Council wish to proceed with the establishment of an MDC, all incorporating documents and processes, including articles by-laws and rules, associated with the incorporation of an MDC will be vetted for compliance with legislative requirements prior to adoption by Council.

## **Term of Council Priorities:**

This report achieves the Strategic Plan priorities of Good Government by practicing proactive, effective, and responsible management of municipal assets and services.

### Living the Mosaic – 2040 Vision

This report has been prepared in full consideration of the overall vision that the people of Brampton will ‘Live the Mosaic.’

## **Conclusion:**

The City has a unique opportunity to assess if City real estate goals and objectives can continue to be maximized within the existing organizational structure or whether a separate corporation model is recommended.

*Option 1* accepts NBLC’s Business Case Framework recommended approach and next steps that the City “must take prior to establishing an MDC,” ‘flushing out’ the details of a Brampton MDC, in particular the key activities in its first 24 to 48 months, including a detailed review of the City’s real estate portfolio.

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*Option 2* recommends maintaining the City's current Realty Services Division with continued focus on building successes within the existing corporate structure.

Staff recommend *Option 1*, accepting NBLC's recommendation for further detailed assessment into the work plan. Ample due diligence should be completed to ensure a MDC is the right model for the City of Brampton.

Regardless of Council direction, staff will continue to deliver high quality real estate and planning and development services. A MDC does not preclude the need to maintain in-house real estate services; rather, it is a potential complimentary tool to advance city building and real estate objectives.

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