BUSINESS CASE

THE FUTURE MANAGEMENT OF THE BYWARD AND PARKDALE MARKETS

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Contact Information:
Shannon Kenney
Economic Development
Planning, Infrastructure and Economic Development
110 Laurier Avenue West, 3rd Floor East
Ottawa, ON, K1P 1J1

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ORIGINATING DEPARTMENT:

Planning, infrastructure and Economic Development

BRANCH:

Economic Development

BUSINESS CASE AUTHOR:

Shannon Kenney

PHONE No. /Ext.

613.580.2424 ext. 25633

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The Future Management of the ByWard and Parkdale Markets

Executive Summary

The City of Ottawa's Economic Development branch currently manages the outdoor vending environments at both the ByWard and Parkdale Markets. Oversight for indoor realty operations within the Clarence Street Parking Garage (ByWard Market) is similarly within the City's purview. The management of 55 ByWard Market (the Market Building), has been administered by a public private partnership (P3) since 1998.

As outlined in the following business case, ongoing decline in Markets revenues, decreased numbers of vendors and customers, lagging sales and a lack of strategic vision and management suggest that the current Markets management model requires reconsideration.

Recent years have seen a gradual loss of vitality and retail density within the ByWard Market. Once-bustling retail food vendors and businesses have slowly given way to restaurants, bars and nightclubs. Without the necessary strategic leadership in place, the City has been challenged to proactively respond to these changes. As a result, the ByWard Market is no longer able to attract the caliber and diversity of unique, local products that is needed to sustain its customer base.

The Parkdale Market, west of the downtown core, functions on a much smaller scale. Located in an up-and-coming community, Parkdale continues to attract shoppers from a range of areas. Nevertheless, it too struggles to attract new vendors, generate revenues and maintain its diversity.

Although Markets Management has been striving to maintain and generate revenue through the Markets, the team's success has been compromised by five rapidly successive organizational re-alignments. In the absence of focused and consistent management leadership and oversight, Markets Management have been unable to establish appropriate strategic directions and align and implement related strategic goals and objectives to achieve Council's vision. The result has been a gradual shift towards an internal Markets Management environment that is both reactive and largely operational.

Since 2012, Planning, Infrastructure and Economic Development (formerly Planning and Growth Management) staff have been working with Project for Public Spaces (PPS), a U.S. non-governmental organization specializing in public markets, to identify an optimal future Markets management framework that would provide enhanced organizational and mission perspectives and usher the ByWard Market into a new era of innovation, reinvestment and financial sustainability.

Based on its expertise around North American markets, PPS identified a variety of management models that could be considered as potential governance options for the ByWard and Parkdale Markets. Following a comprehensive process of consultation and analysis with internal department representatives and the community, PPS and City staff concluded that the creation of an independent not-for-profit Municipal Services Corporation (MSC) would best align with the City's long-term markets' vision and objectives.

The following business case sets forth the various options that were compared as potential catalysts for revitalizing the ByWard and Parkdale Markets.

MNP LLP was retained to assist in completing the review and updating of the ByWard and Parkdale Markets Business Case. MNPs work primarily focused on the risk assessment and financial analysis related to each of the proposed governance options as well as high-level transition planning related to the recommended MSC option.

Based on the comparative analysis of the three feasible governance options evaluated in this business case, staff recommends that a Municipal Service Corporation be established as provided for under the Municipal Act. This recommendation is supported by the risk assessment completed by MNP wherein the MSC option scored the lowest overall in terms of residual risk (after implementation of MSC related management controls and risk mitigation measures) based on consideration of an detailed list of Markets risk factors as outlined in Appendix A. From a financial perspective, the MSC also has the ability to become financial sustainable within a three-year timeframe which would coincide with the MSC's initial strategic plan horizon.

City staff also recommends that the implementation of the MSC governance option also encompass a phased approach as recommended by MNP. In so doing, the new MSC Board and Executive Director would have the opportunity to provide input into the transition plan as well as, confirm with Council the definitive start-up date for MSC Markets operations. Overall, sound transition planning is the key to the successful launch of the MSC.

Overall the MSC governance/management model will provide the enhanced and dedicated strategic perspective necessary to usher the ByWard and Parkdale Markets into a new era of innovation, reinvestment and sustainability. Findings from PPS also support this direction, based on its research and the comparable examples of success at other public markets.

<u>Business Need</u>

The original decision to explore the future of the ByWard Market was prompted by concerns expressed by the Lowertown community. Although an Interim Control Study of Bars and Nightclubs in the ByWard Market was completed in 2008, anxieties lingered over the decrease in retail food vendors and local service-based businesses that paralleled the rise in restaurants and bars.

Such land-use changes were seen to be damaging to the ByWard Market district's fundamental appeal and vibrancy. The integrity of the traditional market was also jeopardized, as it lost its ability to foster connections between local farmers, shoppers and the surrounding community.

During this period, the Parkdale Market faced its own struggles to maintain its identity as a desirable shopping destination. Although less affected by surrounding land-uses, the Parkdale Market was also experiencing an inability to attract sufficient vendors, generate revenues and maintain its overall level of product diversity.

Input from PPS, staff and residents helped underline the complexity of issues contributing to the downturn of the two Markets:

- Residents' needs are losing ground to tourists' needs (ByWard Market).
- Fewer local food products are being sold by vendors.
- Products offerings are failing to meet increasingly sophisticated customer needs (e.g. organically grown food).
- Decreased sales are being reported by vendors and indoor tenants.
- Conflict between vendors, especially producers and re-sellers, is making it difficult to attract new vendors.
- The recent proliferation of at least16 local famers' markets means vendors have more choice. Farmers are likely to attend markets that are pro-producer, and offer supportive and collaborative atmospheres amongst vendors.
- The inability to attract new vendors (as vendors retire) is resulting in less density and activity.
- Less competition is affecting the overall quality and diversity of available locally produced goods, which is a cornerstone for customer satisfaction at many markets.
- A shared vision has yet to be agreed upon by outdoor vendors, local Business Improvement Areas, indoor market tenants, local businesses, buskers, residents and commercial land owners (ByWard Market).
- Bars and restaurants are increasingly dominating the ByWard Market and changing its function as a daytime-oriented public market.
- The community perception that the ByWard Market is unsafe.

This combination of complex issues has been further intensified by the inflexibility of the current regulatory framework (Municipal By-Laws 2008-448 and 2008-449). Originally enacted in 2008, the introduction of these regulations was deemed as a desirable and necessary tool by Markets Management, local Ward Councillors, and the ByWard Market Standholders' Association at the time. Unfortunately, the effects of the two by-laws were never properly evaluated, and have consequently compromised Market Management's ability to operate as a proactive, adaptable and/or innovative entity.

As outlined in the Office of the Auditor General's Annual Report in December 2016, Markets Management also has not been well positioned to deliver long-term strategic outcomes. Despite continual high levels of staff commitment and expertise, the team has been limited by insufficient levels of resourcing and limited strategic management oversight and leadership. Audit findings show that, during the past 13 years, the team's reporting accountabilities have been structurally realigned five times to different portfolios. Since 2004, the Markets Management group has shifted from Economic Development to Real Property and Asset Management to Bylaw Services to Security and Emergency Management and more recently, back to Economic Development. While restructuring is not uncommon in many municipal operating environments, the frequent realignment of Markets Management and change in direct supervisors and leadership of the various branches and departments has led to Markets Management operating as a stand-alone unit with limited oversight and governance. As a result, the highly operational nature and strained resource capacity of Markets Management has fostered an environment that is reactive as opposed to proactive in its approach to management.

To a certain extent, the current 20-year public private partnership (P3) agreement at 55 ByWard Market (the "Market Building") has also affected the Markets cohesion. The current P3 initiative was untaken in 1996 as a step towards a new 21st century vision for the ByWard Market Building. Following a request for proposal, a lease was provided to the current tenant under the vision enunciated within their submission. They committed to a physical rejuvenation of the building itself and reinforcement of both the indoor and outdoor markets for the long-term viability of specialty food retailers as well as promotion of local arts and crafts. Over the past 20 years, the original vision and expectation has been modified due to private sector expectations regarding return on investment as well as other restraints and market limitations.

Since initiation of the lease, the building has been professionally managed and operated as per the lease agreement. Municipal oversight has been primarily provided on-site by the City's Market Management team with the support of the Corporate Real Estate Office. Financially, the P3 agreement has not performed to initial expectations in terms of net rental income to the City, however it did provide additional revenue through realty taxes, and reversed a trend of public subsidization the Market Building asset.

Overall, the P3 partnership has neither generated consistent revenues nor achieved the overall tenant mix and diversity that were expected throughout its term or within the original vision. In retrospect, the separation of the indoor and outdoor market realms, especially between public and private interests, has resulted in a loss of shared opportunity for unity and growth.

The term of the current P3 agreement expires on December 31st, 2017, at which time the management building asset and its sub-leases will revert to the City. This scheduled shift in management is a major catalyst for the transition to the recommended Municipal Service Corporation.

From a purely financial perspective, the markets indoor and outdoor revenues have experienced a marked decline since 2010. Revenues from outdoor stand fees have decreased from $619,000 to $513,000 (17 percent) at ByWard Market, and $186,000 to $132,000 (30 percent) at the Parkdale Market during this period. Revenues from indoor tenant spaces (70 Clarence) also dropped from $433,796 to $404,216 (7 percent) between 2014 and 2016. Although attributable to a long-term vacancy in one unit, this experience highlights the need to explore opportunities for broadening current leasing policies.

In direct contrast to the challenges faced by the ByWard and Parkdale Markets, a strong period of growth has been taking place in the local farmers markets sector throughout Canada. According to a Farmers' Markets Ontario study completed in 2009, the estimated compound annual growth in direct sales at farmers markets, between 1998 and 2008, was 7.3%. The National Farmers Market Impact Study (2009), involved farmers' markets in every province and is recognized as the most comprehensive study of farmers' markets ever conducted in North America, mirrored these findings.

This same positive trend appears representative of markets in the Nation's Capital in past years, where the Ottawa Farmers' Market has grown from one location in 2006 with 17 vendors to three locations in 2017 with more than 100 vendors. The number of neighborhood markets has seen a similar increase, boasting a total of 16 area markets in 2017.

Despite the numerous core challenges facing the ByWard and Parkdale Market operations, there are several examples of markets throughout North American that have successfully revitalized themselves through the adoption of new governance models. While public markets were historically started, and managed by municipalities, most cities are getting out of the market business and supporting other governance and management models to keep their public markets fresh, relevant and more efficiently operated. Successful shifts to new management models have taken place at The Forks, Winnipeg (Community Development Corporation), and at Marché Jean-Talon and Marché Atwater (Montreal), Covent Garden (London), and Hamilton Farmers' Market (Hamilton), which have all transitioned to Municipal Services Corporation models.

Strategic Alignment

In March 2012, Planning Committee directed staff to undertake a community visioning exercise to better understand the mixed-use character of the ByWard Market. In response to this directive, staff engaged the services of Project for Public Spaces (PPS), who carried out a public visioning exercise and prepared the first report, "Strengthening the Future of the ByWard Market".

In May 2013, Council received the PPS report, and approved the recommendation that City staff investigate a new governance structure for the City of Ottawa owned public markets. To assist with this research, the City once again called upon the expertise of PPS, who outlined a preferred management model and developed a recommended governance design and business plan.

In 2015, Council received the resulting PPS report, and approved the ByWard and Parkdale Market / Sparks Street Revitalization as a Strategic Initiative within the City's Strategic Plan. These initiatives support Council's Objective 2 – *To support growth of the local economy*. The Markets' revitalization was funded to support a more detailed examination of establishing a new Municipal Services Corporation, undertake a zoning compliance program, and proceed with a physical renewal of the George Street Plaza.

In May 2016, staff returned to Council seeking approval to proceed with the revitalization of the ByWard and Parkdale Markets. At that time, direction was given to staff to return to Council in Q4 2016 with a report on future governance options including establishment of a new MSC to oversee the operations of both public markets. in accordance with the following Mission Statement:

> The Municipal Service Corporation will maximize the ByWard and Parkdale Markets' potential to be unique year-round gathering places and destinations to purchase local produce and goods as well as other services and products that meet the needs of local and city-wide residents and tourists alike.

The Corporation will build upon the rich heritage of the public markets communities and promote the importance of local food sustainability.

In an entrepreneurial manner, the Corporation will strive to build a creative and innovative retail and outdoor vending mix and work with partners to ensure that all public space is inviting and enhanced as opportunities are made available.

The Q4 report was to propose a structure, set of duties and governance for the MSC, as well as a transition strategy to achieve its implementation. Staff was also given direction to review By-Law No. 2008-448 and 2008-449 in consultation with Core Team stakeholders and Ward Councilors. From a physical realm perspective, staff was directed to review 2017-2018 Off-Season vending opportunities in the George Street Plaza and proceed with two bookend stalls along the east and west sides ByWard Market building.

In December of 2016, Markets Management was the subject of an audit by the Office of the Auditor General (Office of the Auditor General (OAG) – Annual Report and Detailed Audit Reports - ACS2016-OAG-BVG-0004). In response to audit recommendations, staff committed to address leadership and operational issues and, in keeping with the requirements of the *Municipal Act, 2001*, to present a more fulsome business case on the proposed governance model, including a thorough options and risk analysis. Staff also committed to establish a strong governance structure, and develop strategic/operational objectives, with corresponding performance indicators aligned to Council's approved vision for the proposed MSC.

Staff provided Finance and Economic Development Committee and Council with an update on the Markets' revitalization project in March of 2017 (Update – Revitalization of the ByWard and Parkdale Markets Project and Amendments to Parkdale Market Program By-law 2008-448 and ByWard Market Program By-law 2008-449 - ACS2017-PAI-ED-0004); specifically, the ongoing work toward a detailed business case and solicitation of governance advice, with a report expected to come to Committee and Council in April of 2017. Council received the update and approved a number of amendments to the Markets' by-laws to accommodate stand relocations related to 2017 festivities, the George Street Plaza renewal and Signature Stands; encourage stand diversity and densification; and facilitate administrative processes.

Options or Solutions Analysis

In 2013, consultation with the Market's constituency of City staff, vendors, customers, residents, Business Improvement Area members led to recommendations that the City:

- Strengthen and expand the ByWard Market as an authentic destination;
- Regain trust of customers and integrity of the Market;
- Develop the ByWard Market as the center for food and local, unique products;
- Bring partners together, including the City;
- Reinvest and redesign core spaces, including the City's infrastructure (Market Building and parking garage);
- Expand outdoor and indoor food retail opportunities; and
- Strengthen the diversity of uses.

Many municipalities in Canada, faced with similar ongoing challenges, have transferred the governance of their public markets to various forms of not-for-profit strategic management. To determine the most feasible options for Ottawa, City staff and PPS carried out a series of case studies in 2015. Interviews and research were conducted with the following markets:

- Covent Garden Market, London, ON
- The Forks Market, Winnipeg, MN
- Hamilton Farmers Market, ON
- Montreal Public Markets, Montreal, QC
- Old Strathcona Market, Edmonton, AL
- Eastern Market, Detroit, MI, USA
- The French Market, New Orleans, LA, USA
- Pike Place Market, Seattle, WA, USA

Follow-up site meetings with managers at Covent Garden Market, Montreal Public Markets, Ottawa Farmers' Markets and St. Lawrence Market were subsequently conducted in 2016. During this same period, additional phone interviews were carried out with Vancouver Farmers' Markets, and Hamilton Farmers' Market.

Regardless of the specific governance and management model in place, common 'lessons learned' shared by above noted market managers include:

- Minimize political involvement.
- Establish a mechanism for vendor / community involvement.
- Create a Board of Directors with a strong governance structure.

Over the course of the research period, several management options were considered as possible catalysts for revitalizing the ByWard and Parkdale Markets. This analysis relied on the expertise of staff in various City departments, including Legal Services, the then Deputy City Manager's Office, Markets Management, the Corporate Real Estate

Office and Finance. This multi-disciplinary consultation provided for a thorough evaluation of the advantages and disadvantages of various governance options.

Proposed Markets Governance Options

In preparing the business case, several governance options were identified for the Markets Management with the following three feasible options evaluated by City staff with the assistance of MNP. While other options were also considered such as divestiture of City Markets Assets and establishment of a new Municipal Services Board (MSB), they were not evaluated in detail in this business case. Related to divestiture, this option is ultimately one of risk avoidance and not in keeping with Council's future vision for the Markets and regarding the MSB, this option does not allow for the degree of autonomy and delegated authority that exists with the proposed MSC.

The three feasible Markets options include:

Option 1: City Operated Markets Management (Status Quo)

Option 2: Private/Public Partnership Markets Management (P3)

Option 3: Municipal Services Corporation (MSC)

1. **Continue with City Operated Markets Management (Status Quo)** – Continue to operate the markets within the context of the current management model, as a division of Economic Development.

    Pros: Continuing with the current operating and management model would be the most straight forward option from a transition perspective requiring the least amount of City investment and change. Management of the ByWard and Parkdale Markets would remain within the City's direct control, and would ensure that all processes and decisions align with the municipality's strategic and operational objectives.

    Markets' Management would continue to manage the outdoor markets and parking garage tenants and the current P3 agreement for 55 Byward would be assumed by the City following its expiry on Dec. 31, 2017.

    Cons: The Markets would likely continue to experience revenue declines and potentially higher City funded operating deficits without the necessary strategic direction and resources. Municipally operated Markets could be limited in their ability to leverage opportunities for growth that exist within other markets. At a fundamental level, maintaining the status quo also contradicts the recent City Auditor's report, which highlights the need to enhance and strengthen a number of core strategic management and operational processes.

Retaining the Markets as City operated will also require Council consideration of supplementary resources and additional employees as well as the identification of a senior management champion, in order to achieve strategic-level objectives. This option would be restricted in its flexibility, innovation and entrepreneurial spirit, as well as limited in leveraging external funding opportunities.

2. **Enter into a New Public Private Partnership** (P3) – A private sector entity would be engaged through a competitive process and would manage both the City market building assets, and the associated indoor and outdoor operations of both markets. An annual financial remittance would be paid by the P3 Markets operator use of City owned assets.

   Pros: This option would require a limited degree of City resources and involvement. The P3 would be responsible for the overall strategic management of the Markets in keeping with Council's vision. A Service Agreement would be developed and negotiated between the P3 and the City which would include clear direction related to the City's financial support of the Markets.

   Cons: As evidenced by the current public private partnership, this model lacks both an accountability framework and incentives for long-term investment and renewal of the Markets. This model is susceptible to private sector expectations regarding financial return on investment as well as other restraints and market limitations. Furthermore, the City's ability to intervene within this governance option is limited.

3. **Create a new Municipal Services Corporation (MSC)** – Approved through Council authority under the Municipal Act, the MSC would be an independent, incorporated entity governed by a non-partisan Board of Directors and strategically managed by a Board appointed Executive Director. MSC staff would fall under the direction of the Executive Director. As per standard practice, duties and responsibilities would be outlined in a comprehensive Service Agreement between the City and MSC. While the City would retain ownership of its real property Market assets, the MSC would be delegated significant duties and responsibilities related to their management and operation. The MSC would prepare and present to Council, a strategic plan and annual operating plan based on achieving Council's vision for ByWard and Parkdale Markets. Accountabilities would include the submission of an annual report and audited financial statements to Council.

Pros: The MSC model has become the preferred option in the field of public markets. This option provides an effective governance structure for supporting the transition from an operations based model to one of strategic leadership and management, while retaining sufficient mechanisms for municipal oversight and control.

Given its independent status, the MSC would have the authority and capacity to:

- Be entrepreneurial and flexible within a Board approved MSC policy framework in repositioning and operating the market.
- Assess and recommend changes to the markets current regulatory framework.
- Be inclusive, collaborative and able to represent key market stakeholders.
- Make procurement and staffing decisions quickly and efficiently.
- Balance business and community objectives.
- Be self-sustaining financially, with the ability to re-invest net operating surpluses into future Market projects and programming.
- Be apolitical and operate independently from City agencies and political bodies.
- Leverage a varied network of strategic partnerships.
- Aggressively pursue new revenue opportunities including funding and grants from a variety of eligible sources.

Cons: The City would be required to relinquish its day-to-day oversight of the Markets, and empower an independent body to assume this responsibility.

The City lacks any previous experience in the creation of a Municipal Services Corporation of this scope and complexity (asset transfer, staffing, daily operations, etc.). The City's current MSCs, including the Manotick Mill and the Ottawa Community Land Development Corporation are much simpler entities, and therefore unable to completely inform the market revitalization process through experience and knowledge transfer.

A significant degree of support will still be required from several City departments (Legal, Economic Development, Human Resources, the Corporate Real Estate Office, Public Works, Finance, etc.) to support this transition. On-going staff resources from each of the sections would be required throughout the various project phases, including consultation and research, evaluation, information sharing, service level determination, and actual transition. Without this collaboration, it would be impossible to impart the MSC with the necessary level of expertise to succeed.

Comparative Summary of Markets Governance Options

As indicated MNP LLP was engaged to support City staff in the completion of the ByWard and Parkdale Markets Business Case related to proposed future governance options. MNP completed a detailed risk assessment and assisted with the financial analysis of the governance options, as well as provided recommendations related to the high-level transition planning for the recommended Municipal Services Corporation.

MNP is experienced in undertaking risk assessment specifically related to different public and private sector governance models. Each of the Markets Management governance options noted above encompasses different risks and opportunities for the City of Ottawa. While it is often difficult to accurately forecast, and compare future financial advantages and disadvantages of various options, the application of a structured and systematic risk assessment methodology is possible and has been completed for this business case.

Risk Assessment of Markets Management Governance Options

MNP completed a risk assessment of the three governance options with the results summarized in the following Table 1 along with a more detailed breakdown of the various risk factors (52) and scoring which is provided in Appendix A.

Table 1 – Summary of Markets Governance Options Risk Assessment Scoring

Options	Total Inherent Risk Score	Total Residual Risk Score
Municipal Services Corporation (MSC)	283	**142**
City Operated Markets Mgmt.	236	152
Private/Public Sector Markets Mgmt.	275	162

In conducting the risk assessment for each option, MNP applied a standard approach and evaluated/scored 52 separate Markets risk factors based on two types of risk namely:

- **Inherent Risk -** The initial risk that is present in the City of Ottawa - Markets governance options ***prior to*** the implementation of any risk mitigation measures and/or management controls.
- **Residual Risk –** The risk that is present in the City of Ottawa - Markets governance options stemming from related activities ***after*** the risk has been controlled (e.g. successful implementation of ByWard and Parkdale Markets comprehensive transition plan).

Based on the detailed risk assessment completed by MNP, and taking into consideration the successful implementation of management controls and specific risk mitigation measures identified for each respective governance option, the Municipal Services Corporation (MSC) scored as the option with the least Residual Risk to the City of Ottawa. Fundamental to successfully achieving this overall risk assessment outcome is the implementation of a comprehensive MSC transition plan.

As noted above, the City Operated Markets Management (Status Quo) option scored the lowest Inherent Risk meaning that in the absence of any risk mitigation measures and management controls, the Status Quo represents the option with the least initial risk. However, based on the implementation of specific management controls and measures, much of the risk associated with the MSC can be effectively mitigated through both the transition period and start-up of operations of the MSC.

As outlined in further detail in Appendix A in comparison to the Status Quo and P3 governance options, the MSC scored well from a risk perspective in the categories of enhanced MSC Board Accountability and Authority and future Markets Partnerships and Innovation. Subject to completion and approval by Council of a new MSC strategic plan and annual business plan, strategic management is another area where the MSC attains a lower residual risk score compared to the P3 and City-run option.

Given the MSC, will be established as a new entity responsible for the strategic management and operations of the Markets, this option does encompass a higher change management risk to the City. For that reason, MNP strongly recommends a comprehensive transition plan be developed and implemented for the MSC. MNP also recommends that a phased approach to the transition be supported by the City including the opportunity for the new MSC Board and Executive Director (once in place), to confirm with a realistic start-up date for MSC Markets operations. In the accompanying City staff overview report to this business case, a high-level transition plan and phasing strategy has been provided by MNP.

Comparative Financial Analysis of Governance Options

City Finance staff worked with Markets Management and MNP to complete a comparative financial analysis of the three governance options for the Markets Management. Table 2 below provides a three-year summary of the ByWard and

Parkdale actual financial results. As indicated below, the Markets in recent years have essentially operated at a "break-even" level with a minor deficit in each year of less than 1% of total expenditures. While total revenues have declined over the three years by approximately $92,000 or 6.1%, City Markets Management has been able to adjust expenditure levels (Marketing and Promotions, and Maintenance for Outdoor Markets) accordingly to minimize the year-end deficit. This trend of continually reducing expenditures is not sustainable and revenue growth overall under the new governance model needs to be pursued as a key strategic priority to ensure the long-term financial viability of the markets. In addition, ongoing cost containment and control will no doubt be required to ensure that the operation of the Markets result in a positive net year end surplus.

Table 2**:** Summary of 2014 – 2016 Markets Financial Results

	Markets Mgmt Financial Results ($000)		
	2014 Actual	**2015 Actual**	**2016 Actual**
Revenues	**1,515**	**1,458**	**1,423**
Expenditures			
Compensation	737	701	773
Operating & Other Non Compensation	790	763	656
Total Expenditures	**1,526**	**1,464**	**1,429**
Net Surplus / (Deficit)	**(11)**	**(6)**	**(6)**

Estimates of operating revenues and expenses were developed for each of the three governance options. The estimates were based on some key operating assumptions that differentiate the revenue generating potential of each option and the cost implications of operating under three very different corporate structures.

1. **Continue with City Operated Markets Management (Status Quo)** – This option assumes the continuation of the City operated Markets Management group, and that they take over the management of the Byward Market building when the P3 contract expires at the end of 2017. The revenues generated by the retail and office space in the Byward Market building and the Clarence Street garage, as well as the Parkdale Market are assumed to continue to be at current capacity. However, the revenues for the outdoor portion of the Byward Market are expected to continue on the current declining trend. The only change to the

current staff complement is the addition of a program manager to provide strategic oversight and a building manager. Operating expenses would continue at the same levels as today plus additional costs associated with the management of the Byward Market building, but with all revenues from the building being realized by the City rather than the current P3. The result is a forecasted operating deficit which increases in each of the three years. Under this option, there will also be a requirement to renew the majority of the leases in the Byward Market building that expire in 2018. As a result, the risk exists that the City would have to seek out new tenants for those that do not renew.

2. **Enter into a New Public Private Partnership (P3)** – Under this option, the City would no longer fund the operation of the Markets or receive any revenue directly. The P3 contractor would earn all revenues from the Markets, Building and garage and incur all operating costs. The City would continue to own the market assets and would receive a contractual share of the annual profits from the P3 partner. The details of any future P3 arrangement would need to be negotiated with a contractor and are not known at this time. Therefore, for the purposes of this analysis, the profit sharing formula of the current P3 agreement for the Market Building was used and applied to the profit that could be generated from a private sector approach to revenue generation based on existing capacity. Depending on how the P3 agreement is structured and how much risk the P3 assumes, this option would lessen the overall financial risk to the City.

3. **Create a new Municipal Services Corporation** – This option assumes that January 1st, 2018 be considered as the date for the start-up of MSC operations, subject to input and confirmation in early fall 2017 by the new MSC Board and Executive Director.

   Under the MSC option, the revenues generated by the ByWard Market building, garage tenancies and Parkdale Market are assumed to continue at current capacity as they are under the City-run option. Byward Market revenues are expected to increase from its current capacity of 60% to 70% in 2019 and 80% capacity by 2020 due to a more entrepreneurial approach, strategic focus and dedicated efforts of the MSC, led by the new Board and Executive Director. The fees for the outdoor markets are also assumed to increase by 3% per year.

Ongoing operating costs for this option are similar to the City Run (status quo) option. The cost of insurance is higher, and it is expected that the MSC will increase the amount spent on promotions and advertising to increase revenue. Overhead costs are expected to increase as a result of higher general and administrative expenses as well as functional support costs. These increased costs are offset by the MSC's ability to reduce costs due to operational efficiencies.

Additional expenditure is also included for security and maintenance. However, the majority of these costs are recoverable from the tenants through the Common Area Maintenance fee so there is assumed to be minimal impact. The degree to which the MSC can increase expenditures in these areas will be influenced by tenants' willingness to pay these increased fees.

The net result would be deficits of $140K in 2018 and $66K in 2019, and a minor surplus of $15K in 2020 which is expected to increase going forward. Any future surplus can be retained by the MSC and reinvested directly into the markets and/or held in reserve to contribute to facility lifecycle costs. Both will help to maintain long term financial sustainability.

There will be some one-time costs required to set up the MSC and to transition to the new model, but these are not included in the comparison of the three models.

In all three options, the City would maintain ownership of the asset and any major asset lifecycle repair costs have not been included in this analysis either, for comparison purposes.

All of the assumptions described above for each option were the basis for developing a three-year estimate of operating revenues and expenses covering the period 2018 to 2020, as detailed in the following Table 3:

Table 3: Summary of Estimated Financial Results 2018 – 2020

	City Run ($000)			P3 ($000)			MSC ($000)		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Revenues	**1,686**	**1,673**	**1,662**	**96**	**96**	**96**	**1,686**	**1,792**	**1,904**
Operating Costs									
Compensation	1,056	1,077	1,099				975	994	1,014
Promotions & Advertising	82	83	85				100	100	100
Security	14	14	15				100	100	100
Repairs & Maintenance	677	690	704				802	818	834
Materials & Equipment	74	76	77				74	76	77
Insurance	1	1	1				17	17	17
Cost Recovery*	(471)	(481)	(492)				(626)	(638)	(651)
Total Operating Costs	**1,433**	**1,460**	**1,489**	**-**	**-**	**-**	**1,442**	**1,467**	**1,491**
Operating Profit	**253**	**213**	**173**	**96**	**96**	**96**	**244**	**325**	**413**
Overhead	279	283	283				384	391	398
Surplus / (Deficit)	**(26)**	**(70)**	**(110)**	**96**	**96**	**96**	**(140)**	**(66)**	**15**

The P3 option only shows the estimated amount of the profit returning to the City from the P3 contractor, it does not reflect the private sector contractor's share of the profit.

In summary, Option 1 shows increasing deficits over time, Option 2 has a positive net return to the City but it is simply a private sector contract to share returns with the City and Option 3 estimates positive returns over time that could then be reinvested into the ByWard and Parkdale Markets operations.

Recommendation

Based on the comparative analysis of the three feasible governance options evaluated in this business case, staff recommends that a Municipal Service Corporation be established as provided for under the Municipal Act. This recommendation is supported by the risk assessment completed by MNP wherein the MSC option scored the lowest overall in terms of residual risk (after implementation of MSC related management controls and risk mitigation measures) based on consideration of an detailed list of Markets risk factors as outlined in Appendix A. From a financial perspective, the MSC also has the ability to become financial sustainable within a three-year timeframe which would coincide with the MSC's initial strategic plan horizon.

City staff also recommends that the implementation of the MSC governance option also encompass a phased transition plan. In so doing, the new MSC Board and Executive Director would have the opportunity to provide input into the transition plan as well as, confirm with Council the definitive start-up date for MSC Markets operations.

The MSC governance/management model would provide the enhanced and dedicated strategic perspective necessary to usher the ByWard and Parkdale Markets into a new era of innovation, reinvestment and financial sustainability. Findings from PPS also support this direction, based on its research and the comparable examples of success at other public markets.

From a financial standpoint, the MSC has the capacity to operate successfully within a cost-recoverable framework based on conservative assumptions used to estimate forecasted results. This exercise ultimately confirmed the MSC's ability to achieve a balanced annual budget within a reasonable timeframe of three years from startup of operations. (Note: The potential for increasing revenues through various grants and funding sources also exists).

As an arms-length municipal not-for-profit corporation, this entity would be incorporated under the Canada Not-for-Profit Corporations Act, SC 2009, C23. Specific terms and conditions related to this accountability would be detailed in a separate comprehensive MSC transition plan, inclusive of service and maintenance legal agreements between the MSC and the City of Ottawa.

Appendix A – Detailed Risk Assessment of Markets Governance Options

Risk Category	Risk Factor	Options/Risk Scores		
		City	P3	MSC
Strategic Planning and Management (S)	1. Council Vision for ByWard and Parkdale Markets	2	4	2
	2. Strategic Planning	1	2	4
	3. Business Planning	4	2	4
	4. Performance Measurement	1	2	4
	5. Strategic Communications including Media	2	2	2
Financial Management and Reporting (F)	1. Cash Management	1	2	2
	2. Internal Controls Incl. Segregation of Duties	2	2	2
	3. Reporting of Financial YE Audited Results	4	1	1
	4. Financial Benefits/Costs to City	6	4	4
	5. Long term Financial Planning and Budgets	4	4	2
	6. City responsibility Related to Capital Assets	2	4	4
Board Responsibility and Authority (B)	1. Reporting to Council and Community	2	2	2
	2. Public Relations and Image	1	1	1
	3. Protection of Markets Heritage and City Assets	4	4	4
	4. Financial Stewardship of Markets	4	4	2
	5. Ongoing Community Leadership and Support	4	4	1
Human Resources (H)	1. Employee Performance Management	4	4	4
	2. Employee Training and Health and Safety	4	4	4
	3. Organizational Design and Development	4	2	2
	4. Labour Relations	4	2	2
	5. HR Policies and Procedures	4	4	4

Risk Category	Risk Factor	Options/Risk Scores		
		City	P3	MSC
Vendor Relations and Support (V)	1. Vendor Growth and Stability	4	4	4
	2. Market Product Diversity	4	4	4
	3. Regulation of Vendors	2	4	4
Legal / Legislative / Compliance (L)	1. Organizational Legal Structure	4	4	2
	2. Potential for Legal Claims	2	4	4
	3. Compliance with legislation	4	4	4
	4. Compliance with Auditor General Report	2	2	1
Operational Effectiveness (O)	1. Issues and Incident Management including Responsiveness to Complaints	1	4	2
	2. Procurement Policies	1	4	2
	3. Day to Day Vendor Management	4	4	4
	4. Market Programming and Promotion	2	2	2
	5. Markets Parking Management	2	2	4
	6. Stakeholder Relations re Operations	4	6	4
Emergency Planning and Security (E)	1. Emergency Management and Response Plan	2	4	2
	2. Market Security and Public Safety	2	4	2
Internal Administration Policies and Controls (I)	1. Comprehensive Administrative Policies	4	2	4
	2. Information Technology including IT Access/Cyber Security	4	2	2
	3. Ongoing Licenses and Permits and Lease Administration Incl. Insurance	4	2	4
	4. Records and File Management	2	2	2
	5. Security of Information – Privacy	2	4	2
	6. Ongoing Risk Management	4	4	4
Customer Satisfaction (C)	1. Customer Service Strategy	2	4	2
	2. Customer Research and Analytics	2	1	1
Partnerships and Innovation (P)	1. Strategic Partnership Opportunities	4	2	1
	2. Entrepreneurial Innovative Approach	6	1	2
	3. New Funding Opportunities	6	2	1
	4. Ongoing Markets Best Practice Review	2	4	1

Risk Category	Risk Factor	Options/Risk Scores		
		City	P3	MSC
Transition to Governance Options (T)	1. Ease of Implementation	1	4	4
	2. Financial Cost to City of Transition	1	4	4
	3. City Transition Leadership Resource(s)	2	4	4
	4. Adaptability of Governance Model	2	4	2
Total Residual Risk Score		**152**	**162**	**142**

Residual Risk Explained	The risk that is present in the City of Ottawa – Markets Governance Options stemming from related activities after the risk has been controlled (e.g. successful implementation of ByWard and Parkdale Markets comprehensive transition plan). Three criteria are used to assess the residual risk: • Impact (I) – the potential consequence of an event • Likelihood of Occurrence (L) – the chance of something happening The bottom-line result of this assessment is the **Residual Risk Score (RS),** which is a result of the multiplication of the Impact and Likelihood of Occurrence ratings adjusted to take into consideration the implementation of management controls and related risk mitigation measures. • For purposes of this modified risk assessment project, combined Residual Risk Scores (*Impact X Likelihood*) are categorized as follows: [green] Low Risk – Combined RS Score of 1 – 3 [yellow] Medium Risk – Combined RS Score of 4 – 6 [red] High Risk – Combined RS Score of 7 – 9 The preferred option is the option with the lowest overall combined **Residual Risk Score** taking into consideration all the risk factors as well as the related risk mitigation or control measures.

Acceptance Sign-off

Lead Department

Prepared By:	Kim Copeland, Strategic Initiatives Project Officer	**Date:**	March 27, 2017
Signature:			
Approved By:	Shannon Kenney, Program Manager	**Date:**	March 27, 2017
Signature:			
Approved By:	John L. Moser, Special Advisor to the General Manager, Planning, Infrastructure and Economic Development Department	**Date:**	March 27, 2017
Signature:			

Business Partner(s)

Submitted To:	Isabelle Jasmin, Deputy City Treasurer	**Date:**	March 27, 2017
Signature:			
Submitted To:	David White, Deputy City Solicitor	**Date:**	March 27, 2017
Signature:			