



**STAFF REPORT
ACTION REQUIRED
with Confidential Attachment**

Lease of Warehouse Space – 21 Don Roadway

Date:	September 28, 2015
To:	TTC Board
From:	Chief Executive Officer
Reason for Confidential Information:	This report is about a proposed or pending acquisition or disposition of land for municipal or local board purposes.

Summary

The purpose of this report is to seek the Board’s approval of an Offer to Lease for a warehouse located at 21 Don Roadway, to accommodate Materials and Procurement Department (M&P) requirements, and delegation of authority to enter into a lease subject to the terms and conditions outlined in the Confidential Attachment.

Leasing of a warehouse space 21 Don Roadway is required to partially meet M&P’s increasing warehousing space requirements to support TTC’s operations. This facility will provide better service in the south part of the city, specifically to support the Leslie Barns, Russell and Roncesvalles car houses, and Streetcar Way.

TTC staff and its broker have conducted an extensive search for suitable facilities for warehouse space to meet these specific requirements. The proposed site available for lease at 21 Don Roadway is suitable for these purposes. Staff has negotiated an Offer to Lease, with terms and conditions laid out in the Confidential Attachment. Upon Board approval of the report recommendations, a lease will be negotiated with the landlord . The warehouse and associated facilities can be available for operation in early 2016.

The leasing of a warehouse for these purposes was included in the 2015 TTC Operating Budget and was included in the additional \$95 million in operating funding provided by the City of Toronto to enhance transit operations. Sufficient funds were made available in that budget for the 2015 costs associated with this award.

The TTC is undertaking an overall logistics review of its parts storage and distribution process to determine whether changes need to be made in the long term. This review will be completed over the next year and presented to the TTC Board once completed.

Recommendations

It is recommended that the Board:

1. Adopt the confidential recommendations contained in the confidential attachment to this report; and
2. Authorize staff to negotiate a lease for warehouse space located at 21 Don Roadway, Toronto, Ontario with the owner, substantially on the terms and conditions set out in the Confidential Attachment, in a form satisfactory of the TTC's General Counsel;
3. Delegate authority to the CEO, to execute a Lease Agreement for warehouse space located at 21 Don Roadway, Toronto, Ontario based on the offer to lease, in a form satisfactory to TTC's General Counsel; and
4. Authorize the public release of the confidential information contained in this report once a lease has been executed between the TTC and the owner of 21 Don Roadway.

Financial Summary

Funds in the amount of \$1.42 million were included in the 2015 TTC Operating Budget which was approved by the TTC Board on February 2, 2015 and City of Toronto Council on March 10, 2015.

Sufficient funds will be incorporated into future operating budgets for the rent, amortization of leasehold improvement costs and other costs arising out of entry into the proposed lease.

The Chief Financial & Administration Officer has reviewed this report and agrees with the financial impact information.

Accessibility/Equity Matters

Barrier free access to the office at 21 Don Roadway will be provided by the landlord as part of the lease requirements to the leased space to meet Accessibility for Ontarians with Disabilities Act (AODA) requirements.

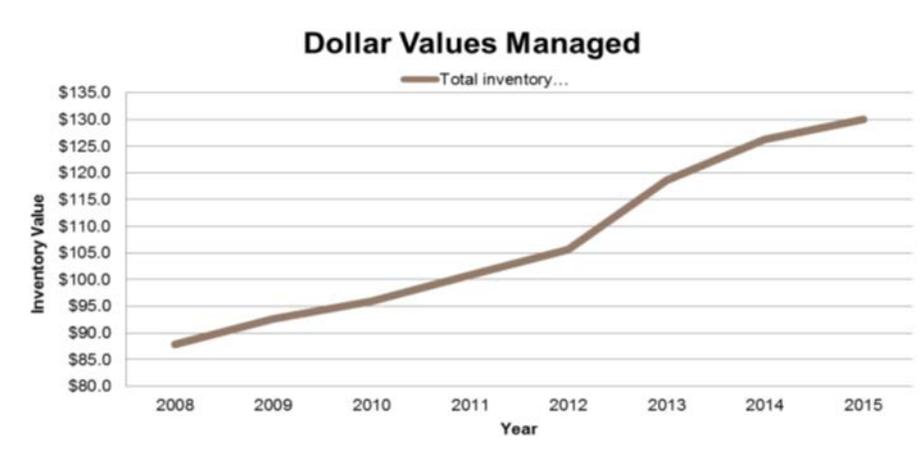
Issue Background

M&P is responsible for all inventory management for the TTC, warehousing and distribution of parts and materials to support TTC's operational requirements in more than a dozen facilities across the city, including bus garages, subway car houses, and divisional stores. These warehousing facilities were at full capacity in 2013 and the

demand for warehouse space continues to grow as a result of a number of new projects and initiatives.

The presentation at the July 29, 2015 Board meeting on Warehouse Needs Analysis identifies M&P current need for an additional 390,000 square feet of warehouse space. The recommendations in this report are consistent with the needs identified in this presentation.

Annually, the TTC issues over 10 million parts valued at over \$125 million from its inventory for the maintenance of its extensive fleet of transit vehicles, its physical infrastructure assets and other maintenance needs.



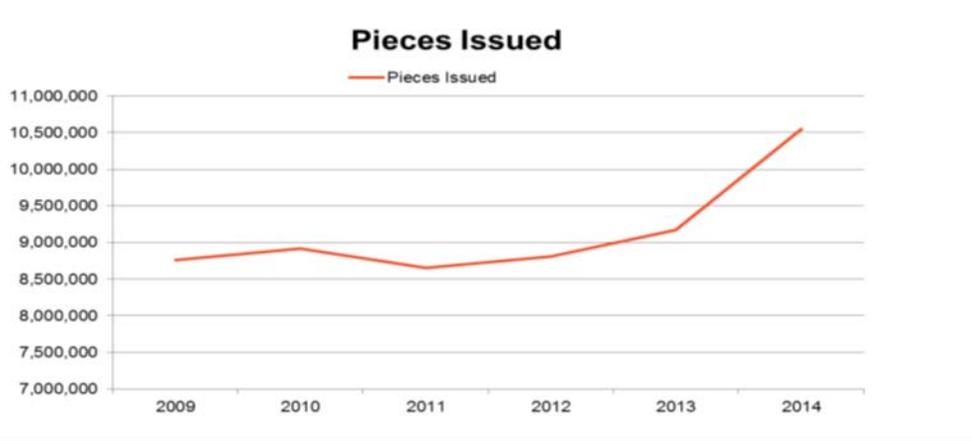
The introduction of the new Toronto Rocket (TR) subway fleet, Low Floor Rail Vehicles (LFRV), and Nova buses has resulted in a significant increase in the requirement for warehousing. The number of spare parts and the average space required, for each part, has greatly increased in comparison to the fleets they replaced.

Over the past several years there has been several new vehicle types requiring additional parts storage which will impact our business (Hybrid Buses, Toronto Rockets, Articulated Buses, and new Streetcars). The TTC is required to maintain stock of parts for breakdowns and requires additional storage space. By comparison an old GM bus may have approximately 400-600 stocked parts, a new hybrid bus may have in excess of 3,000 stocked parts. We moved from small mechanical component replacement to large electronic assembly replacements.

Due to the age of some of our vehicles some parts are difficult to source and are considered critical and therefore a supply must be maintained despite limited use. The new Hybrid bus fleet is coming out of warranty which further contributes to the need for space. The TTC will need to maintain a number of parts in stock for breakdowns. The TR and LRV components are very large and bulky to store requiring floor space as they are not items that may be placed in racks. The new Articulated Buses have approximately 4000 new individual stock codes that will need to be stored.

Another factor contributing to the increased need for warehousing space is that TTC must maintain a minimum quantity of critical spare parts for the different types of vehicles in its fleet at all times so that the vehicles can be repaired and placed back into service as soon as possible. Currently, the TTC utilizes virtually every available transit vehicle in revenue service. Any vehicle out of service due to parts unavailability almost invariably affects that service in an adverse way. Many of these spare parts for these vehicles require long delivery times while many others, such as those for older vehicles, must be rebuilt on-site. TTC subway cars and streetcars are kept at least 30 years and buses 18 years, often longer. Given the specialized nature of these transit vehicles, sourcing parts near the end of their useful life is often very difficult. The same can be said for much of the older infrastructure the TTC owns. TTC cannot afford to wait for these deliveries or rebuilds and must therefore store them well in advance of when they will be required for repairs in order to minimize vehicles out of service.

Based on the foregoing, there has been a sustained increase in the number of parts issued from stores by M&P, increasing from 8.8M in 2008 to 10.3M in 2014. This 17% growth rate is expected to increase as the new vehicles are delivered and as vehicles come off of warranty. In addition, there is continued demand for parts for the old equipment that is still being operated. If a supplier is ending the production of a line of parts needed for old equipment, TTC may need to purchase and store that last run to ensure availability of parts.



M&P have undertaken a number of initiatives to increase the efficient utilization of warehouse space. These initiatives include the installation of nine high-density vertical parts carousels, the introduction of a 'Just-in-Time' direct delivery system from suppliers for many items, and the reconfiguration of warehouse racking and storage aisles to optimize the current space available. However, despite these measures, the continued increase in the requirement for spare parts can no longer be accommodated at the existing facilities.

In December 2013, M&P requested TTC's Engineering Department to conduct a Warehousing Needs Analysis to determine the current warehouse space requirement and to project for future demand. The report determined that an additional 390,000 square

feet of warehouse storage space is required over and above the existing 365,700 square feet.

A further logistics study has been commissioned to conduct an overall review and best practice benchmarking strategy for TTC inventory management program. This logistics study is targeted for completion over the coming 6-9 months. However, review, design, approval, acquisition, delivery and implementation of the long-term warehousing strategy will likely require phasing over a number of years between 2018-2023. It can take upwards of a year to transition from one large warehouse facility to another while simultaneously ensuring appropriate parts distribution to support the operation during the transition. As has already been pointed out, the warehousing demand for parts will continue to grow over this same time. The results of this review will be presented to the TTC Board for direction once the study has been completed.

TTC staff have consulted with City of Toronto Real Estate Services Portfolio Management staff and confirmed that the City and its agencies, boards, commissions and divisions (ABCDs) does not have any surplus warehouse space that meets the requirements for size, location and use.

TTC staff and its broker have conducted an extensive search for suitable facilities for warehouse space to meet these specific requirements. The proposed site available for lease at 21 Don Roadway is suitable for these purposes and provided that approval is obtained from the Board at the subject meeting, the site is expected to be available to meet the timelines required for bringing the facility into operation in early 2016. This facility provides an additional 225,000 square feet, leaving a shortfall of about 165,000 square feet which will await the results of the logistics study noted above.

A map showing the location of this facility is included in Appendix A.

The lease of this warehouse will permit M&P to vacate the decommissioned Danforth garage facility which has been identified for permanent closure. If deemed surplus to TTC needs, that facility would be disposed of through the City of Toronto's surplus assets process. There will be a need to accommodate the current Bloor-Danforth Subway Transportation and Collectors areas currently operating there as part of any disposition of this facility. The escalator, communications and Rail Cars and Shops material which is still stored at the Danforth location can be stored at the new facility. Furthermore, M&P will be able to relocate the Automatic Train Control, Speed Control System, Toronto Rocket capital spares, new Low Floor Rail Vehicle Streetcar spare parts, Streetcar Way track material and the critical spare parts from the Downsview Warehouse to make space available at this location for additional new bus spare part storage.

A further report will be forthcoming dealing with the Downsview warehouse, which is located on the Downsview Park property owned by Canada Lands Corporation (CLC), should a satisfactory lease extension be negotiated for this warehouse. The lease of that warehouse expires at the end of 2016. It is TTC's preference to remain at this location.

Comments

While the property at 21 Don Roadway is currently being used as a storage facility and is in large measure to be utilized as is with relatively minor leasehold improvements, TTC has some special requirements for some of its operations that require that modifications be made to make the facility suitable. The landlord has been requested to undertake some work to bring the facility into a state of good repair prior to TTC's occupancy and to make some modifications to the facility to prepare it for TTC occupancy. This combined work will take about three months from the signing of the lease.

Given the length of time that the owner has been dealing with TTC, and the timelines to complete the owner's work to permit early 2016 TTC occupancy, staff recommend the Board authorize staff to proceed with negotiating a lease and delegate authority for entry into the lease, substantially on the terms and conditions outlined in the Confidential Attachment.

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Attachments

Appendix A – 21 Don Roadway Location Reference Map
Confidential Attachment 1
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Appendix A
21 Don Roadway Location – Reference Map

