



Market Shops Retail Procurement Authorization

Date: April 11, 2018

To: TTC Board

From: Deputy Chief Executive Officer and Chief Customer Officer

Summary

The purpose of this report is to obtain authorization for the award of a contract to Tobmar Investments International Inc. (Gateway) for the Market Shops Retail Lease at 69 TTC subway station locations. This will be the first initiative of the Board-approved retail strategy from the February 15, 2018 meeting.

Recommendations

It is recommended that:

1. Authorize the acceptance of the Best and Final Offer Proposal submitted by Gateway for Market Shops Retail Lease at 69 locations, in the amount of \$30,711,468.77 (including HST) minimum guaranteed rental revenue for a 10-year period commencing May 1, 2018, with an option at the TTC's sole discretion to extend the agreement at minimum on the same terms and conditions for an additional term of up to five years. Additional rents, which would include property taxes, utilities and other recoverable costs, are in addition to the minimum guaranteed rents. In addition to the minimum guaranteed rent, Gateway will provide TTC an additional \$1,500,000.00 (inclusive of HST) as a bonus payment as outlined below:
 1. \$500K within 30 days of the lease execution;
 2. Five years after the first bonus payment, a second payment of \$500K; and
 3. Upon execution of the five year extension option agreement by both parties, Gateway will pay the third bonus payment of \$500K.

Gateway's proposal also included potential cobranded partners (Tim Hortons and MTY Food Group Inc.,) subject to further approval and negotiations. This has the potential to increase the rental revenue through percentage rent.

Implementation Points

As part of the awarding of the Market Shops Retail Lease, substantial renovations will be undertaken, at Gateway's cost, over a two-year period to the current locations in accordance with current building code requirements. There is no anticipated use of TTC resources, outside of the standard internal review process for approvals for the renovations. The total number of locations occupied by Gateway will be 69 stations.

As outlined in the new Retail Strategy, approved by the TTC Board in February 2018, the Market Shops agreement will deliver on customer preferences for additional products and services, such as healthier selection of foods consisting of prepared foods, salads, sandwiches, freshly pre-packaged juices, vegetarian options, fresh fruit and vegetables, and quick pick up items such as bread, milk and eggs.

Financial Summary

The 2018 budgeted revenues for the retail locations currently operated by Gateway are \$1.87M. This assumed a potential \$0.5M reduction in revenue to allow for construction downtime for renovations.

Gateway's financial proposal was based on \$2.36M in Year 1 with a 3% increase every year for the term of the agreement. Gateway's proposal includes a \$0.44M (net of HST) bonus in Years 1, 5 and 10 (the last subject to the five year extension being approved). The net financial impact for 2018 revenues is therefore expected to be \$0.91 M above budget.

The future financial impact over the 10-year term of the agreement is \$27.13M (net of HST), plus a further \$1.32M as a bonus payment for a total of \$28.45M (net of HST) (final bonus payment subject to the five year extension option being approved). Gateway's proposal also includes potential revenue increases based on percentage rents. Annual base rent figures are outlined in Table 1 below.

Table 1: Gateway / Market Shops contract revenue (net of HST)

	2017 Actual	2018 Forecast	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2027 Forecast
New Base Rent	-	\$2.34M	\$2.41M	\$2.48M	\$2.54M	\$2.63M	\$3.07M
New Bonus Payment	-	\$0.44M	-	-	-	\$0.44M	\$0.44M (subject to additional 5yr term)
Total	\$2.30M	\$2.78M	\$2.41M	\$2.48M	\$2.54M	\$3.07M	\$3.51M

The Chief Financial Officer has reviewed this report and agrees with the information.

Equity/Accessibility Matters

As part of the renovation to retail locations, TTC design standards and AODA/Ontario Building Code requirements will be met.

Decision History

The TTC Board had previously approved an extension to the former newstand for Gateway to ensure that retail operations were running smoothly for the Pan Am Games.

[https://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2013/May 24/Supplementary Agenda/index.jsp](https://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2013/May%2024/Supplementary%20Agenda/index.jsp)

At its meeting on February 15, 2018, the TTC Board adopted the recommendations in the staff report including the approval of the new Retail Strategy.

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2018/February 15/Reports/13 New Retail Strategy.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2018/February%2015/Reports/13%20New%20Retail%20Strategy.pdf)

Decision

[http://www.ttc.ca/About the TTC/Commission reports and information/Commission meetings/2018/February 15/Reports/Decisions/13 New Retail Strategy Decision.pdf](http://www.ttc.ca/About%20the%20TTC/Commission%20reports%20and%20information/Commission%20meetings/2018/February%2015/Reports/Decisions/13%20New%20Retail%20Strategy%20Decision.pdf)

Issue Background

As part of the TTC's Corporate Plan (2018-2022), the TTC is continuing to transform and modernize to become a transit system that makes Toronto proud. The new retail strategy is a step towards achieving the objectives of the new Corporate Plan, the procurement model used for this requirement is a newly introduced Negotiable Request for Proposal (NRFP).

In June 2017, the TTC retained an outside firm, the Procurement Law Office (PLO), to assist in developing (in conjunction with M&P), a NRFP template that allowed the TTC to engage in negotiations regarding financial and business terms and conditions as part of future Request for Proposals.

Comments

The NRFP was publicly advertised on the MERX posting website, as well as the TTC's website, as of September 20, 2017.

Twelve companies downloaded copies of the proposal documents, of which four submissions were received from Gateway; Nicholby's Limited (Nicholbys); Dakin News

Systems Inc. (o/a INS Market) (INS) and New York News Café Ltd. (o/a New York News) (NYN) electronically, through the TTC online Bonfire portal (electronic tendering and bid elevation tool) by the closing date of November 20, 2017. During the bid period, five addenda were issued.

The NRFP was issued as a virtual two-envelope, six-phased evaluation process, as summarized below:

Stage 1 – Mandatory Submission Requirements;

TTC staff, with the assistance from PLO, reviewed the mandatory submission requirements submitted for Stage 1 and all four submissions passed the mandatory requirements and proceeded to Stage 2 of the evaluation.

Stage 2 – Evaluation consisted of the following sub-stages:

a) Initial Evaluation Criteria

TTC staff evaluated all four submissions Dakin News Systems Inc. (o/a INS Market) and New York News Café Ltd. (o/a New York News) did not meet the minimum score of 18.0 and consequently were not considered further. Gateway and Nicholbys both met the minimum score and proceeded to the Stage 2b of the process.

b) Rated Criteria

TTC staff, with assistance from PLO evaluated Gateway's and Nicholbys' submissions. Both Gateway and Nicholbys met the minimum score of 21.0 and proceeded to the next step of the evaluation.

c) Final Evaluation Criteria

TTC staff, with assistance from PLO, evaluated Gateway's and Nicholbys' submissions. Both Gateway and Nicholbys met the minimum score of 25.0 and proceeded to Stage 3 of the evaluation.

Stage 3 – Pricing

The pricing was evaluated for only those proponents that met the mandatory requirements and rated criteria indicated in Stage 2 above. Pricing consisted of proposed pricing for up to 47 core locations, as well as proposed pricing for the potential of 22 non-core locations. The NRFP indicated that proponents had to bid on a minimum of 41 of the 47 core locations in order to be considered. Pricing is worth 65 points of the total score in both the initial evaluation of pricing at Stage 3 and in the final evaluation of pricing in Stage 5. Both Gateway and Nicholbys met the requirements and moved on to Stage 4 of the evaluation.

Stage 4 – Initial Ranking of Proponents and Reference Validation

All scores from Stage 2 and Stage 3 were added together and the proponents were initially ranked based on their total scores. Both Gateway and Nicholbys moved on to Stage 5 of the evaluation. Reference checks for both Gateway and Nicholbys were also conducted by TTC staff, which indicated that they have provided services of a similar size and nature in the past.

Stage 5 – Concurrent Negotiations and Best and Final Offer (BAFO) consisted of the following two sub-stages:

1. Concurrent Negotiations and BAFO Process

Nicholbys and Gateway were invited to enter into concurrent negotiations. This stage of the NRFP included the following sub-stages:

a) Commercially Confidential Meetings (CCM)

This sub-stage consisted of meetings with the short-listed proponents and the TTC evaluation team members. Prior to the meetings, both proponents were sent CCM areas of discussion that evaluators had provided, which allowed for meaningful dialogue regarding both proposals and for TTC to provide feedback to the proponents to identify potential gaps and discussions of potential alternate approaches to fulfill TTC requirements. Upon completion of the CCMs and considering the information discussed at the CCMs, both proponents were allowed to revise their initial submissions and were requested to submit their BAFOs for final evaluation and ranking.

b) Submission of BAFOs

This sub-stage allowed proponents to revise their initial submissions and submit their BAFOs for final evaluation and ranking.

2. Evaluation of BAFO and Final Ranking of Proponents

Evaluation of the BAFOs was completed by the evaluation team with the assistance of PLO. Each BAFO submission was evaluated against the rated criteria set out under Final Evaluation Criteria in Stage 2 and assigned a final ranking using the same process set out above. The top-ranked proponent based on the evaluation of the BAFOs received a written invitation to enter into a final round of negotiations to finalize the agreement with the TTC. Upon completion of Stage 5, Gateway was identified as the top-ranked proponent and was subsequently issued a written invitation to enter into a final round of negotiations (Stage 6) to finalize the agreement with the TTC.

Stage 6 – Contract Negotiations

Following the completion of Stage 6, key elements of the new Gateway contract include:

1. Potential co-branded locations with Tim Hortons and MTY Food Group Inc., subject to approval and negotiations. MTY Group has retail/food brands such as: Cultures, Extreme Pita, Jugo Juice, Mr. Sub and Thai Express. The co-branded locations will be subject to station reviews to confirm that the necessary electrical and other systems can be provided. This has the potential to increase rents payable through percentage rent.

2. All locations will be renovated over a two-year period and will meet current building code requirements. All locations will have a new Point of Sale (POS) system, which will allow for sales reporting and merchandise ordering to be state of the art for inventory control.
3. Healthy options, which will require new designs to provide new refrigeration within the stores.
4. Gateway is open to partnership with local communities at non-core stations that will allow for local-based businesses and organizations to have access to the foot traffic of the TTC and its stations.
5. Gateway will be offering free bankcard transaction, which will allow savings to the TTC customers on all of their purchases from the Market Shops.

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Signature

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