

Ontario Realty Corporation Annual Report 2005-2006



Ontario Realty Corporation
Société immobilière de l'Ontario



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The Honorable David Caplan
Minister of Public Infrastructure Renewal
6th Floor, Mowat Block
900 Bay Street
Toronto, Ontario
M7A 1C2

Dear Minister:

In accordance with the requirements in Section 14(1) of the *Capital Investment Plan Act 1993*, I am pleased to present to you the Ontario Realty Corporation's (ORC) 2005/2006 Annual Report.

The report describes the activities of the ORC and the results achieved. Performance information is organized by our corporate objectives established at the beginning of the fiscal year. The report also includes the audited financial statements for the fiscal year ending March 31, 2006 and the Auditor's assessment of our statements.

Respectfully submitted,



Carol Gray
Chairperson
June 30, 2006

Achievements at a Glance

In 2005/2006 the Ontario Realty Corporation supported the Government of Ontario's initiatives by realizing cost savings, reducing energy consumption and investing strategically to increase the value and life of government assets.

The ORC has made great strides to continue its shift from an organization focused solely on service delivery to an organization that also provides strategic real estate advice and solutions, allowing it to strategically assist ministries in support of these multi-year government priorities. Here are a few highlights.

Achieved Savings of \$22.9 Million in Annualized Accommodation Costs by:

- Implementing the Provincial Accommodation Plan developed in 2004/2005
- Assisting ministries to meet their savings targets by reducing space or relocating to less expensive accommodations
- Identifying opportunities for ministries to co-locate
- Initiating realty tax appeals
- Implementing policies to standardize office space requirements

Addressed our Maturing Portfolio by:

- Supporting the government's Five-Year Infrastructure Investment plan to increase the value and prolong the life of government assets
- Identifying critical repairs and energy conservation opportunities in government buildings
- Initiating 1,311 capital repair and energy management projects
- Deploying the capital repair budget (\$148.5 million) to address deferred capital maintenance

Reduced Electricity Consumption by:

- Assisting the Government of Ontario to reduce electricity consumption by 10% in government-owned buildings by 2007
- Initiating retrofit projects that will significantly contribute to energy savings in ORC-managed government buildings, including heating, ventilation and air conditioning (HVAC) systems as well as building automation and lighting control systems
- Piloting the installation of an ultra-low emissions co-generation facility at the Ontario Police College in Aylmer

Table of Contents

- Message from the Chairperson 2
- Report from the Acting President and CEO..... 4
- The Ontario Realty Corporation 7
- Legislative Authority..... 8
- Corporate Governance 9
 - Board of Directors* 9
 - Committees of the Board* 9
 - Board of Directors Listing* 12
- Organizational Overview 14
 - Core Services* 14
 - The ORC's Business Units* 15
 - Our Management Team* 16
- 2005/2006 Performance: Our Corporate Objectives 17
- Our Corporate Objectives in Detail 19
- Highlights and Achievements 25
- Looking Ahead – Our Vision for 2006 and Beyond 29
- Challenges We Face..... 32
- Our Business Plan for 2006/2007 33
- Financial Statements..... 35



A. Grenville & Wm. Davis Courthouse, Brampton

Message from the Chairperson



After an extensive career in the financial services industry, including most recently as Executive Vice-President, Small Business Banking for CIBC, Ms. Gray joined the Board of the Ontario Realty Corporation (ORC). The depth of her experience in management and strategic planning, as well as directorships on other boards, ensures that the ORC's Board has a strong leadership and governance presence to oversee all operational and business decisions.

Since I was appointed Chair in July 2005, a priority for the Board of Directors has been to improve our governance structure and practices.

Highlights of these accomplishments include:

- Implemented a Governance Committee, chaired by the newly created Vice-Chair position;
- Revised the Board's Code of Conduct, Conflict of Interest and Confidentiality Policies;
- Revised the Terms of Reference and Delegation of Authorities for Board Committees;
- Created job descriptions for all Board positions;
- Completed a review of the Directors' competencies for use in the recruitment of new Directors;
- Conducted a Board Self Assessment to establish performance goals for the Board;
- Established an annual business cycle calendar to ensure the Board, the Ministry of Public Infrastructure Renewal (PIR) and management are exercising their respective governance responsibilities; and,
- Revised the Memorandum of Understanding to clarify the obligations, roles and responsibilities of ORC and PIR.

There is heightened awareness on governance as a result of recent events in both the private and public sectors. The performance bar has been raised and the expectations are, rightfully so, even greater for ORC as we hold ourselves to a higher level of standard for the benefit of our owner, PIR, and ultimately the citizens of Ontario. With the governance practices and framework we have implemented thus far, PIR and other stakeholders can be confident that we are on par with best governance practices of public and private corporations. However, implementing good governance practices is more than just completing a check list of activities. In the coming year, I look forward to further developments in our governance practices in the following areas:

- Augmenting the Board's mentorship role with senior management;
- Establishing performance goals for the Board; and,
- Implementing a strategic framework that will assist the Board with the balance between governing operational results and long-term strategy.

The Governance Committee undertook a review of the Board composition and structure. Currently, the Board has five independent Directors, including the Chair, and two government employee Directors who represent valued client ministries. Each of the five committees of the Board is chaired by an independent Director who also provide mentorship to senior management. The Board's structure supports the Corporation at both an operational and strategic level.

With the expiry of Directors' terms and new Directors' appointments, we have seen a number of changes in the composition of the Board. When recruiting new Directors it is often a challenge to find the necessary and relevant real estate experience, while avoiding real or perceived conflicts of interest. I am pleased with the Board of Directors' diversity of skills that have given the Corporation wisdom of past experience and fresh objective perspectives. I look forward to broadening the diversity of the Board with the recruitment of new Directors in 2006/2007.

In closing, I would like to thank the full management team and Greg Dadd who has embraced his new role as acting CEO and President with a focus on results. I would also like to thank Ron McNeill, our Vice-Chair, and fellow Board members for their significant contributions, especially their commitment to exemplary governance practices. I would especially like to thank the Honourable David Caplan, Minister of Public Infrastructure Renewal, for his continued support.

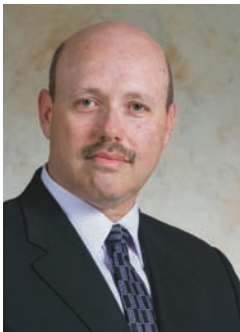


Carol Gray



Ministry of Community Safety & Correctional Services,
North Bay

Report from the Acting President and CEO



Building on a successful career in the Ontario Public Service, Mr. Dadd joined the Ontario Realty Corporation in 2002 as Vice-President, Corporate Administration and was appointed Senior Vice-President of Property Management and Client Service in 2005. In January, 2006, Mr. Dadd assumed the position of acting President and CEO and is responsible for leading the growth of the ORC as a value-added provider of realty strategies and services to the Government of Ontario.

2005/2006 was an eventful year for the ORC, but it was also marked by change. In June 2005, our reporting relationship moved to the Ministry of Public Infrastructure Renewal (PIR), which acts as the owner of the Government of Ontario's realty assets. In July 2005, a new Chair was appointed to our Board of Directors, and January 2006 saw the resignation of the President and CEO. Orienting these new stakeholders remained an ongoing priority for the Corporation.

Our new owner also presented us with additional priorities and directions, yet these changes benefited us by providing us with the opportunity to re-evaluate the manner in which we manage the government's realty assets. Building on the work that my predecessor, Tony Miele, initiated, the ORC ended the year with a three-year strategic plan, clearly setting the path and priorities for ORC's future development and success.

Our performance

As acting President and CEO, I am pleased with our performance in 2005/2006, specifically our achievements against the corporate objectives and our support of government initiatives and PIR priorities. Despite numerous challenges, we surpassed targets set at the beginning of the year for accommodation savings, energy reductions and portfolio revenues. We also provided strategic policy advice to PIR in the revision of the realty and accommodation directive and supported the "Greenbelt Plan", other environmental initiatives and PIR's Strategic Asset Management Real Estate initiative.

Acting on input from our Board, we made significant improvements to our leasing program and to the sales plan approval process, which contributed to cost and time savings while still upholding our values of transparency and accountability. We implemented an environmental management system to provide guidance to the ORC in the activities we undertake. We developed a contractor performance policy and program to enable us to take past performance into account in the tendering process. We also launched a comprehensive training program for our staff and positioned ourselves to fully implement a risk management program within the Corporation.

Accommodation Savings Initiative

The ORC was instrumental in assisting ministries to achieve \$10.4 million in savings in 2005/2006 in order to fulfill the government's commitment to save \$50 million in annual accommodations costs across the government's realty portfolio by 2007/2008. Our strategic planning began with the development of the Provincial Accommodation Plan (2004/2005) to identify potential savings opportunities in government used space, and

in the development of policies to standardize office space requirements. As part of that accommodation plan, in 2005/2006 we assisted ministries in rationalizing the space they occupied, often resulting in a reduction of space or relocation to less expensive accommodations. In addition, the ORC looked for opportunities for ministries to co-locate and initiated tax appeals.

Not only did we assist in realizing savings of \$10.4 million in 2005/2006, we were also successful in identifying \$12.5 million in additional savings by 2007/2008 once initiated actions and plans are fully implemented.

Identifying the remaining \$27.1 million to achieve the \$50 million target will be a challenge that will require solid planning, strategic thinking and strong working relationships with our client ministries. So that we do not lose sight of its importance, this initiative is included in our strategic plan, our strategic goals and our business plan.

Our commitment to quality customer service

At ORC, it is our responsibility to ensure that the government is served in a timely and cost-effective manner that facilitates the delivery of its programs and policy objectives. In other words, we are responsible for providing the ministries, our clients, with quality service in strategic planning and property and project management.

Our commitment to improving customer service began two years ago when we first introduced an account team structure to function as a single-window to our services. Our four account teams are now fully implemented, and based on interviews with our client ministries, this structure works effectively.

Working relationships between the ORC and client ministries were formalized through the signing of a Service Agreement with each client ministry on January 31, 2006. The Service Agreement clarifies the respective roles and responsibilities and outlines the performance measures for evaluating our services. The Account Teams are key to implementing the service agreements and ensuring our clients receive quality service.

In order to measure the satisfaction of our stakeholders, we conducted surveys of our tenants, key stakeholders of PIR, and our client ministries. Our tenants reported a 77% overall satisfaction rating with ORC's services, an increase of 11% over the last survey. Our owner also indicated satisfaction with the advice and services we provide them. However, there is room for improvement as our client ministries indicated that we need to do better in the areas of providing consistent services and keeping them informed on the progress of the projects we undertake on their behalf.



Newmarket Courthouse



Whitney Block, Toronto

Based on these results we have shifted some of our priorities and developed a business plan for 2006/2007 to specifically address those areas where our clients felt improvement was required: communication, financial reporting and project management tracking and reporting. I firmly believe that with our account team structure in place and with tools such as the service agreements and our business and strategic plans, we are fully equipped to tackle our challenges and be more responsive to our clients in the future.

The year ahead...

I look forward to an exciting year ahead as we strengthen our internal structure by implementing innovative financial, information technology, human resources and client service strategies. Our business plan for the coming year is ambitious, but with our dedicated and skilled employees, the ORC will successfully transform itself into a service-oriented real estate organization. To date, our results reflect not only the value that we can bring through our services, but also the potential we have to increase it.

In closing, I would like to thank the Board of Directors for their ongoing counsel and direction, the Management team for their leadership, and our employees for their dedication, commitment and hard work. On behalf of all of the staff at ORC, I would also like to acknowledge the vision and leadership that Tony Miele, who served as President and CEO for almost seven years, provided to the Corporation. We wish him well in his new endeavours.

I would especially like to thank our client ministries for their continued support and understanding as we strive to continually improve our services and while partnering with them to achieve the savings targets set by our government. Our achievements speak for themselves, and I am confident that our clients will be well-served by the plans we have put in place for the coming years.

A handwritten signature in black ink, appearing to read "Greg Dadd". The signature is stylized and cursive, with a prominent flourish at the end.

Greg Dadd

The Ontario Realty Corporation

The Ontario Realty Corporation (ORC) was established as a Crown Corporation in 1993 and was classified as an Operational Enterprise Agency of the Government of Ontario on November 30, 2001.

In June 2005, responsibility for the ORC as an agency of the Government of Ontario was transferred from Management Board Secretariat to the Ministry of Public Infrastructure Renewal (PIR).

The ORC provides a broad range of integrated real estate services, including strategic portfolio management, asset rationalization, property management and project management to the Government of Ontario.

The ORC employs approximately 310 people and delivers its services through a combination of in-house staff and extensive use of external service providers.

Vision

A hybrid company with both private and public sector influences, the ORC will serve as a benchmark in public sector real estate management, acting as the sole provider of realty services, including strategic real estate advice, to the Government of Ontario.

Mission

As the strategic manager of the Government of Ontario's real property, the ORC will provide expert real estate advice and solutions to the government and customer ministries/agencies to optimize the utility of the government's real estate in delivering their programs, while enhancing customer service, optimizing the value of the portfolio, promoting high professional standards and ensuring realty and accommodation decisions reflect the public policy objectives of the government.

Value Statement

The ORC will operate utilizing the best private and public sector business practices in a transparent and accountable manner, while building partnerships through an exceptional team of professional and customer service driven employees.



Main Legislative Building, Queen's Park, Toronto

Legislative Authority

The ORC is governed by the *Capital Investment Plan Act (CIPA) 1993* and is tasked with providing real property services to the Government of Ontario and its programs.

As an operational enterprise agency of the Ministry of Public Infrastructure Renewal (PIR), the ORC has a clear line of accountability to the Government of Ontario. The President and CEO is responsible and accountable for the day-to-day operations of the Corporation to the ORC's Chairperson and Board of Directors. The Board, through the Chairperson, is accountable to the Minister of Public Infrastructure Renewal.

In addition, the Minister has delegated authority to the ORC to exercise his powers and duties for subsections 6(1), 8(1) and 8(2) of the *Ministry of Government Services Act*.

The ORC's governance framework and structure



Corporate Governance

Strengthening Our Accountability

Board of Directors

The ORC's Board of Directors is a government-appointed, diversified group with a wealth of knowledge and expertise in the financial, private industry, real estate, legal, accounting and public administration sectors.

During the year, the Board met on a monthly basis to review the ORC's business operations, and had two additional meetings to develop and review strategic plans and policy proposals – for a total of 14 meetings.

Committees of the Board

The ORC's Board committees focus on specific organizational functions that give individual Directors the opportunity to work more closely with managers. This has mutual benefits: Directors are able to provide professional advice to managers based on their extensive business experience, and at the same time learn more about the operations of the Corporation. This experience helps to enhance the Board's overall capacity to provide guidance on all issues relating to the ORC.

The Board has established five committees to assist in the review of specific ORC functions.

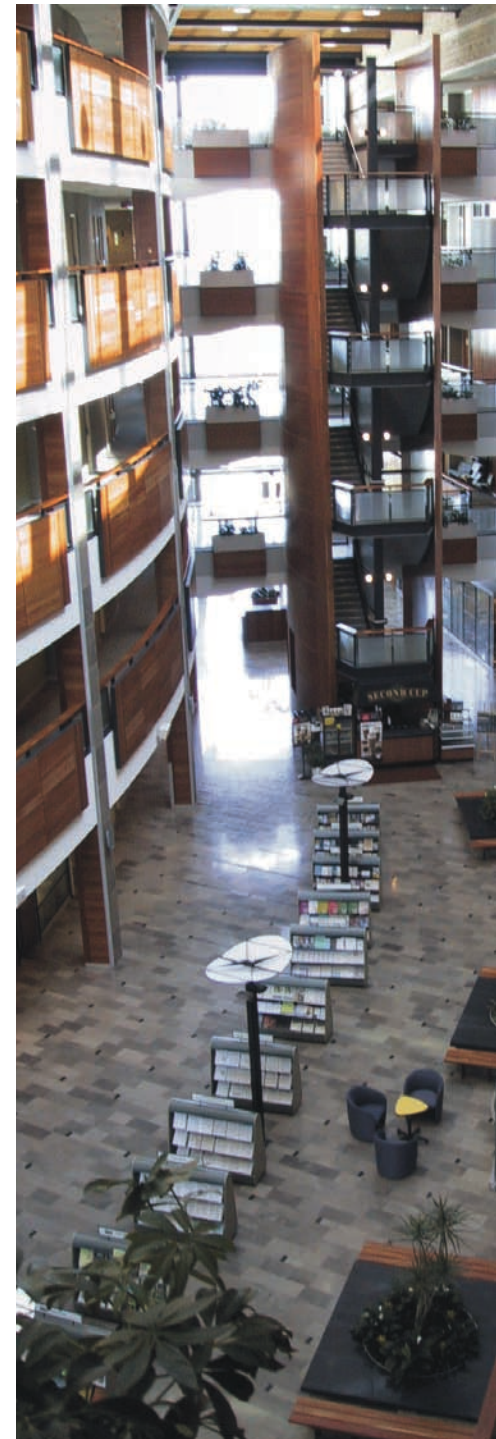
- The Audit Committee
- The Human Resources Committee
- The Property and Project Management Committee
- The Real Estate Sales and Leasing Committee
- The Governance Committee

Board committees have provided ORC management with numerous recommendations for practice and process improvements that have been implemented over the past year, thereby strengthening the accountability and operation of the Corporation.

In 2005/2006, the Board committees held a total of 50 meetings.

Audit Committee – 8 meetings

The committee oversaw the Corporation's increased focus on risk management with the introduction of Enterprise Risk Management. As a result, the position of Director-Risk Management was established, a series of training sessions on risk management were held with management and staff, and a risk reporting structure was implemented.



One Stone Road Complex, Guelph



Ontario Government Building, Thunder Bay

The Audit Committee oversaw significant progress in the following areas:

- Remediation of audit issues;
- Changes to Delegations of Authority;
- Improvements in the transparency of financial reports;
- Review of corporate policies and procedures for improving accountability; and,
- Efficiencies to the Class Environmental Assessment process.

Human Resources Committee – 8 meetings

This year, the Human Resources Committee was actively involved with management in the Corporation's Succession Plan and provided guidance in the development of an overall Talent Management Program.

The committee's major areas of focus this year were:

- Interim replacement of the former CEO;
- Recruitment of a new CEO;
- Establishment and monitoring of corporate objectives and the Corporation's pay for performance plan; and,
- Revisions to the employee benefits package.

Property and Project Management Committee – 9 meetings

In December 2001, the Board of Directors delegated authority to the Property and Project Management Committee to deal with matters pertaining to the procurement of goods and services related to property management and construction management.

This committee instituted a contractor performance policy to improve the performance of contractors on ORC projects, which the Corporation has now implemented in the Project Management Branch. Procurement policies have also been reviewed and updated.

In an effort to improve efficiencies and service delivery (and potentially reduce operating costs), the committee also recommended for approval, the consolidation of more than 100 individual operations and maintenance contracts into just four contracts to manage properties in Eastern Ontario.

Real Estate Sales and Leasing Committee – 17 meetings

In September 2001, the Board of Directors delegated authority to the Real Estate Sales & Leasing Committee of the Board to deal with matters relating to the disposition of

government-owned real property, the acquisition of real property and the leasing of both government-owned and third-party space.

This committee provided advice in the development of rationalization and sales plans for surplus government assets in order to reduce risks and generate revenues from surplus properties. The committee oversaw improvements to the Corporation's leasing practices which have led both the owner of the portfolio (PIR) and client ministries to recognize leasing as one of ORC's strongest assets based on recent surveys.

Governance Committee – 8 meetings

The Governance Committee was established in June 2005 to provide the Board with recommendations relating to corporate governance, including:

- Stewardship of the Board;
- Recommendations to the Government regarding Board size and composition;
- Compensation of Directors;
- Procedures to allow the Board to function independently of management; and,
- Oversight of the Corporation's compliance with policies regarding an efficient system of professional management and corporate governance.

Since governance was one of the Board of Directors' priorities, this committee led a major undertaking and implemented significant changes that will improve governance practices for the Board.

Improving Our Standards	Governance Improvement Workplan			
	Initiative	Completed	Initiative	Completed
Governance is about promoting corporate transparency, fairness, and accountability. The governance structure specifies the distribution of rights and responsibilities of the Board, managers, and other stakeholders, and outlines the rules and procedures for making decisions on the Corporation's affairs. To that end, the Board conducted a self assessment at a retreat in May 2005 and the results lead to the development of a Governance Improvement Workplan. Throughout 2005/2006 the Board addressed specific items and accomplished the following.	Governance Committee Established	✓	Delegations of Authority	✓
	Board Code of Conduct	✓	Principles of Board Composition	✓
	Board Confidentiality Policy	✓	Pre-established Annual Schedule for Committee Meetings	✓
	Directors' Conflict of Interest Policy & Forms	✓	Board/Committee Calendar	✓
	Directors' Competencies Review	✓	Board Reports	✓
	Board Self-Assessment	✓	Job Descriptions for Board roles	✓
	Reviewed and Updated all Committee Terms of Reference	✓	Updated ORC Board Orientation Manual	✓
	Documented Roles and Responsibilities of Committee Chairs	✓	Directors' Orientation Checklist	✓
			Memorandum of Understanding to Minister	✓

Board of Directors Listing

(As at March 31, 2006)

Front row, left to right: R. G. (Ron) McNeill,
Carol Gray, David Guscott.

Back row, left to right: Richard Ling,
Michael Fenn, N.W. (Bud) Purves,
David B. Conn, John S. Burke, Greg Dadd
(Acting President & CEO).

Absent: Michael A. Barker.



Carol Gray (Chairperson)

After an extensive career in the financial services industry, Ms. Gray joined the Board of the Ontario Realty Corporation in January 2005 and was appointed Chairperson in July 2005. She is an active volunteer and has served on numerous other boards, including a current role as Director of the Trillium Health Centre Foundation.

(Appointment expires January 12, 2008)

R. G. (Ron) McNeill (Vice-Chairman)

Following a successful accounting career that spanned 39 years with Deloitte Touche LLP, Ron McNeill was appointed to the ORC Board of Directors in December 2002 and appointed Vice-Chairman in July 2005. He has also served as the Chair and CEO of the Ontario Chamber of Commerce and is a past President of the Institute of Chartered Accountants Ontario.

(Appointment expires December 3, 2006)

David Guscott

David Guscott is the Deputy Minister and Associate Secretary of Cabinet, Communications, having held a wide variety of increasingly senior positions within several ministries in the Government of Ontario. In addition to his memberships with the Canadian Institute of Planners and the Institute of Public Administration of Canada, he has also sat on the boards of a number of provincial organizations. Mr. Guscott was appointed to the ORC Board of Directors in October 2005.

(Appointment expires October 25, 2006)

Richard Ling

Richard Ling is a lawyer who specializes in corporate and banking law, as well as tax incentive structuring, real estate, mergers and acquisitions for foreign investors and government relations. He also serves on the board of the Markham Energy Corporation. Mr. Ling was appointed to the ORC Board of Directors in September 2001.

(Appointment expires September 25, 2006)

Michael Fenn

Michael Fenn joined the ORC Board of Directors in June 2000 following a distinguished career in public service and administration. He served in numerous high-level positions in various ministries and municipalities in Ontario and was also the recipient of the Lieutenant-Governor's Medal of Distinction in Public Administration for Ontario in 1997.

(Appointment expires June 20, 2006)

N.W. (Bud) Purves

N.W. Bud Purves is the President and a board member of York University Development Corporation, following his successful career with the CN Tower and Trizec Hahn Corporation. He continues to be actively involved in the development of Toronto through his work on the boards of the Canadian Opera Company and MaRS Discovery District. Mr. Purves joined the ORC Board of Directors in January 2005.

(Appointment expires January 12, 2008)

David B. Conn

David B. Conn has worked as a senior executive with several high-profile corporations, including most recently at Colgate-Palmolive Canada, and has provided extensive service to other businesses and community-related organizations through his membership on boards and his leadership roles. He was appointed to the ORC Board of Directors in November 2004.

(Appointment expires November 16, 2007)

John S. Burke

Recently appointed to the ORC Board of Directors in February 2006, John S. Burke is currently the Deputy Minister of Municipal Affairs and Housing for the Government of Ontario. He has previously served in numerous senior capacities in other ministries and municipalities in Ontario and Canada.

(Appointment expires February 10, 2007)

Michael Barker, PQS, PLE

Michael Barker joined the ORC Board of Directors in February 2000 and is a Director and Professional Cost Consultant and Quantity Surveyor with the Toronto office of Helyar and Associates. He specializes in all matters relating to optimizing value, the acquisition and disposition of assets, and controlling risk on real estate development and construction projects.

(Resigned April 30, 2006)

Our Portfolio

The provincial government owns one of Canada's largest real estate portfolios. The ORC, on behalf of the Ministry of Public Infrastructure Renewal (PIR), has primary responsibility for the strategic management of this portfolio, which is comprised of both owned and leased space.

- More than 6,000 buildings
- Approximately 51 million square feet of space both owned and leased
 - approximately 42 million square feet (82%) of the space in use across the province is government owned
 - another 9 million square feet of space (18%) is leased from third-party landlords
- 87,000 acres of land, which includes 43,000 acres of Hydro Corridor lands
- Accommodates roughly 63,000 employees
- Extends throughout the province in some 130 communities
- Includes a wide variety of properties ranging from jails and detention centres to office space, courthouses and heritage buildings
- Nearly 70% of the portfolio is more than 30 years old and many of these older assets require significant capital investment to maintain

Organizational Overview

Core Services

As a fee-for-service provider, ORC provides five core services in the management of PIR's real estate assets.

Planning and Strategy

- Development of policies and strategies to maximize the use of the portfolio
- Prudent maintenance of the assets
- Development of plans to implement strategies, including adhering to all environmental laws and regulations

Sales and Rationalization

- Rationalizing and selling of surplus and underutilized assets to generate revenue and savings

Leasing and Acquisitions

- Securing space through leasing and acquisitions to meet accommodation requirements

Property Management

- Day-to-day management of owned and leased properties and land to support the needs of ministry programs

Project Management

- Management of both major capital and smaller repairs and alterations projects undertaken to facilitate government program delivery

To enable the delivery of these services the ORC is organized in two operational divisions:

- Portfolio Strategy and Asset Management
- Property Management and Client Service

The ORC'S Business Units

Portfolio Strategy and Asset Management Division

The division consists of five service areas responsible for strategy development, planning and execution of agreements relating to ownership and leasing of real property. Responsibilities include:

- Developing and implementing policies and strategies to maximize the utility and minimize the cost of the portfolio;
- Rationalizing and selling surplus and underutilized assets to generate revenue and savings;
- Securing space through leasing and acquisitions to meet accommodation requirements;
- Protecting and enhancing the value of the portfolio through environmental management, land use planning and property tax management; and,
- Oversight of the Provincial Secondary Land Use Program for Hydro Corridor lands.

Property Management and Client Service Division

This division is responsible for:

- Managing all owned and leased facilities and land;
- Managing the relationship between the ORC and its client ministries; and,
- Managing the capital construction, repair and tenant improvement projects related to government-owned and leased facilities.

Corporate Services

Services located within ORC to support its management of the province's real estate portfolio include Legal, Human Resources, Corporate Communications, Financial, Procurement, Internal Audit, Information Technology and Risk Management.



West Don Lands street revitalization, Toronto

Our Management Team

The President & CEO is responsible and accountable to the Board for the day-to-day management of the Corporation and provides leadership and direction to the staff of the ORC through the Executive Committee.

The Executive Committee, comprised of the ORC's senior executives, develops the corporate strategy and business plan for the Corporation, and meets weekly to discuss and approve various initiatives, policies and procedures dealing with the business operations of the Corporation.

Executive Committee

Front row, left to right: Hubert Labelle, Acting Senior Vice-President, Property Management and Client Service; Greg Dadd, Acting President and CEO; Brad Searchfield, Executive Vice-President, Portfolio Strategy and Asset Management.

Back row, left to right: MaryLee Farrugia, Executive Vice-President, General Counsel and Corporate Secretary; Peter Oakes, Chief Financial Officer and Treasurer; Kathy J. Bull, Senior Vice-President, Human Resources.



2005/2006 Performance: Our Corporate Objectives

2005/2006 was an eventful and successful year for the ORC, highlighted by energy reductions, accommodation savings and eco-friendly initiatives. We take great pride in our accomplishments for 2005/2006 and look forward to the projects that we have ahead of us.

Our goals are aligned with the priorities set by the Government of Ontario, the Ministry of PIR, the strategic direction provided by the ORC Board of Directors and the decisions of the ORC's Executive Committee.



Clean Energy Solutions

– Agreement to bring deep lake water cooling to the Queen's Park Precinct with Enwave Energy Corporation – May 2005

From left to right:





*Honourable Gerry Phillips, Chair of the Management Board of Cabinet;
Donna Cansfield, Parliamentary Assistant to the Minister of Energy; Honourable Dwight Duncan, Minister of Energy; and, Dennis Fotinos, President and CEO, Enwave Energy Corporation.*

Our Corporate Objectives

Legend: ● Target met or exceeded ▲ Target substantially met
▼ Target not met ▼ Indicates Ministry of Public Infrastructure Renewal Priority

Objective	2005-2006 Target	Result
Strategic Goal 1 – Optimize Portfolio Management		
Manage the government's Accommodation Savings Initiative: \$50M in annualized savings by March 31, 2008 ▼	Achieve a total annualized savings of \$11M	\$22.9M in total annualized savings (made up of achieving \$10.4M and identifying \$12.5M) ●
Reduce Operation & Maintenance (O&M) costs for government owned buildings without reducing service	Reduce controllable O&M costs by 3%, against 2005/2006 budget, in ORC managed buildings	1% over budget ▼
Achieve Net Portfolio Results (excess of operating revenues over expenses)	Net portfolio result of \$17.1M	\$22.2M ●
Strategic Goal 2 – Implement and Support Government Initiatives		
Support the government's initiative to reduce electricity consumption in owned buildings by 10% by 2007 ▼	Reduce hydro consumption by 7% in kilowatt hours, in owned buildings (against 2002/2003 base year)	7.2% ●
Manage the government's Capital Repair and Energy Management Programs by delivering projects on time and within 5% budget without exceeding ▼	Capital Repair and Energy Management = \$148.5M	\$148.4M ●
	Total number of projects to be completed = 554	Total number of projects completed = 480 ▲
Strategic Goal 3 – Enhance Customer Service		
Complete the development of a service agreement framework in collaboration with client ministries ▼	Implement Service Agreements with 100% of client ministries	100% of Service Agreements were signed January 31, 2006 ●
Achieve customer satisfaction	70% rating or greater in overall tenant satisfaction	77% overall tenant satisfaction rating ●
	75% or more of client ministries rating overall service level at "satisfied" or "very satisfied"	35% indicated "satisfied" or "very satisfied" and 52% were "neutral" to "not fully satisfied" ▼
Strategic Goal 4 – Strengthen Risk Management		
Implement a Corporate Risk Management Strategy (RMS)	Set up an internal infrastructure to support the implementation of the enterprise wide RMS by March 31, 2006	<ul style="list-style-type: none"> Enterprise Risk Management plan presented to the Board in January 2006 Risk Policy and Implementation Plan approved by Board in February 2006 Risk Reporting Structure implemented ●
Resolve all audit issues within negotiated timeframe	100% of audit issues resolved by December 2005	91.3% of audit issues resolved ▲
Achieve ORC's operational budget	Manage within 5% of operating expenses without exceeding	Expenses were within 2.4% of approved budget ●
Strategic Goal 5 – Enhance Talent Management		
Complete employee training to ensure ORC has an appropriately skilled workforce	Complete a minimum of 300 days of employee training	Completed 740 employee training days ●
Strategic Goal 6 – Develop and Provide Real Estate Advice & Implementation Strategies		
Provide timely, quality real estate solutions and implementation strategies to Minister and PIR ▼	Satisfaction rating of key stakeholders within PIR	Overall rating of 3.8 out of 5 where 4 is "Fully Satisfied" ●
Increase internal operational efficiencies through the development and recommendations of policies and procedures ▼	Recommend for approval by the Board, the following in accordance with approved timelines:	Three-year Strategic Plan was presented in 2005/2006 and received final approval in early 2006/2007
	<ol style="list-style-type: none"> Contractor Performance Policy Memorandum of Understanding Delegations of Authority Committee Terms of Reference Three-year Strategic Plan Realty Services Management Agreement 	Realty Services Management Agreement to be presented in 2006/2007 Others approved by the Board within approved timelines ▲
Strategic Goal 7 – Develop Policies to ensure Long-Term Economic Viability of the ORC		
Develop and recommend strategies to government to ensure ORC's long-term economic viability	In accordance with approved timelines, develop various options and business models. Provide recommendations to the Board on: <ol style="list-style-type: none"> Accommodation Savings Policy Netting Revision to Charges-for-Accommodation (CFA) 	Revisions to CFA to be examined in 2006-2007 Others presented to the Board within approved timelines ▲

Our Corporate Objectives in Detail

Objective	2005-2006 Target	Result
Strategic Goal 1 – Optimize Portfolio Management		
Manage the government’s Accommodation Savings Initiative: \$50M in annualized savings by March 31, 2008 	Achieve a total annualized savings of \$11M	\$22.9M in total annualized savings (made up of achieving \$10.4M and identifying \$12.5M) 
Reduce Operation & Maintenance (O&M) costs for government owned buildings without reducing service	Reduce controllable O&M costs by 3%, against 2005/2006 budget, in ORC managed buildings	1% over budget 
Achieve Net Portfolio Results (excess of operating revenues over expenses)	Net portfolio result of \$17.1M	\$22.2M 

Accommodation Savings Initiative – The ORC is supporting the government’s commitment to save \$50 million in annual accommodation costs across the government’s realty portfolio by 2007/2008. As part of the Provincial Accommodation Plan, the ORC assisted ministries to reduce occupied space, undertake strategic relocations to achieve lower cost accommodations and initiated realty tax appeals. As a result, ministries and the asset owner (PIR) achieved \$10.4 million in savings in 2005/2006. Actions and plans initiated in 2005/2006 will realize \$12.5 million of additional savings by 2007/2008. Our challenge going forward will be to identify the remaining \$27.1 million in order to achieve the \$50 million target by 2007/2008. It will be important for us to partner with our client ministries to assist them in realizing savings.

Reduce Operation & Maintenance Costs – An ambitious goal of reducing operation and maintenance costs by 3% was established even in the face of expected price increases. Unpredictable factors such as the extremely high cost of utilities and higher service level requirements of client ministries during the year, overshadowed efforts made and resulted in ORC not meeting this target. At the end of the year, expenditures were actually 1% over the budget established.

Net Portfolio Results – ORC targeted the generation of \$17 million more in revenues than expenses in the management of the government’s realty portfolio. At the end of fiscal year 2005/2006 the portfolio revenues surpassed expenses by a net result of \$22.2 million.

Objective	2005-2006 Target	Result
Strategic Goal 2 – Implement and Support Government Initiatives		
Support the government's initiative to reduce electricity consumption in owned buildings by 10% by 2007	Reduce hydro consumption by 7% in kilowatt hours, in owned buildings (against 2002/2003 base year)	7.2% ●
Manage the government's Capital Repair and Energy Management Programs by delivering projects on time and within 5% budget without exceeding	Capital Repair and Energy Management = \$148.5M	\$148.4M ●
	Total number of projects to be completed = 554	Total number of projects completed = 480 ▲

Helping to Reduce Energy Consumption in Government-owned Buildings – The ORC plays a key role in assisting the provincial government to reduce its overall electricity consumption target – a 10% decrease by 2007 compared to 2002/2003. Results at the end of 2005/2006 indicate that ORC is on target to achieve its portion of this reduction by 2007.

The ORC has also undertaken several projects to support the energy conservation initiative in future years.

Deep Lake Water Cooling – In May 2005, the ORC contracted with Enwave to provide Deep Lake Water Cooling to cool buildings in the Queen's Park Precinct starting in late 2006/2007. This process will greatly reduce electricity consumption in the future and also contribute to eliminating coal-fired generation requirements.

Co-generation – The ORC is overseeing the installation of an ultra-low emissions co-generation facility at the Ontario Police College in Aylmer. This facility is expected to significantly reduce demand on the grid when the project is completed in September 2006. The ORC continues to conduct feasibility studies for co-generation systems at sites throughout the province.

Capital Repair and Energy Management Programs – During 2005/2006, \$148.4 million was spent on capital repair and energy management projects. Over 150 of the 480 projects completed were energy management retrofit projects, mostly comprised of HVAC, Building Automation Systems and lighting control systems. It is estimated that these will generate a 14.5 million kWh saving for the government.

Objective	2005-2006 Target	Result
Strategic Goal 3 – Enhance Customer Service		
Complete the development of a service agreement framework in collaboration with client ministries 	Implement Service Agreements with 100% of client ministries	100% of Service Agreements were signed January 31, 2006 
Achieve customer satisfaction	70% rating or greater in overall tenant satisfaction 75% or more of client ministries rating overall service level at “satisfied” or “very satisfied”	77% overall tenant satisfaction rating  35% indicated “satisfied” or “very satisfied” and 52% were “neutral” to “not fully satisfied” 

Service Agreement with Client Ministries – On January 31st, 2006, the ORC reached a milestone in its working relationship with its 26 client ministries with the signing of individual Service Agreements. The Service Agreement outlines the roles and responsibilities of each party and establishes performance standards.

Tenant Satisfaction Survey – Tenants reported a 77% overall satisfaction rating with the services provided by ORC, an 11% increase from the 2002 results.

Chief Accommodation Officer (CAO) Survey – The target of 75% of client ministry CAOs rating “satisfied or very satisfied” with ORC services was not met. Only 35% indicated satisfied or very satisfied and another 52% indicating a neutral to “not fully satisfied” rating. Many ministries were not satisfied with one or more of the ORC’s range of services (the survey asked for ratings on 8 service categories). The survey results and the feedback provided by ministries will help the ORC improve customer service.

Objective	2005-2006 Target	Result
Strategic Goal 4 – Strengthen Risk Management		
Implement a Corporate Risk Management Strategy (RMS)	Set up an internal infrastructure to support the implementation of the enterprise wide RMS by March 31, 2006	<ul style="list-style-type: none"> Enterprise Risk Management plan presented to the Board in January 2006 Risk Policy and Implementation Plan approved by Board in February 2006 Risk Reporting Structure implemented
Resolve all audit issues within negotiated timeframe	100% of audit issues resolved by December 2005	91.3% of audit issues resolved
Achieve ORC's operational budget	Manage within 5% of operating expenses without exceeding	Expenses were within 2.4% of approved budget

Enterprise Risk Management

During the fiscal year, the ORC began implementing an Enterprise Risk Management (ERM) Program to ensure that clients, management and the Board were fully aware of all significant risks associated with the Corporation as well as establishing ongoing risk mitigation activities. A program framework was developed and a preliminary risk assessment was undertaken.





Resolution of Audit Issues – With the exception of two, all audit issues were resolved (91.3%) within the approved audit timeline, enabling us to substantially meet our target.

Operational Budget – The actual operating expenses were \$48.3 million in comparison to an approved budget of \$49.5 million, not including non-operational expenses such as termination and severance costs totaling \$1.5 million and costs for special projects (which are specifically funded by the ministry requesting the work) totaling \$3.5 million, resulting in actual operating expenses being 97.6% of the approved budget.

Objective	2005-2006 Target	Result
Strategic Goal 5 – Enhance Talent Management		
Complete employee training to ensure ORC has an appropriately skilled workforce	Complete a minimum of 300 days of employee training	Completed 740 employee training days

Employee Training – A total of 740 training days were completed by ORC employees in 2005/2006 and nearly half of those training days were provided internally.

The ORC launched a major comprehensive training program for its employees and provided courses on Business Writing, Customer Service, Risk Management, People Management, Contract Management, Introduction to Project Management and Understanding Government.

Objective	2005-2006 Target	Result
Strategic Goal 6 – Develop and Provide Real Estate Advice & Implementation Strategies		
Provide timely, quality real estate solutions and implementation strategies to Minister and PIR 	Satisfaction rating of key stakeholders within PIR	Overall rating of 3.8 out of 5 where 4 is “Fully Satisfied” 
Increase internal operational efficiencies through the development and recommendations of policies and Procedures 	Recommend for approval by the Board, the following in accordance with approved timelines: 1. Contractor Performance Policy 2. Memorandum of Understanding 3. Delegations of Authority 4. Committee Terms of Reference 5. Three-year Strategic Plan 6. Realty Services Management Agreement	Three-year Strategic Plan was presented in 2005/2006 and received final approval in early 2006/2007 Realty Services Management Agreement to be presented in 2006/2007 Others approved by the Board within approved timelines 

Providing Strategic Policy Advice and Support – PIR relied on the ORC for a variety of policy initiatives in 2005/2006. The ORC and PIR developed a new, streamlined process to obtain all government approvals for the sales plan.

Realty and accommodation policy was revised in 2005/2006 based on the ORC’s recommendations. As well, the ORC supported other key PIR initiatives such as Places to Grow, Energy Conservation, Greenbelt Plan, West Don Lands and the Strategic Asset Management Real Estate initiative.

PIR rated the quality of advice and service from the ORC as “Good”, indicating that the ORC met the high level of expectation for the Corporation. The satisfaction rating was positive (over 3 out of 5, where “4” indicates fully satisfied) with an average score of 3.8 from PIR Executives and Minister’s staff.

Operational Documentation – Key documents for governance and control systems were completed during the year. The ORC developed both the Contractor Performance Policy and the Office Space Operating Policy Program, revised leasing procedures, and drafted a three-year strategic plan.

Objective	2005-2006 Target	Result
Strategic Goal 7 – Develop Policies to ensure Long-Term Economic Viability of the ORC		
Develop and recommend strategies to government to ensure ORC's long-term economic viability	In accordance with approved timelines, develop various options and business models. Provide recommendations to the Board on: <ol style="list-style-type: none"> 1. Accommodation Savings Policy 2. Netting 3. Revision to Charges-for-Accommodation (CFA) 	Revisions to CFA to be examined in 2006-2007 Others presented to the Board within approved timelines

Accommodation Savings Policy - ORC provided detailed analysis of savings proposals for the Accommodation Savings Strategy approved in June 2005. This included the development of policies to standardize office space requirements, establishing location criteria for government programs, permitting direct leases to support co-location and common service delivery opportunities and establishing controls on ministry leasehold improvement projects.

Netting and Revisions to Charging-for-Accommodation (CFA) – The ORC has proposed implementing “full” user pay concepts and formulas for use of assets, following a review of the charge structure to reflect the full cost of properties used by ministries (CFA rate revision) and the related cash flows (netting). Netting has been approved by the Board and CFA revisions developed. Both will be examined with PIR as ORC’s strategic plan for 2006-2009 is implemented.

Highlights and Achievements

The ORC was in an excellent position to deliver value last year. Alongside our performance against the corporate objectives, we achieved significant results by directly supporting government and PIR priorities in addition to the day-to-day operations of managing the government's real estate assets. The following highlights some of these achievements.

Investing in Communities

Protecting the Environment with the Seaton Land Exchange – The Class Environmental Assessment (EA) addresses both environmental and cultural heritage. The ORC played an active role in protecting the environment, having undertaken the Class EA for the Seaton land exchange project. This project involves an exchange of lands aimed at protecting the natural state of the Oak Ridges Moraine. After public consultation, including addressing issues specific to aboriginal groups and their concerns, the final Class EA report has been submitted to the Ministry of Environment. The assessment identified environmentally and culturally significant lands which will remain in government ownership and protected from future development.

Affordable Housing Initiative – As part of the government's commitment to affordable housing, the ORC renewed the existing Service Agreement with the Ministry of Municipal Affairs and Housing (MMAH). In 2005/2006, the ORC reviewed 46 government properties for the MMAH for their potential as possible housing sites in support of the Affordable Housing Initiative.

Preserving our Past

Pembroke Courthouse – The ORC is overseeing the Pembroke Courthouse Project, which includes the consolidation of six courtrooms from four different locations into a renovated and expanded government-owned "National Heritage" courthouse. We are tasked with ensuring that important features and characters of this historic landmark are maintained. The project is expected to be completed by the summer of 2007.

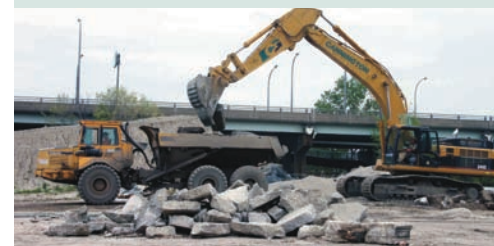
Whitney Block – The ORC is responsible for managing the multi-year major restoration project currently underway on the Whitney Block at Queen's Park. The project involves not only mechanical upgrades but the extensive restoration of the exterior stone masonry. The Whitney Block is the second oldest provincial government administration building in Ontario and is officially designated as a heritage building. This significant restoration project is being conducted in six phases, with the last two phases currently underway. It is expected that the restoration project will be completed in August 2007.

West Don Lands: Toronto's Waterfront Revitalization

On March 27, 2006, the demolition and construction phase of one of the most important urban revitalization projects in Canada was launched – the West Don Lands, a 32-hectare area located east of downtown Toronto. This project will make history as being the first new neighbourhood developed as part of Toronto's waterfront revitalization initiative.



The ORC is playing a pivotal role by implementing environmental management, infrastructure and flood protection projects on behalf of the Toronto Waterfront Revitalization Corporation (TWRC). In September 2005, a Memorandum of Understanding was signed between the province, the TWRC and the ORC to outline the roles that the ORC and partners will play in the revitalization efforts.



Putting the Best Teams Forward



VP Account Executives:

Dave Lafraniere (Acting V.P.), Jasna Boyd,

Angela Mazzotta, John van Vliet

Honouring Aboriginal Cultural Heritage – The Seaton environmental assessment project identified a number of 600-year old First Nations village sites. The ORC worked with the Founding First Nations Circle to protect these important cultural discoveries. One of these sites, the Sébastien Site, was named in honour of a Huron-Wendat Nation family.

Honouring Canada's Military Veterans – In August 2005, Premier Dalton McGuinty unveiled the design for the Veterans Memorial on the Legislative Grounds of Queen's Park. Since the project's inception in 2002, the ORC has provided advice, support and procurement services to the Veterans' Memorial Advisory Committee and is currently overseeing the construction of the Memorial. The anticipated completion date is August 2006 and a dedication ceremony is planned for September 2006. It is the first memorial built on the Legislative Grounds since 1941.

Improving Customer Service

Account Teams – This new structure is now fully in place and provides a "one-window" approach to client ministries to deliver strategic real estate advice with the goal to improving customer service. The four account teams are the key to enhancing customer service and for implementing the Service Agreements with client ministries.

Delivering Value

Addressing Deferred Maintenance – The Ministry of Public Infrastructure Renewal, through their Five-Year Infrastructure Investment Plan, will invest \$30 billion in public infrastructure work over the next five years in order to address a portfolio whose properties are largely more than 30 years old, and a backlog of repairs owed to under-funded maintenance. As part of this plan, ORC was asked to address the deferred maintenance issue in government buildings. The ORC used its building condition reports to identify the most critical repairs and energy efficiency implications. The ORC developed a multi-year capital repair plan with input from the ministries to ensure the most important matters received priority action. The ORC spent \$148.4 million or 99.9% of the capital funds available in 2005/2006 for these much needed repairs, a 100% increase over the \$74 million historic 10-year average.

Leasing Improvements – During 2005/2006, the ORC addressed the final 100 leases (out of several hundred from previous years) which had expired terms, thereby reducing risks such as paying above-market rates. These issues were resolved through concentrated efforts, and processes were developed to effect leasing strategies several months in advance to allow for price advantages.

Using industry best practices, systems and processes for tracking and reporting were developed, and an in-house documentation function was implemented allowing the ORC to realize over \$500,000 in savings annually in outside legal costs. These improvements have resulted in better landlord compliance with government policies, eliminated tenancy risk and improved landlord/tenant relations.

Sale of Surplus Property – In disposing of surplus properties, the ORC realized \$40.3 million in net sales revenue, surpassing 2005/2006 targets by 48%. This undertaking also reduced operating costs, taxes and overall liability to the province. The surplus properties which generated the most revenue included 7900 Airport Road, an 80-acre parcel of land formerly used as a driver training centre which will be revitalized for employment purposes to support the government’s “Places to Grow” initiative; and Felker/Hamilton, a 67-acre property which will allow for further residential development in Hamilton. Several other properties on the sales plan were also secured under contract and are set to close in the coming fiscal year.

Creating Partnerships

Leveraging Opportunities – The ORC and the design and construction sectors continue to strengthen their working relationships. When developing a new contractor performance program, the ORC relied on the industry’s expertise and cooperation to ensure the program would be successful once fully implemented later in 2006.

The ORC consulted with the Ontario Association of Architects (OAA), the Ontario General Contractors Association (OGCA), the Consulting Engineers of Ontario (CEO) and the Association of Registered Interior Designers of Ontario (ARIDO), and their inputs helped ensure that the program would provide better results and value in the delivery of the ORC’s services.

Consultations with industry associations will continue through periodic meetings of the Strategic Issues Committee (SIC). ORC, OAA, OGCA and CEO established the SIC in 2003 in order to network, and share ideas and opportunities to address common issues in the areas of selection, contracts, project management and accountability.

Inter-jurisdictional Collaboration – The ORC played an important supporting role in the ServiceOntario initiative. In 2005/2006, the ORC not only finalized the tri-partite leasing agreement, but also managed the construction phase of a ServiceOntario Kiosk in Ottawa’s City Hall, in order to co-locate Federal, Provincial and Municipal government services. It is the first kiosk of its kind in Ontario where the public can have access to a variety of over-the-counter government services and information as well as apply for health cards or renew driver’s licenses – all in one location.

Accessing the Full Picture with the Geographic Information System (GIS – Geoviewer)

The ORC implemented its fully integrated Geographic Information System (GIS), allowing users quick access to all of our real estate information. Users have the ability to select any property and view related tabular data, online reports, CAD drawings, survey plans, and other information including revenues and costs, heritage and environmental documentation. Users also have the ability to create maps on-line.



BOMA Awards

- The ORC, in conjunction with our service provider, SNC-Lavalin ProFac Inc. (ProFac), captured The Office Building of the Year (TOBY) Award, the prestigious national award as well as the provincial award from the Building Owners and Managers Association (BOMA) for One Stone Road West in Guelph
- At the 2005 BOMA Toronto Awards, the ORC and ProFac were honoured with the Earth Award for Environmental Excellence for the Garden City Tower in St. Catharines, four Certificates of Environmental Excellence and four Certificates of Excellence in the Office building management Category
- Since 2002, the ORC and ProFac have received 22 BOMA awards

Protecting the Environment

Environmental Management System (EMS) – The ORC’s Board of Directors approved a new Environment and Heritage policy in December 2005. Staff developed an Environmental Management System that provides a framework and process to identify and address the environmental aspects associated with activities undertaken by the ORC. The continuous improvement methodology is consistent with international environmental standards and will help the Government of Ontario meet its commitment to preserving the environment.

Awards For Our GIS

URISA Awards

- The ORC won the Gold Award for Best Web Geographical Information System (GIS) at the Urban and Regional Information Systems Association (URISA) – the Ontario Chapter’s Annual General Meeting in Toronto

Government Technology Week (GTEC) Awards

- The ORC was awarded a silver medal at the GTEC week for its corporate GeoPortal solution

Showcase Ontario

- The ORC received a Merit Award for its GeoPortal solution in the category of “Organizational Transformation” at the 2005 Showcase Ontario Awards of Excellence

Looking Ahead – Our Vision for 2006 and Beyond

Our vision can best be achieved by implementing a Service-Oriented Real Estate Organization. With this approach, ministries and agencies are responsible for defining their requirements for the delivery of public services, and the Service-Oriented Real Estate entity (the ORC) is responsible for providing real estate solutions and services to meet those requirements.

Implementing this model is the foundation for enhancing our capability and capacity to deliver on the realty priorities established by the government, in addition to addressing the needs of our ongoing business.

Government Priorities

The government continues to respond to ongoing changes in social, economic and environmental factors that directly impact how and where government services and programs are delivered as well as the cost of delivering them. Key government priorities, such as electricity and energy conservation, environmental protection, heritage preservation and minimizing occupancy costs chart the course for the ORC's future strategic direction.

The ORC is tasked with managing the properties in a cost-effective manner, providing advice to the owner and exercising a monitoring role to ensure policies and best practices are followed.

For the ORC, the overarching realty services objective is to ensure the government is accommodated in a timely and cost-effective manner that facilitates the delivery of its programs and policy objectives. To achieve this, the ORC and PIR have agreed to work on the following priorities.

- Short-term and long-term accommodation strategies
- Approved list of asset sales to meet revenue targets
- Capital maintenance program to ensure strategic investment in properties
- Level of Customer Service
- Review and improve business practices of the ORC
- Energy consumption reduction of 10% by 2007
- Support for government initiatives by ensuring that accommodation strategies developed with ministries take growth priorities into account (Places to Grow)



Robert Welch Courthouse, St. Catharines



Podium Project, 25 Grosvenor, Toronto

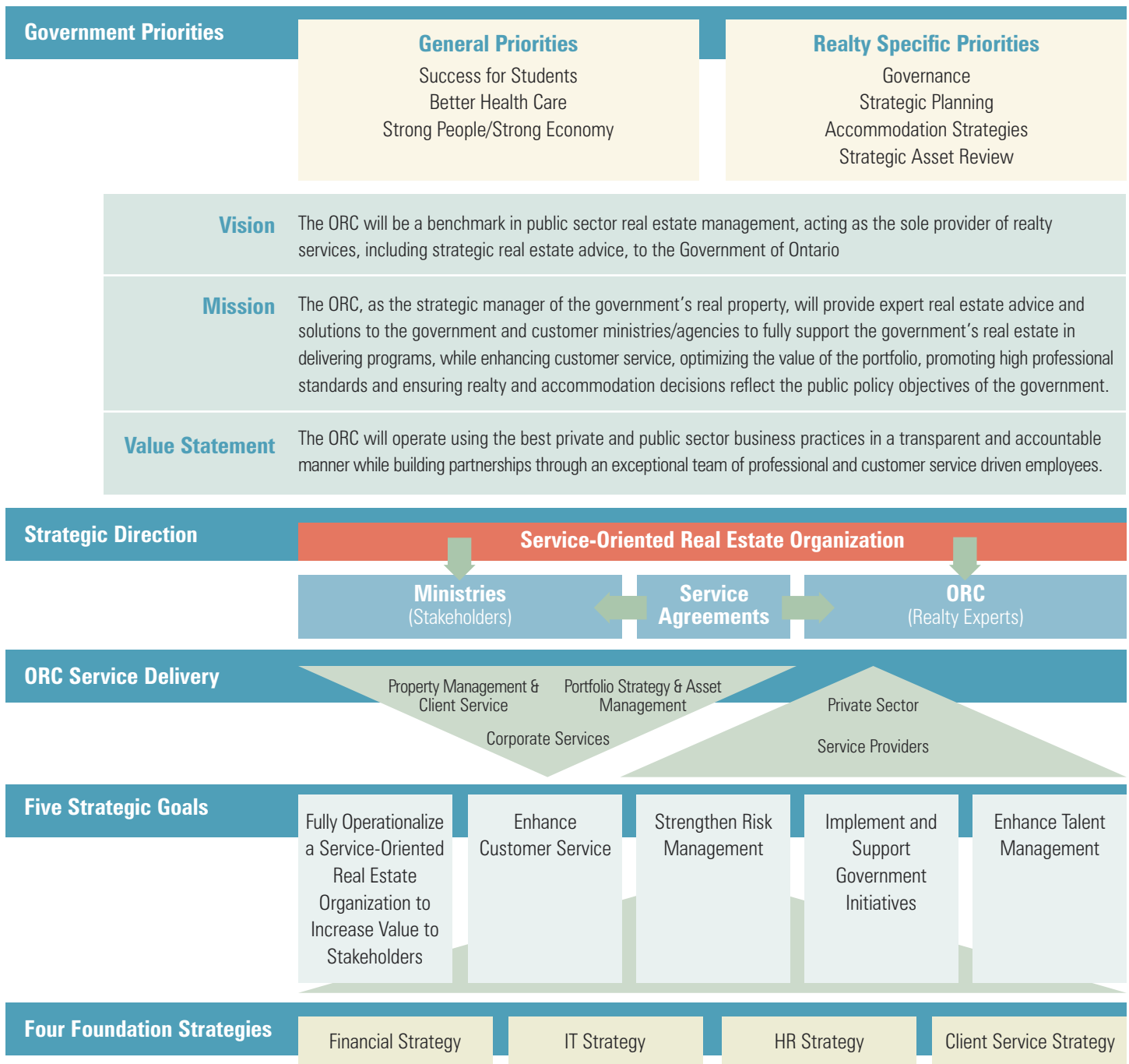
Strategic Goals

In order to respond to the priorities outlined by the government and PIR and to achieve the vision for ORC, five strategic goals have been developed for the organization.

1. Operationalize a Service-Oriented Real Estate Organization to increase value to stakeholders
2. Enhance Customer Service
3. Strengthen Risk Management
4. Implement and Support Government Initiatives
5. Enhance Talent Management

In addition, four corporate strategies – Financial, Information Technology, Human Resources and Client Service – will serve as the foundation for developing the ORC's staff and for creating the necessary support for business operations as ORC evolves into a service-oriented real estate entity.

The ORC's Strategic Plan 2006 – 2009



Challenges We Face

It was a year of change for the ORC. Our new reporting relationship with PIR, as well as many processes that needed to be updated to support the evolution of the realty program, created new challenges for ORC.

Despite these challenges, our commitment to the value of service we provide didn't diminish. The ORC intends to address the remaining challenges outlined head-on and in partnership with our owner and our clients to ensure that the solutions identified are the best for all involved.

Real Estate Challenges

The Government of Ontario is confronted with numerous challenges in managing its multi-billion dollar portfolio. Highlights include dealing with:

- A large, deferred maintenance backlog;
- Changing facility needs due to rapid technology advances and new program delivery models;
- Surplus, obsolete and underutilized real property assets which incur escalating costs and liabilities;
- Financial and decision-making systems that are fragmented; and,
- Increasing utility and leasing costs.

ORC Challenges

The ORC also faces numerous challenges, such as:

- Financial incentives not being taken into consideration with respect to costs incurred for accommodations; and,
- Lack of a comprehensive measurement system to assess the overall condition of the portfolio, individual buildings and the impact of the annual capital repair investment.

In addition, surveys completed by the owner and client ministries identified that the ORC must address the following:

- Budget forecasting and project status monitoring and reporting;
- Financial reporting and billing for realty and accommodation projects;
- Communication of ORC processes and procedures;
- Financial planning and strategies for the portfolio; and,
- Assist ministries to meet their accommodation savings targets.



Ottawa-Carleton Detention Centre

Our Business Plan for 2006/2007

In order to address the challenges we described, corporate and business unit objectives have been developed to enable us to achieve our strategic priorities. These objectives will be revised and realigned on an annual basis. Performance measures and targets will also be developed to track and measure progress. While many of these initiatives are earmarked for completion in 2006/2007, some will span over three years, until 2009.

Our business plan initiatives, organized by strategic goals, are as follows.

1. Fully Operationalize a Service-Oriented Real Estate Organization to Increase Value to Stakeholders

The ORC must continually assess the realty program and service delivery approaches as well as the advice and strategies provided to PIR to meet government realty objectives, revenue targets and reductions in accommodation/realty expenditures.

In order to meet these commitments and sustain the government's realty portfolio, new approaches on policy advice and realty and financial strategies are needed. In 2006/2007, ORC will:

- Implement the new Real Property and Accommodation Directive; improve ORC processes to better support the directive; identify further policy and process improvement proposals, including analysis of Service Delivery Model;
- Develop and meet sales plan targets to generate revenue;
- Implement the Project Management Initiative; and,
- Implement IT strategy and projects.

2. Enhance Customer Service

The ORC provides effective solutions that contribute to client ministries' overall success, largely thanks to the Account Teams that act as the focal point for improving the delivery of our services, enhancing customer communication and relationship management and providing proactive problem solving. In the coming year we will continue to formalize the relationships with our client ministries by augmenting the service agreements and occupancy agreements that establish clear roles, responsibilities and performance standards regarding the delivery of real estate and accommodation services. Here are some of our customer service initiatives:

- Developing options to help Ministries meet accommodation savings target (\$50 million) and changing ministry program delivery needs;
- Implementing Service Improvement Framework to address issues raised in CAO and PIR Surveys;
- Restructuring Corporate Communications; hold Client Education sessions; introducing a Client Service Response tool and a Dispute Resolution process; and,
- Enhancing Service Agreements and Account Team support.



Kingston Psychiatric Hospital



Michael Starr Building, Oshawa

3. Strengthen Risk Management

The ORC puts safeguards in place to ensure that we conduct our business and deliver our services with a clear understanding of the risks involved with carrying out activities in the public sector environment. While appropriate mitigation strategies are incorporated into decisions, the goal is to strengthen the risk management capabilities of our staff and the organization to ensure effective management and continuity of business processes. The following initiatives have been put in place:

- Complete risk assessment and risk management strategies at business unit level and regularize new Risk Management programs;
- Oversee business continuity planning for ORC and support to Ministries;
- Respond to Auditor General's findings;
- Improve the ORC's management processes - financial management strategies; and,
- IT security and internal reporting.

4. Implement and Support Government Initiatives

One of the Ministry's key expectations is for the ORC to support the government's initiatives in its management of real estate. The goal is to ensure that the ORC has the ability to respond and provide real estate advice to the Ministry of Public Infrastructure Renewal to support major government initiatives. The following objectives remain fundamental targets for achievement:

- Implement energy conservation and capital repair projects;
- Support the Strategic Asset Management Real Estate Initiative;
- Complete government land transfers for environment purposes; and,
- Support "Places to Grow" initiative.

5. Enhance Talent Management

Capability and capacity building within the organization is based on our ability to attract, retain and develop talent. This is essential to the achievement of our mandate and objectives. To that end, the following objectives have been set:

- Implement corporate training program with emphasis on client service courses;
- Develop learning plans;
- Launch Leadership Development program; and,
- Re-staff key positions.

While this is an ambitious business plan for the Corporation for 2006/2007, we recognize the strong fundamentals of our business, and as such, have outlined the various steps we will take to improve and grow our operations.

There are additional financial requirements for ORC to deliver this plan, and together with the guidance of the Governance and Audit committees of the Board, and the concurrence of PIR, we have developed a financial strategy to fund these resource requirements.

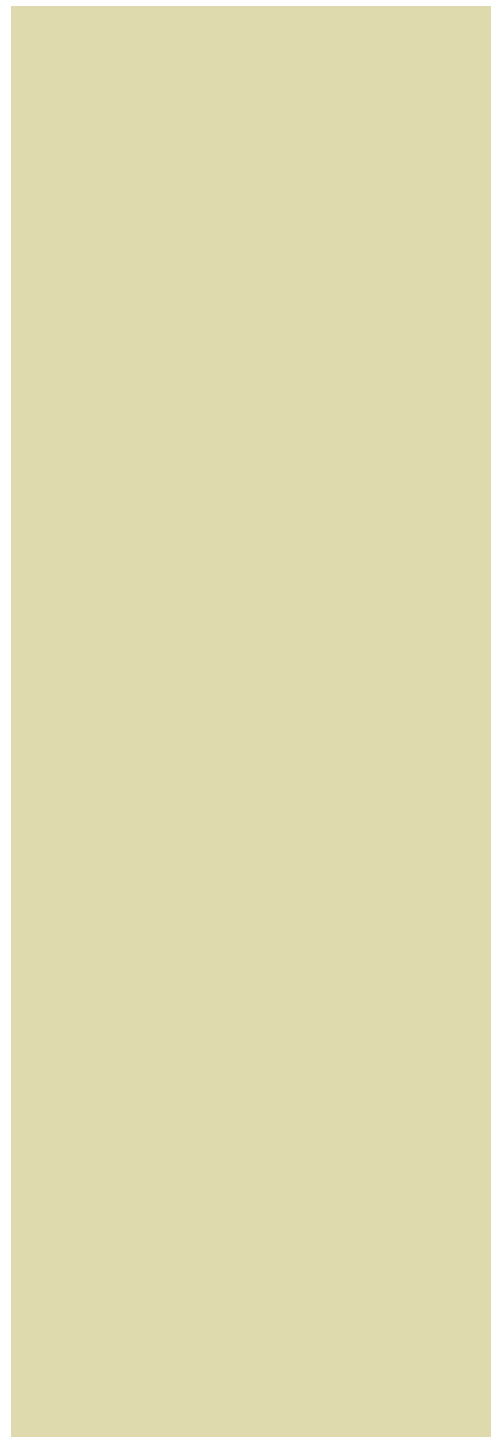
FINANCIAL STATEMENTS

ONTARIO REALTY CORPORATION

(A Crown Corporation of the Province of Ontario)

For the year ended

MARCH 31, 2006





Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Realty Corporation have been prepared in accordance with Canadian generally-accepted accounting principles and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 13, 2006.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Deputy Auditor General of Ontario. The Deputy Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

A handwritten signature in black ink that reads "Peter Oakes". The signature is written in a cursive, flowing style.

Peter Oakes

Chief Financial Officer & Treasurer
June 13, 2006

Auditor's Report



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Realty Corporation,
The Minister of Public Infrastructure Renewal,
and to the Minister of Finance

I have audited the balance sheet of the Ontario Realty Corporation as at March 31, 2006 and the statements of operations and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary R. Peall, CA
Deputy Auditor General

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Balance Sheet

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

As at March 31	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents (note 7c)	\$ 34,366	\$ 31,874
Accounts receivable (note 7d)	7,022	4,462
Prepaid expenses	327	334
Due from Province (note 2)	444	564
	42,159	37,234
Capital assets (note 3)	5,289	6,673
Funds held in trust (note 4)	86,441	153,118
	\$ 133,889	\$197,025
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 9,562	\$ 9,530
Provision for severance costs (note 2)	945	1,556
Deferred revenue (note 1a)	-	1,066
	10,507	12,152
Funds held in trust (note 4)	86,441	153,118
RETAINED EARNINGS	36,941	31,755
	\$ 133,889	\$197,025

Commitments (note 5)
Contingencies (note 6)
See Notes to Financial Statements

On behalf of the Board:

Director: 

Director: 

See Notes to Financial Statements

Statement of Operations & Retained Earnings

ONTARIO REALTY CORPORATION
 (A Crown Corporation of the Province of Ontario)
 (in thousands of dollars)

Year Ended March 31	2006	2005
REVENUES		
Management fees (note 7a)	\$ 37,621	\$ 33,911
Expense reimbursement - in lieu of fees (note 7a)	14,085	10,985
Direct recoverable costs (note 7a)	4,884	3,353
Bank interest and other income (note 7c)	1,961	778
	\$ 58,551	\$ 49,027
EXPENSES		
Salaries and benefits (note 2)	\$ 32,309	\$ 27,242
Direct operating expenses (note 7f)	18,352	15,468
Depreciation	2,704	3,049
Interest on capital lease obligations	-	25
	\$ 53,365	\$ 45,784
EXCESS OF REVENUES OVER EXPENSES BEFORE SEVERANCE COSTS	5,186	3,243
Provision for severance costs (note 2)	-	6
Recoverable from Province (note 2)	-	(6)
EXCESS OF REVENUES OVER EXPENSES	\$ 5,186	\$ 3,243
RETAINED EARNINGS, BEGINNING OF YEAR	31,755	28,512
RETAINED EARNINGS, END OF YEAR	\$ 36,941	\$ 31,755

See Notes to Financial Statements

Statement of Cash Flows

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

Year Ended March 31	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 5,186	\$ 3,243
Adjustments for:		
Depreciation	2,704	3,049
Provision for severance costs (note 2)	306	35
Deferred revenue	(1,066)	-
Recoverable from Province (note 2)	-	6
	7,130	6,333
Changes in non cash working capital		
(Increase) in accounts receivable	(2,560)	(1,759)
Decrease (increase) in prepaid expenses	7	(33)
Increase in accounts payable and accrued liabilities	32	1,374
	4,609	5,915
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of capital assets (note 3)	(1,320)	(5,373)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Severance payments made during year and previously provided for (note 2)	(917)	(1,681)
Severance recoveries from Province (note 2)	120	200
Repayment of capital lease obligations	-	(787)
	(797)	(2,268)
Net increase (decrease) in cash and cash equivalents	2,492	(1,726)
Cash and cash equivalents, beginning of year	31,874	33,600
Cash and cash equivalents, end of year	\$ 34,366	\$ 31,874

See Notes to Financial Statements

Year ended March 31, 2006

Nature Of The Corporation

The Ontario Realty Corporation (the Corporation) was established under the *Capital Investment Plan Act 1993* (the Act) as a Crown Corporation of the Province of Ontario (the Province). The Province has delegated authority to the Corporation under subsections 6(1), 8(1) and 8(2) of the *Ministry of Government Services Act* to acquire, hold and, with approval, dispose of property for government and government related agencies. As a Crown Corporation and operational enterprise of the Province, the Corporation is exempt from income taxes.

The Corporation is accountable to the Province and provides property management, real estate and project management services to ministries and agencies of the Ontario government that directly own assets or require the Corporation's real estate services. The Corporation manages 51.4 million rentable square feet: 42.2 million owned by the Province and 9.2 million leased from the private sector, as well as 87 thousand acres of land owned by the Province. The Corporation also provides property management services to the City of Greater Sudbury for one property.

In June 2005, the Provincial Government initiated a number of organizational changes, including announcing that the Corporation would report to the Ministry of Public Infrastructure Renewal (PIR). An Order in Council dated September 21, 2005, transferred all of the powers and duties of the programs and activities formerly assigned to the Chair of the Management Board of Cabinet ("Chair") and the Management Board Secretariat in respect of the Corporation, and responsibilities of the Chair for the administration of the *Capital Investment Plan Act, 1993*, in respect of the Corporation to PIR.

1. Summary Of Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Revenue

Fees, expense reimbursement and direct recoverable costs are recognized as revenue when services are provided or the related expenses are incurred. Funds provided by the Province for future severances are deferred and recognized as other income in the year in which the related expenses are incurred.

b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current bank accounts, and short-term investments, if any, with terms to maturity of less than 90 days.

c) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions relating to revenues and expenses which affect the reported amounts of assets, liabilities and related disclosures as of the date of the financial statements. Actual amounts could differ from these estimates.

d) Capital Assets

Capital assets costing more than one thousand dollars with a future useful life beyond the current year are capitalized at cost. They are depreciated over their estimated useful lives on a straight-line basis as follows:

Computer hardware and software	3 years
Custom software	5 years
Furniture, fixtures and office equipment	3 years
Leasehold improvements	5 years

e) Employee Pension Plans

Until November 29, 2001, the Corporation provided pension benefits to its classified full time employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Pension Fund, which are multi-employer defined benefit pension plans.

Effective November 30, 2001, amendments to the *Capital Investment Plan Act 1993* stipulated that the Corporation's employees were no longer part of the Ontario Public Service. Employees who had participated in the Public Service Pension Fund or the Ontario Public Service Employees' Pension Fund continued, from November 30, 2001, as participants in the Public Service Pension Fund. This plan is accounted for as a defined contribution plan as the Corporation has insufficient information to apply defined benefit plan accounting.

Regular full-time employees hired after November 29, 2001 participate in a mandatory defined contribution pension and savings plan administered by a third-party administrator. The Corporation matches employees' contributions.

The pension expense represents the Corporation's contributions to the plans during the year.

2. Severance Costs

Recoverable Severance

The recoverable severance provision relates to staff severance costs associated with the Corporation's re-organization in 1999 and the contracting out of its property management services, which resulted from the Province approving a new governance structure for the Corporation. These severance costs are recovered from the Province. The severance provision remaining at March 31, 2006 relates to employees on long-term disability.

Corporate Realignment

During the 2003/04 fiscal year, the Corporation approved a new organizational structure for its portfolio management activities in order to improve services to its clients. This realignment is expected to be completed in the 2006/07 fiscal year.

As of March 31, 2006, total expected severance costs associated with the realignment were \$3,113 of which \$2,612 had been incurred. During the year ended March 31, 2006, the provision was increased by \$306 to reflect the Corporation's revised estimate of total severance costs and is included in salaries and benefits in the Statement of Operations and Retained Earnings.

The changes in the provision for severance costs are as follows:

March 31	2006			2005		
	Recoverable Severance	Corporate Realignment	Total	Recoverable Severance	Corporate Realignment	Total
Balance - beginning of year	\$564	\$992	\$1,556	\$770	\$2,432	\$3,202
Increase (Decrease) of provision	-	306	306	(6)	41	35
Severance payments	(120)	(797)	(917)	(200)	(1,481)	(1,681)
Balance - end of year	\$444	\$501	\$945	\$564	\$992	\$1,556

ONTARIO REALTY CORPORATION
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(in thousands of dollars)

Other Severance

The Corporation also incurred other employee severance costs totalling \$1,215 that are included in salaries and benefits expenses in the Statement of Operations and Retained Earnings.

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

3. Capital Assets

Capital assets consist of the following:

March 31	2006		2005	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Computer hardware and software	\$ 5,238	\$ 4,723	\$ 515	\$ 959
Custom software	7,211	3,792	3,419	4,188
Furniture, fixtures and office equipment	706	493	213	432
Leasehold improvements	2,625	1,483	1,142	1,094
	\$ 15,780	\$ 10,491	\$ 5,289	\$ 6,673

During the year ended March 31, 2006, capital assets were acquired at an aggregate cost of \$1,320 (2005–\$5,373).

4. Funds Held In Trust

The Corporation maintains several operating bank accounts and one short-term investment account, which it holds “in trust” and administers on behalf of PIR and the City of Greater Sudbury. They relate directly to the operation of several PIR owned and leased properties, or services provided to other ministries or agencies of the Province, as well as to the operation of one City of Greater Sudbury owned property. The portion of funds held in trust for PIR is \$84,695 (2005–\$151,759).

ONTARIO REALTY CORPORATION
(A Crown Corporation of the Province of Ontario)
(in thousands of dollars)

For the year ending March 31

2007	\$ 1,792
2008	1,702
2009	1,614
2010	1,611
2011	1,610
	\$ 8,329

5. Commitments

Operating leases are expensed in accordance with terms of the lease agreements. Under the terms of operating leases for the Corporation’s office space, vehicles, and office equipment, the Corporation is committed to future rental payments as stated in the chart at bottom left.

6. Contingencies

The Corporation is acting as an agent of the Ontario Government. As such, the Corporation is entitled to be indemnified against all liabilities properly incurred in the course of exercising its actual authority on behalf of the Ontario Government.

7. Related Party Transactions

- a) The Corporation is economically dependant on the Province as all of the revenues received from the Province for the provision of services are under the control of the Minister of Public Infrastructure Renewal.

The Corporation's prime sources of revenue are:

i. Management Fees

Market-based fees are charged for services provided for Property and Asset Management, and Project Management that are based on percentage of project costs, related to PIR owned assets.

ii. Expense Reimbursement – In Lieu of Fees

Pending the implementation of a full fee structure, corporate costs incurred by the Corporation (third party leases, negotiation services, financial services, legal, corporate relations/communications and human resource services) are funded by PIR as an annual allocation along with the administration costs associated with the sale and acquisition of properties on behalf of the ministries.

iii. Direct Recoverable Costs

In the North and East regions the Corporation staff co-ordinate and provide direct building operating and maintenance services in support of the portfolio. These costs are directly recoverable from PIR and funded from the operating and maintenance rental payments under accommodation agreements. In addition, out of pocket expenses associated with special projects undertaken on behalf of PIR were also recovered.

- b) The *Capital Investment Plan Act* requires that any surplus funds shall, upon the instructions of the Minister of Finance, be paid to the Consolidated Revenue Fund of the Province of Ontario. In determining the amount payable, if any, the Minister of Finance shall ensure that the payment will not impair the Corporation's ability to pay its liabilities, to meet its obligations as they become due or to fulfill its contractual commitments. No such instructions have been received from the Minister of Finance.

ONTARIO REALTY CORPORATION
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(in thousands of dollars)

- c) The *Capital Investment Plan Act* requires that all short-term investments shall be invested with Ontario Financing Authority (OFA), a Crown Corporation of the Province, unless the Minister of Finance agrees otherwise. Short term investments of \$28,585 (2005–\$30,869), invested by the OFA, are included in cash and cash equivalents in the Balance Sheet and interest earned on these investments of \$733 (2005–\$543) is included in bank interest and other income in the Statement of Operations and Retained Earnings. Other income also includes recognition of deferred revenues related to severance costs that were incurred during the year.
- d) The Corporation's accounts receivable include \$6,900 (2005–\$4,295) from the Province.
- e) Only classified full-time employees hired prior to November 30, 2001, who have more than ten years pensionable service upon retirement, are entitled to post-retirement non-pension benefits. The cost of these post-retirement non-pension employee benefits is paid by the Province and is not included in the Statement of Operations and Retained Earnings.
- f) The Corporation's direct operating expenses includes litigation costs incurred on behalf of and for the Province of \$2,159 (2005–\$1,599), and accommodation costs of \$1,406 (2005–\$1,357) charged by PIR.
- g) As a result of the Corporation's relationship with the Province, the following related party transactions also exist and have been disclosed in the following notes to the financial statements.
 - Summary of Significant Accounting Policies - Revenue (Note 1a)
 - Severance Costs (Note 2)
 - Funds Held in Trust (Note 4)

8. Pension Plans

The Corporation's required contributions to the pension plans (see note 1e) for the year ended March 31, 2006 were \$1,334 (2005–\$1,206) and are included in salaries and benefits in the Statement of Operations and Retained Earnings.

9. Fair Value Of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.