



Hamilton

**Public Health Services  
Accommodation  
February 27, 2012**

# **GIC Presentation Agenda**

- 1. Introduction**
  - **Chris Murray, City Manager**
- 2. Overview & Summary**
  - **Chris Phillips, Senior Advisor, Planning and Economic Development Department**
- 3. Public Health Services Consolidation**
  - **Dr. Elizabeth Richardson, Medical Officer of Health**
- 4. Financial Analysis**
  - **Rob Rossini, General Manager, Finance and Corporate Services Department**
- 5. Questions & Answers**
  - **Members of City of Hamilton Staff Team**



# Identification of Critical Issues

1. **How do the recommendations compare to the August 9, 2011 GIC Approval?**
  - In terms of required square footage
  - In terms of total lease costs
  - In terms of “Fit-Up” costs
2. **What criteria did staff use in deciding on the lease for PHS?**
3. **How does the sub-lease to the HWDSB address its “swing-space” requirements?**
4. **What are the operational requirements for PHS’s long-term consolidated services?**



# Issues Addressed

## August 9, 2011 GIC

1. **\$20 million contribution for the City of Hamilton**
2. **Degree of Public Health integration within the MHC**
3. **Consolidation of core Public Health Services**
4. **MHC parking requirements for zoning**
5. **Heritage Assessment – 100 Main St. W.**
6. **Impacts on Downtown**
7. **Hamilton Future Fund**



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# **Council Direction January 9, 2012 GIC**

**On a motion:**

**(i) delete the \$210,000 tax rebate fees;**

**(ii) negotiate for 52,300 square feet of space only;**

**(iii) negotiate a better per foot deal with the Board in terms of the transitional time that they will be occupying space in the Robert Thompson Building.**



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# Results

## February 27, 2012

1. **How do the recommendations compare to the August 9, 2011 GIC Approval?**
  - ✓ **Lease is for 52,300 square feet, exactly the amount directed on January 9, 2012;**
  - ✓ **Proposed total lease cost is \$18.36 per square foot, less than estimated on August 9, 2011;**
  - ✓ **Proposed \$1,407,325 budget for “Fit-Up”, exactly the amount budgeted on August 9, 2011;**
  - ✓ **Proposed “sub-lease” to the HWDSB is \$20.35 per square foot, with NO exemption for property taxes, consistent with the direction on January 9, 2012.**



# Criteria Used to Evaluate Leasing Options

2. What were the criteria used by staff in determining the alternative leasing locations and terms?
  - approximately 52,300 sq. ft.
  - timing of availability
  - contiguous space
  - compared base rental rates and operating costs
  - compared relative associated one-time “fit-up” costs
  - proximity to the proposed MHC
  - Operational Fit for PHS Consolidation

# Summary of Various Sites Reviewed

Table 4 – Page 14

Municipal Address	Total Square Footage	Use	Style
31 King St. (Aragon)	14,474 7,343	Instl. Office	Multi Storey
225 King William (Amity Goodwill)	1,474 4,150	Office	Free Standing
	17,640	Office	Free Standing
	6,000	Office	Free Standing
	10,000+/-	Basement-storage	
35 King St E/1 Hughson Ave. N. (Aragon)	1,395 3,229	Instl, Office	Multi Unit
	13,404	Instl, Office	Multi Unit
	13,404	Instl, Office	Multi Unit
	5,441	Instl, Office	Multi Unit
	3,315	Instl, Office	Multi Unit
	13,404	Instl, Office	Multi Unit
21 John St.	33,428	Office	
	7,124	Office	
	1,700	Office/Retail	Multi Unit
	1,250	Office	Multi Unit
RTB 110 King St. W.	63,057	Office	Multi Unit



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# Summary of Various Rental Rates for Sites Reviewed

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Building	Base Rental Rate	Additional Rent (Operating)	Total
Commerce Place 1 (1 King St. W.)	\$10.00-\$12.00	\$12.00	\$22.00-\$24.00
21 King Street	\$13.00	\$11.75	\$24.75
Standard Life (120 King St.)	\$10.00-\$12.00	\$13.25	\$23.25-\$25.25
One Main Street W	\$16.00	\$10.75	\$26.75
One Hunter St.	\$16.00	\$10.75	\$26.75
4 Hughson Ave.	\$12.00	\$10.25	\$22.25
IBM, 25 Main St. (tower)	\$11.00	\$10.50	\$21.50
(ground floor)	\$15.00	\$10.50	\$25.50
One James St. S. (tower)	\$8.00	\$12.00	\$20.00
(ground floor)	\$19.00	\$12.00	\$31.00
Ellen Fairclough	\$14.00	\$8.50	\$22.50
Bank of Montreal (1 James St.)	\$10.00-\$12.00	\$13.25	\$23.25-\$25.25
Stelco Tower	\$10.00-\$12.00	\$13.25	\$23.25-\$25.25
RTB – 110 King St. W.	\$7.00	\$13.35	\$20.35



# Criteria Used to Evaluate Leasing Options

## Conclusion

- **There is a limited supply of suitable space within the Downtown Core for PHS**
- **The RTB represents suitable space for the consolidation of PHS**
- **Leasing terms represents fair market-value and good value for money**



# HWDSB

## “swing-space”

3. How does the recommended sub-lease to the HWDSB address its “swing-space” requirements?
  - Specific Requirements for the HWDSB’s “swing-space”
    - 50,000 square feet
    - approx. 2-year period (April 2012-March 2014)
  - What is the City’s Role?
    - “swing-space” has never been a requirement of the City to solve
    - Agreeing to the costs associated with “swing-space” is a condition between McMaster and the HWDSB
    - City staff acted as a resource
  - HWDSB Sub-Lease - Who Pays for What?
    - HWDSB pays ALL lease and operating costs
    - HWDSB pays ALL “customized” fit-up costs
    - City leverages the “fit-up” investment for PHS



# Outstanding Litigation Yale Properties

- Series of Negotiations have taken place between City staff, Legal Counsel, and Yale Properties representatives
- Progress has been made
- City Solicitor is requesting an in camera session to review a recommended resolution to the outstanding litigation and obtain instructions from GIC.



# Public Health Services Consolidation

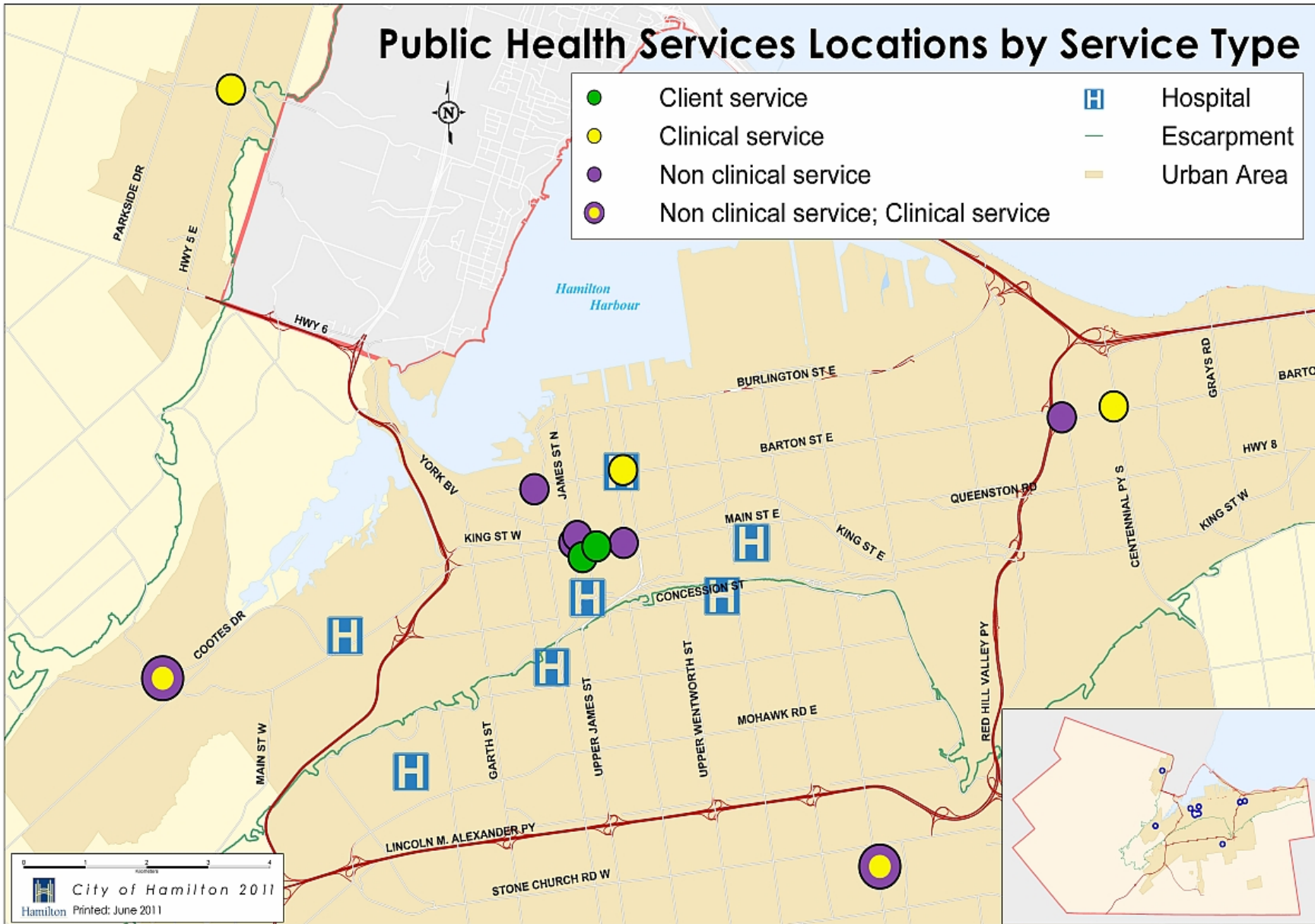
**What criteria are being employed by PHS to determine their long-term accommodation needs for their consolidated services?**

- Increased collaboration across PHS teams to achieve OPHS
- Increased staff productivity
- Provide more appropriate staff supervision
- Provide space for short term staff, medical residents, other learners
- Provide office space which is able to accommodate PHS needs ( i.e. back up generator for EOC and vaccine refrigerators, proper heating, cooling, ventilation for high density of staff)
- Provide office space able to accommodate the weight of our vaccine refrigerators and high density client file storage
- A floor plate that is able to efficiently accommodate both offices and workstations to maximize use of leased space








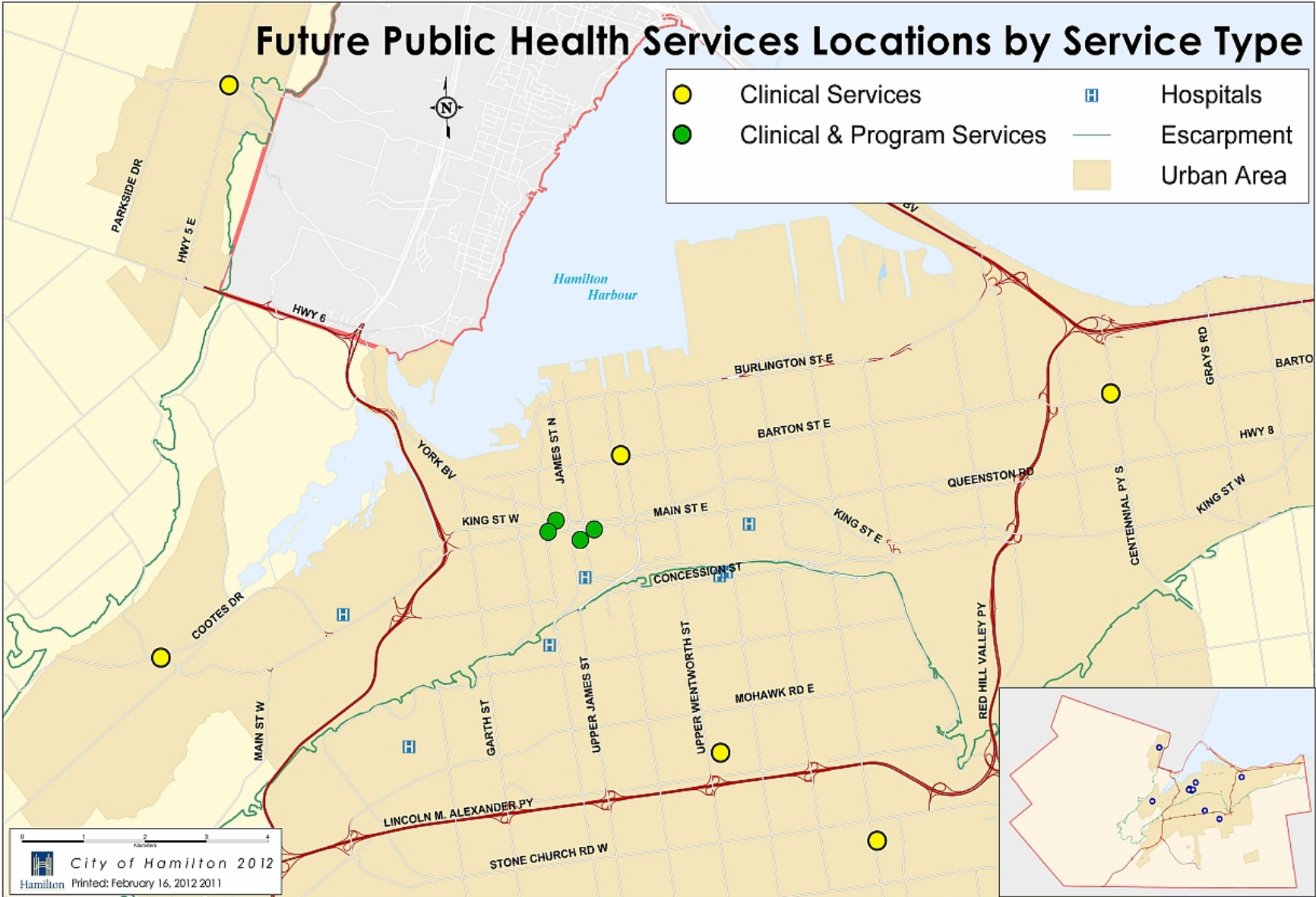
# Public Health Services Locations by Service Type

- |  |  |                                       |            |
|--|--|---------------------------------------|------------|
| <span style="color: green;">●</span>   | Client service                         | <span style="color: blue;">H</span>   | Hospital   |
| <span style="color: yellow;">●</span>  | Clinical service                       | <span style="color: red;">—</span>    | Escarpment |
| <span style="color: purple;">●</span>  | Non clinical service                   | <span style="color: orange;">■</span> | Urban Area |
| <span style="color: purple; border: 1px solid yellow; border-radius: 50%; display: inline-block; width: 10px; height: 10px;"></span> | Non clinical service; Clinical service |                                       |            |



# Future Public Health Services Locations by Service Type

	Clinical Services		Hospitals
	Clinical & Program Services		Escarpment
			Urban Area



# Financial Analysis



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# Financial Analysis Objectives

- Recap August 2011 approved PH accommodation strategy
- Update current PH accommodations and associated costs



# PHS Current Accommodations

	Square Footage
<b><u>Leased Space</u></b>	
<b>35 King Street East (Right House Bldg)</b>	<b>35,463</b>
1447 Upper Ottawa Street, Units 5-8	4,892
1439 Upper Ottawa Street	1,311
DUN 2 King Street West	7,190
250 Main St. E. - RMRCH	2,759
2255 Barton	4,611
Contracted clinic	3,868
1 James Street South	5,626
<b>100 Main St. E</b>	<b>11,392</b>
<b>21 Hunter Street</b>	<b>5,324</b>
<b>Total Leased Space</b>	<b>82,436</b>
<b><u>City Owned Space</u></b>	
125 Barton W	720
1447 Upper Ottawa Street, Unit 9	15,143
<b>Total City Owned Space</b>	<b>15,863</b>
<b>Total Current PH Accommodations</b>	<b>98,299</b>
New Future Family Clinic	5,000
<b>Total Required PH Accommodations</b>	<b>103,299</b>



# PHS Current Costs

## PHS Current Accommodations Identified for Consolidation

	Square Footage	2011 Gross Budget	2011 Net Budget	2010 Actual Costs
<b><u>Leased Space</u></b>				
35 King Street East (Right House Bldg)	35,463	\$ 753,650	\$ 188,413	\$ 772,480
1447 Upper Ottawa Street, Units 5-8 *	4,892	206,460	41,285	198,382
1439 Upper Ottawa Street	1,311	34,650	8,663	29,790
DUN 2 King Street West	7,190	154,414	38,603	175,176
250 Main St. E. - RMRCH	2,759	25,660	-	24,268
100 Main St. E	11,392	149,100	-	150,245
2255 Barton	4,611	150,540	37,635	153,786
21 Hunter Street	5,324	70,340	-	72,812
Contracted clinic	3,868	39,337	9,834	39,337
1 James Street South	5,626	106,080	26,520	94,564
<b>Total Leased Space</b>	<b>82,436</b>	<b>\$ 1,690,231</b>	<b>\$ 350,952</b>	<b>\$ 1,710,840</b>
<b><u>City Owned Space</u></b>				
125 Barton W	720	\$ 5,915	\$ 1,479	\$ 5,962
1447 Upper Ottawa Street, Unit 9 *	15,143			
<b>Total City Owned Space</b>	<b>15,863</b>	<b>\$ 5,915</b>	<b>\$ 1,479</b>	<b>\$ 5,962</b>
<b>Total Current PH Accommodations</b>	<b>98,299</b>	<b>\$ 1,696,146</b>	<b>\$ 352,431</b>	<b>\$ 1,716,802</b>
New Future Family Clinic	5,000	\$ 87,326	\$ 21,831	\$ 87,326
<b>Total Required PH Accommodations</b>	<b>103,299</b>	<b>\$ 1,783,471</b>	<b>\$ 374,263</b>	<b>\$ 1,804,128</b>



- **2010 Current Annual Cost = \$1.8 million**
- **2010 Average Cost/Sq Ft = \$17.47**

# Right House 2010 Actual Costs

Lease (\$19.50/sq ft)	\$ 629,940
Overhold	15,129
Storage	23,189
Net Annual Operating Cost *	69,304
Facilities Direct Recoveries	<u>34,918</u>
<b>Total Costs</b>	<b>\$ 772,480</b>

Estimated square footage split for PHS\*\* 35,463

**Total Cost Per Square Foot \$21.78**

\* Includes reconciliation for 2009 costs \*\* Includes additional storage space



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# Right House 2011 Estimated Actual Costs

Lease (\$19.50/sq ft)	\$ 633,376
Overhold	0
Storage	24,542
Net Annual Operating Cost *	(34,260)
Facilities Direct Recoveries	<u>35,582</u>
<b>Total Costs</b>	<b>\$ 659,240</b>

Estimated square footage split for PHS 35,463

**Total Cost Per Square Foot \$18.59**

\* Includes reconciliation for 2010 costs



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# Right House 2012 Estimated Costs

Lease (\$19.50/sq ft)	\$ 667,009
Overhold	0
Storage	28,139
Net Annual Operating Cost	68,698
Facilities Direct Recoveries	<u>22,760</u>
<b>Total Costs</b>	<b>\$ 786,606</b>

Estimated square footage split for PHS 37,379

**Total Cost Per Square Foot \$21.04**



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# Approved Accommodation Option

<u>Leased Space</u>	<u>Sq Feet</u>
• Continue downtown existing lease space	16,716
• <b>New downtown space to consolidate PHS</b>	<b>52,293</b>
• New mountain space to relocate Up Ottawa clinic	<u>2,100</u>
<b>Sub-total Leased Space</b>	<b>71,109</b>
<u>McMaster Health Campus</u>	
• Stand-alone	19,051
• Shared	<u>10,949</u>
<b>Sub-total MHC</b>	<b>30,000</b>
<b>Total PHS Space</b>	<b>101,109</b>



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# Updated Assumptions

1. Proposed rentable square footage of 52,300 sq ft
2. Year One of City occupancy assumed to be Spring of 2014
3. Year One (2014) lease cost (inclusive of operating costs) is estimated to be \$18.36 per square foot (inflated to 2014\$)
4. \$1,407,325 budget for one-time costs for tenant fit-up





# Operating Cost Impact of Proposed New Lease

Operating Costs	Aug 9th GIC	Jan 2012 GIC	Feb 2012 GIC	Aug to Feb Change
Square Footage	52,293	63,128	52,300	7
Year One Cost/Square Foot *	\$19.00 (2013\$)	\$19.36 (2014\$)	\$18.36 (2014\$)	(\$0.64)
<b>Annual Lease Cost</b>	<b>\$ 993,567</b>	<b>\$ 1,222,158</b>	<b>\$ 960,228</b>	<b>\$ (33,339)</b>
* Includes operating costs with 3% inflation from 2012 cost estimate				
2014 \$18.36 cost = \$7.00 base rent + \$11.36 estimated operating costs ie no property taxes				



# Base Rent Escalation

Base Rent	
2012	\$ 7.00
2014	\$ 7.00
2016	\$ 10.00
2020	\$ 12.00
2026	\$ 14.00



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# One-Time Capital Cost Impact of Proposed Lease Fit-up

Tenant Fit-up Capital Costs	Aug 9th GIC	Jan 2012 GIC	Feb 2012 GIC	Aug to Feb Change
Phase 1 (2012) *	\$ 1,407,325	\$ 1,861,729	\$ 1,419,901	\$ 12,576
Phase 2 (2014)	-	510,424	510,424	510,424
Less Landlord Fit-up Contribution	-	(600,000)	(523,000)	(523,000)
<b>Total Tenant Fit-Up Costs</b>	<b>\$ 1,407,325</b>	<b>\$ 1,772,153</b>	<b>\$ 1,407,325</b>	<b>\$ -</b>
<p>* In August 2011, assumed \$25/sq ft + \$100,000 for professional fees  ** Landlord inducement of \$10 per sq ft for Phase 2 tenant improvements</p>				

# Financial Summary

- ✓ Eliminated request for tax grant to school board
- ✓ Year 1 Operating Impact of \$487,000 - \$33,000 lower than estimated in August 2011
- ✓ Net One-time Capital Costs total of \$1.4M – no change from August 2011
- ✓ Tax Impact of proposed lease of PHS space essentially unchanged from August 2011 at 0.08% or \$2.12 per household



# Recommendations



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# Recommendations (a)

- (a) That a new lease with Second Real Property Limited be approved, subject to the following terms and conditions:
  - (i) **Term:** Twenty (20) years, commencing April 1, 2012 and terminating March 31, 2032 with an option to renew for a further ten (10) years to 2042;
  - (ii) **Property:** Robert Thompson Building, 110 King Street West, Suites 200, 300 and 400, Hamilton, comprising a gross rentable area of 21,089 square feet of second floor, 21,020 square feet for the third and 10,191 for the fourth floor, for a combined total square footage of approximately 52,300 square feet;
  - (iii) **Rental Rate:** From the date of commencement, being April 1, 2012, the Base Rental rate shall be:
    - (1) Years 1 to 4 at \$7.00 per square foot;
    - (2) Years 5 to 8 at \$10.00 per square foot;
    - (3) Years 9 to 14 at \$12.00 per square foot;
    - (4) Years 15 to 20 at \$14.00 per square foot;
  - (iv) **Operating Costs:** The Tenant shall be responsible for its full proportionate share of operating costs and property taxes accruing to the premises. These costs are forecasted to be \$13.35 per square foot in 2012.



# Recommendations (b)-(d)

- (b) That Real Estate staff of the Planning and Economic Development Department be authorized and directed to sub-lease the whole of the property to the Hamilton-Wentworth District School Board (HWDSB) for a two-year term commencing April 1, 2012 and terminating March 31, 2014, subject to all the terms and conditions of the lease in a form satisfactory to the City Solicitor;
- (c) That Legal Services be authorized and directed to prepare a by-law under Section 110 of the Municipal Act to propose the leased space become a City Capital Facility, whereby the City would be exempt from paying Realty Taxes at this location commencing June 1, 2014;
- (d) That all rent and operating costs be funded from Public Health Administration Rent: Offices & Buildings Account 55358-677500;
- (e) That the Mayor, General Manager of Finance and Corporate Services and City Clerk be authorized and directed to execute the Lease in a form satisfactory to the City Solicitor subject upon;
  - (i) Confirmation of an unconditional “Offer of Purchase and Sale” of the 100 Main Street West property from the Hamilton-Wentworth District School Board to McMaster University;
  - (ii) Landlord obtaining a Surrender of Lease from the existing Tenant;
  - (iii) Landlord obtaining its Board approval.



# Recommendations (f)-(g)

- (f) That the General Manager of Public Works be authorized and directed to negotiate and finalize a construction agency/cost sharing agreement with the Hamilton-Wentworth District School Board, Second Real Property Limited and any other relevant party for the transition and tenant fit-up for the use of the “swing space” by the School Board, in a form satisfactory to the City Solicitor.
- (g) That the Mayor and City Clerk be authorized and directed to execute the agreement as outlined in Report PED11134(c) / FCS11063(c) / BOH11026(c) / CM11008(c) as recommended in Recommendation (f) above.





# QUESTIONS



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