



Hamilton

# INFORMATION REPORT

<b>TO:</b> Mayor and Members General Issues Committee	<b>WARD(S) AFFECTED:</b> CITY WIDE
<b>COMMITTEE DATE:</b> November 20, 2013	
<b>SUBJECT/REPORT NO:</b> Revisions to Relocation of Provincial Offences Administration (POA) Courtrooms and Offices (PED13204a) (PW13079a) (LS13035a) (FCS13090a) (City Wide)	
<b>SUBMITTED BY:</b> Joe-Anne Priel Acting General Manager Planning and Economic Development Department	<b>PREPARED BY:</b> Neil Everson (905) 546-2424, Ext. 2359
<b>SIGNATURE:</b>	

**Council Direction:**

N/A

**Information:**

Pursuant to the November 13, 2013 meeting of the Hamilton Utilities Corporation (HUC) Board and City staff, discussions concerning HUC's involvement in the relocation of POA courtrooms and offices to 50 Main Street East have resulted in changes to the **RECOMMENDATION** and **FINANCIAL IMPLICATIONS** sections of the original Report as follows:

**RECOMMENDATION**

- (a) That McMaster University's Continuing Education Program, presently housed at 50 Main Street East, remain in its current location until January 1, 2015, at which time the City of Hamilton will require vacant possession.

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- (b) That Option 1: Renovation of 50 Main Street East, be approved as the new location for the Provincial Offences Administration (POA) courtrooms and offices along with other municipal divisions/departments.
- (c) That the design costs in the amount of \$3 M, as contained in the proposed 2014 Capital Budget be approved, and that staff report back to Council once the total costs have been finalized after the completion of the design work.
- (d) That the General Managers of Public Works Department and Corporate Services Department have delegated authority to execute all related agreements with Hamilton Utilities Corporation (HUC) in relation to the district energy system for the City-owned Court House at 50 Main Street East.
- (e) That the Mayor and Clerk be authorized and directed to execute all necessary documents in a form satisfactory to the City Solicitor.
- (f) That the funding strategy for Option 1 (\$32.38 M) be as follows:
  - (i) \$17.48 M be funded from additional net Provincial Offences Administration (POA) revenues and lease cost savings (\$1.7 M annual financing costs for 15 years).
  - (ii) \$10 M be funded from the Capital Levy (\$1 M annual financing costs for 15 years).
  - (iii) \$4.90 M be funded by Hamilton Community Energy for the installation of District Energy in Option 1:50 Main Street East.
- (g) That 50 Main Street East remain as the permanent location for Ontario Municipal Board (OMB) hearings and, when not in use, that staff be authorized and directed to generate revenue from renting this courtroom.
- (h) That City staff be authorized and directed to provide termination notices, at appropriate timing, pursuant to terms and conditions of leases affected by this Report, including the Ontario Realty Corporation (ORC) and McMaster University.
- (i) That the item respecting Provincial Offences Administration Court House Long-Term Location Options be removed from the General Issues Committee Outstanding Business List.

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**FINANCIAL / STAFFING / LEGAL IMPLICATIONS**

**Financial:**

Table 1.5.1 - Summary of Option Evaluation (POA Perspective)			
	Option 1 - 50 Main St E Capital Funding	Option 2 - New Building	Option 3 - Design- Build/Lease-Back
Total Project Capital Cost/lease payment	\$32.38 M	\$39.2 M	\$5.8 M
Gross Floor Area	112,000	49,200	49,200
Project Capital Cost/sq.ft.	\$242	\$798	\$118
Lease Savings at JSCH	(\$0.2 M)	(\$0.1 M)	(\$0.1 M)
Proceeds from sale of Main Street E	\$0	(\$5.6 M)	(\$5.6 M)
Net Present Value of Lease Savings (other)	(\$7.0 M)	\$0	\$0
HCE Contributions	(\$4.9 M)	\$0	\$0
Net Present Project Costs	\$20.28 M	\$33.5 M	\$47.5 M
Earliest Available	Mar-16	Sep-16	Sep-16

Table 1 summarizes the three most cost-effective options from the City's consultant MHPM (refer MHPM report dated September 12, 2013) in regards to providing space for the City's POA Program area. From a Net Present Value perspective (MHPM used a 25 year NPV time period, 6.5% discount rate) Option 1 is the most cost effective by a significant margin (\$13.7m less).

In developing a financing strategy for this project (Option 1), staff incorporated the following assumptions;

1. The additional courtroom space will allow on a net basis approximately \$1.425 M in additional POA revenue. The net additional revenue is calculated from gross additional revenues of \$2.25 M less approximately \$0.8 M for salaries and overhead. The additional net revenues would be used to offset debt financing costs associated with the projected project costs of \$27 M (The \$27 M is net of a \$4.9 M contribution from the District Energy proposal from HCE).
2. The financing costs are as follows: 15-year amortization at 5% which translates into approximately \$2.7 M annually for 15 years. \$2.7 M less additional net POA revenue/lease savings of \$1.7 M resulting in a net Capital Levy impact of \$1.0 M for 15 years.

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3. The following are the lease savings from other departments moving to 50 Main Street E. to be realized as their lease agreements expire. The table above assumes \$180,000 annually saved from the existing POA lease agreement with the JSCH. It also assumes approximately \$575,000 of annual lease cost savings from other City departments moving to 50 Main Street E. However, the timing of these savings is difficult to predict and therefore staff are using a conservative minimum figure to be used as a direct offset against the financing costs for this project (\$275,000 total annual in addition to the net additional revenue of \$1.425 M for a total of \$1.7 M). Staff are assuming that any fit-up costs for City staff moving to 50 Main Street East will also be funded from annual lease cost savings.
4. The balance of the funding required for the refurbishment of 50 Main Street East (\$10 M which when financed becomes \$1.0 M annually for the next 15 years) becomes part of the 2014 – 2023 Capital Budget Financing Forecast.
5. When the additional budgeted POA revenue and lease cost savings (\$1.7 M total, refer number 1) are no longer required to fund the Option 1 Capital costs, staff will report back to Council with regard to a future use for these funds.

**Additional Revisions to Report (PED13204) (PW13079) (LS13035) (FCS13090):**

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**POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS**

The recommendation is in compliance with all existing Corporate and Provincial policies and procedures, The Memorandum of Understanding and the Local Side Agreement (POA transfer documents), and the Province of Ontario Architectural Design for Court Houses.

**Real Estate Portfolio Management Strategy Plan:**

The Portfolio Management Committee is assigned the strategic responsibility for procuring and managing corporate real estate assets with the view of minimizing real estate costs to the organization, and provide optimal utilization of the corporation's real estate.

A key component of the Committee is to investigate shared development or use of existing corporate facilities as potential for reducing costs or facilitating implementation

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of program use. The location of the subject site provides a strategic opportunity to support the effectiveness for services shared among both levels of court.

The influx of the \$4.9 M contribution from the District Energy proposal for capital investment/upgrades maximizes the long term value and use of this corporate facility. In addition, the retention of 50 Main Street East supports the need of POA and meets the broader corporate objective at the lowest cost possible.

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Option 1: Retrofitting 50 Main Street East

- (b) That staff be directed to proceed with the district energy proposal engineering/design for the Court House, for the replacement of the existing steam boilers and cooling systems with new hot water boiler, new chiller and cooling tower and all related HVAC systems and to review the geothermal supplement option at an estimated cost of \$4.9 M for the aforementioned upgrades;

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**ALTERNATIVES FOR CONSIDERATION:**

**Option 2:** A new building to house POA Courtrooms and Offices:

Constructing a new building on a vacant site was explored as an option by MHPM Consultants but was NOT recommended for the following reasons:

- The Net Present Value of the Project Costs are estimated at \$33.5 M in comparison to Option 1 at \$20.28 M.

NE/dkm