

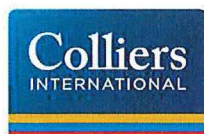


Hamilton

Business Case for Accommodations in POA Courthouse

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700135-0010(4.0)



ACKNOWLEDGEMENTS

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1.0 Executive Summary

The City of Hamilton (The City) is renovating the former Courthouse building at 50 Main Street East (Courthouse) to accommodate the Provincial Offences Courts (POA) and upgrading the balance of the building office areas to a base building standard suitable for office development. The October 2013 report 'Provincial Offences Administration: Long Term Accommodation Feasibility Study' identified the potential to use the balance of the Courthouse building for other City office functions. That report included a preliminary assessment of some Units that might be relocated to this building. This report is the deliverable of a further analysis of the feasibility of locating the following candidate departments or divisions (Units) that currently occupy downtown leased facilities:

- Legal Services,
- Human Resources,
- Finance,
- Risk Management,
- Return to Work, and
- Audit Services.

After a preliminary review, we determined that the specialized facility security requirements and amount of available space in the Courthouse building made it impractical for some of the Units considered. Therefore, a short-list of Units was developed for further analysis including Legal Services, Risk Management and Audit Services. The further analysis included:

- Developing a functional program to define the spaces required for the next 5 to 10 years,
- Developing test-fit diagrams to confirm the adequacy of the space;
- Developing cost estimates for the construction and relocation;
- Developing a business case analysis to assess cost savings for each unit.

This analysis concluded that lease cost savings would be realized by Option 1 – Relocating all of the short-listed Units to the Courthouse building.

Table 1.0 – Business Case Analysis		
	Option 1 - Relocate	Option 2 - Stay
Capital cost	2,570,000	714,000
Financing cost	786,000	145,000
Total capital required	3,356,000	859,000*
Year 1 net operating costs**	318,000	697,000
Year 3 net operating costs**	269,000	715,000
Operating cost savings after year 3	446,000	0
Simple payback	7.5 years	n/a

*Option 2 Capital requirement is split across future years in 2018, 2019, 2025, 2026

** Excludes debt repayment which is capitalized

Over the 25 year period of our analysis, relocating Legal Services, Risk Management and Audit Services as defined in Option 1 will reduce the lease costs for the three Units by 25% to 35% saving about \$10M over the period as compared to remaining in the existing spaces (Option 2).

In addition to these savings, Option 1 provides the following benefits:

- The existing shortage of space in the current Legal Services location can be resolved, allowing for necessary future growth;
- Legal Services and Risk Management remain close to each other which supports their collaborative work;
- The Prosecution unit serving the POA Court Services would be close to Legal Services, to which it reports.
- There is an opportunity to align all offices and work spaces to the City's space standard.
- There is an opportunity to gain efficiencies of scale in providing common meeting rooms and staff facilities such as lunch rooms, first aid rooms, etc.
- Relocating Audit Services would free up space at 77 James Street North that could relieve space pressures in other departments at that location, avoiding the need to lease additional space.

If Legal Services, Risk Management and Audit Services do not move to 50 Main Street E as part of the current project to fit out 50 Main Street East for the POA Court Services, we expect the following consequences:

- The City will be unlikely to achieve market rent and may not be able to find tenants for the top three floors of 50 Main Street East because building security constraints, which would leave the City bearing the operating costs for that portion of the building, estimated to be about \$400,000 per year (as of 2017).
- If these units move to 50 Main Street East at a later date, the cost of construction is expected to be about 30-40% more expensive because there will be additional overhead, premiums for night work and security, and the construction period will be longer because night work is less productive.
- If these units are moved a later date there will be increased construction and relocation costs as a result of escalation, which is expected to add 2-4% per year on average.

CONCLUSION

Based on the financial analysis of this report and conclusions of previous reports we recommend that the City allocate 3.24M to relocate Legal Services, Risk Management and Audit Services to the Courthouse building at 50 Main Street East at the same time that the POA Court Services functions are relocated.

2.0 Background

The City is renovating the former Courthouse building to accommodate the Provincial Offences Courts (POA) and upgrading the balance of the building to a base building standard suitable for office uses. Further to the study completed by Colliers Project Leaders (formerly MHPM Project Managers Inc.) in October, 2013, the City began to explore the potential of moving some Units into the office spaces being renovated in the Courthouse. The City consulted with Legal Services and Risk Management and developed test-fit diagrams.

The City proceeded with this formal study to assess the business case for moving any Units that occupy downtown leased space, into the Courthouse building. The following Units were examined:

- Legal Services,
- Human Resources,
- Finance,
- Risk Management,
- Return to Work, and
- Audit Services.

2.1 Methodology

Colliers conducted this study using the following methodology:

- Review and analyze documents from previous studies.
- Conduct an on-site assessment of existing leased spaces to understand the existing conditions and expectations for whether furniture will be relocated or new furniture will be provided.
- Lead workshops with management of each unit being assessed to define the functional requirements and adjacencies.
- Develop a preliminary recommendation for the short-listed Units that have the greatest potential to be accommodated in the Courthouse.
- Provide directions to the City's prime consultant for the Courthouse project to obtain revised Test-Fit Analysis for the short-listed Units.
- Obtain cost estimates from cost estimator for the Courthouse for the tenant fit-out of Floors 3, 4 and 5.
- Develop pro-forma financial analysis model for two options: Units relocate to the Courthouse or Units stay in their current location.
- Develop a consolidated business case.
- Prepare and present this report.

3.0 Preliminary Analysis of Candidate Units

3.1 Criteria

The analysis of candidate Units for accommodation on floors 3 – 5 of the Courthouse building is based on the following criteria:

- **Size:** The Units must fit within the available space. The three floors combined provide a gross floor area of 31,200 sf, which includes ancillary spaces, lobbies and service areas. Deducting these non-usable spaces, leaves approximately 21,750 useable square feet (USF) available for office development.
- **Security Compatibility:** The POA Courthouse will have security provided by the Hamilton Police Service. All persons entering the building (staff and general public) will enter at a single entry point where they will be screened by Police using a walk-through metal detector. From a security perspective it will be required to minimize the number of people entering the building on an ongoing basis. From a client service perspective, Units that require daily public interactions should not be located in the facility because of the disruptive effect of this security screening on members of the public.
- **Unit Functionality:** Candidate Units are evaluated for the effect of this location on their functionality, identifying the potential operational costs that would be imposed by moving to this location.

3.2 Preliminary Analysis

Candidate Units are those located in space that is currently leased. We worked with the City to apply a preliminary screen to all potential candidate Units to best filter the most appropriate Units for further consideration.

- As a first screen, Units that have a high degree of public interface or where the client groups would object to going through security screening to reach the service were eliminated from consideration because of the requirement to keep public access to a minimum. This screen rules out Libraries, Public Health and City Housing Hamilton, and rules out parts of Human Resources, Finance, Planning and Development and Public Works that provide public service.
- The second screen assessed the ability to accommodate the size of an entire Unit. This screen excludes Planning and Development, and Public Works.
- The third screen analyzed the suitability of the Courthouse for the remaining Units that are currently occupying leased space. The results of this analysis are shown in the table below.

Table 3.2 – Assessment of Candidates for Relocation			
Unit	Current Location Existing Useable Sq. Ft. (USF) & Rentable Sq. Ft. (RSF) USF Required	Security Compatibility	Unit Functionality
Legal Services	CIBC Suite 1200 10,203 USF / 12,417 RSF 11,700 USF required	<ul style="list-style-type: none"> Limited public access Dispute Resolution connection to POA prosecutors 	<ul style="list-style-type: none"> Closest connection between Risk Management and Dispute Resolution CDP deals with all departments, limited meetings.
Risk Management	CIBC Suite 1101 2,550 USF / 3,107 RSF 2,100 USF required	<ul style="list-style-type: none"> Limited public access 	<ul style="list-style-type: none"> Closest connection with Legal Some connection with Finance but currently operate from separate offices
Audit Services	77 James Suite 400 2,697 USF / 4,537 RSF 1,600 USF required	<ul style="list-style-type: none"> Rare public visits Some staff/whistleblower meetings Needs security from other departments 	<ul style="list-style-type: none"> Closest connection to City Manager's office Must have no connection with other Units.
Finance	120 King, Suite 900 16,549 RSF *	<ul style="list-style-type: none"> Purchasing: security would be a barrier to vendors picking up/submitted bids by causing a time delay Payroll and Pension: regular visits by staff/pensioners. Accounting Services: limited client visits. 	<ul style="list-style-type: none"> Purchasing: interacts with staff from all departments, works closely with AP Payroll and Pension: high need for interaction with HR, Accounting Services: interacts with staff from all departments, could be separate functionally
Human Resources	120 King, Suite 900 16,000 RSF *	<ul style="list-style-type: none"> Staffing –large number of applicants dropping off applications and coming for interviews Benefits – significant number of staff visiting to review benefits HRMS – minimal visitors Organizational Development – minimal visitors HR Records – minimal visitors H&S / Wellness – interaction for training and claims. Labour Relations – significant number of visitors. 	<ul style="list-style-type: none"> All Units share the same personnel files which are mostly paper; potential for digital files 5+ years in future. Benefits works closely with Payroll
Return to Work	120 King, Suite 965& 970 2,352 RSF	<ul style="list-style-type: none"> Meetings with staff returning to work – security is a potential barrier 	<ul style="list-style-type: none"> Need to have access to HR files (mostly paper; potential for digital files 5+ years in future) Need to be separated from HR and have anonymous access to space for confidentiality. The small floor plate of 50 Main would not give anonymous access. Collaborates with Labour Relations, Staffing and Finance/Payroll

* Human Resources and Finance each occupy about 50% of a space that is 32,549sf.

This preliminary analysis identified Legal Services, Risk Management and Audit Services as best suited for location in the Courthouse building. Together these Units are expected to occupy about 15,400 USF, equivalent to about two and a half floors of the available space.

3.3 Short-list for Further Analysis

Based on the preliminary analysis above, we recommended conducting a Test-Fit Analysis to confirm how the following Units could fit into the Courthouse building and to confirm the amount of any residual space:

- Legal Services,
- Risk Management,
- Audit Services.

A Test-Fit Analysis is the development of a conceptual design to show how the spaces identified in the high-level functional program might be accommodated in the building.

This study is a necessary part of any accommodation study because each building has unique floor plate dimensions, column grids and obstructions that may make it more or less efficient for the functional requirements.

It is important to note that the Test-Fit Analysis is not intended to be a final floor plan (or even an interim floor plan) and is not part of the design processes that will lead to the ultimate configuration of the space. Its sole purpose is to give an indication if the space will be sufficient.

4.0 Test Fit Analysis

Based on our analysis of the short list of business areas, we developed a preliminary functional program for each group. This functional program includes:

- Identification of spaces that have the potential to be shared among the Units in the building;
- Updated space allowances based on the City's Workspace and Office Guidelines and Auxiliary & Common Space Recommendations dated January 13, 2015;
- Provision of additional work locations based on expectations for growth over the next five to ten years;
- Identification of required and desired adjacencies.

This functional program was provided to the Architect for the POA Courthouse who developed the Test-Fit Plans shown on the following page. We must emphasize that the Test-Fit Analysis is not meant to produce the actual floor plans but are a realistic depiction of one way that the functional program could be accommodated in the space.

We evaluated the Test-Fit Plans to confirm that they accommodate all of the spaces identified in the preliminary functional program and achieve appropriate relationships between the spaces. In particular we examined how some of the particular needs of each Unit could be accommodated including:

- How the Legal Services unit could be split among two floors without splitting either the Dispute Resolution unit or the Commercial, Development & Policy unit;
- How meeting rooms could be located to maximize the opportunity for them to be shared among all the Units located in the Courthouse;
- How Audit Services could be provided with appropriate segregation to support its autonomous function.

Based on this analysis, we conclude that the three short-listed Units can fit in floors 3 to 5 of the Courthouse leaving about 1,800 sq. ft. available for growth or other uses. For example, it would be possible to locate a small special project team that might have temporary requirements or to provide expansion room for other departments that would otherwise require additional leased space. Without a specific use for this additional space, we have assumed that the costs of this space will be assigned to the Units that will be relocated to the Courthouse as if this space was left vacant. Any use of the residual space will only improve the financial advantage of relocating to the Courthouse.

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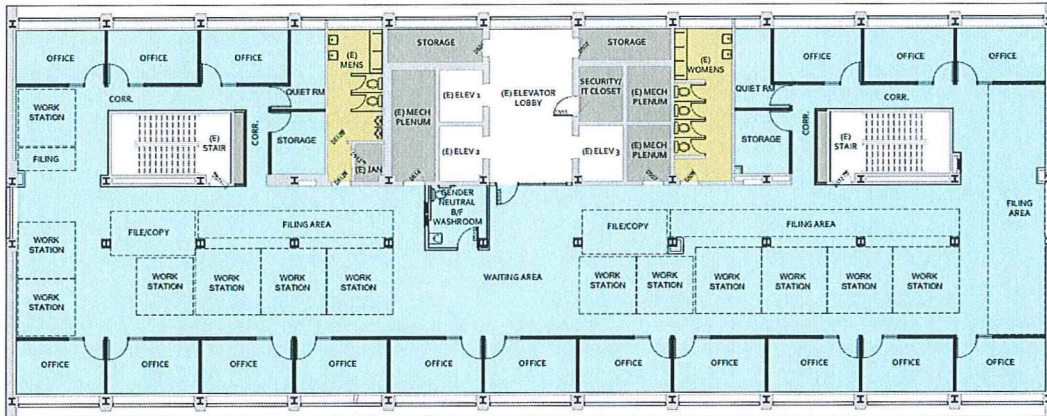


Figure 1 - Fifth Floor Test-Fit Plan

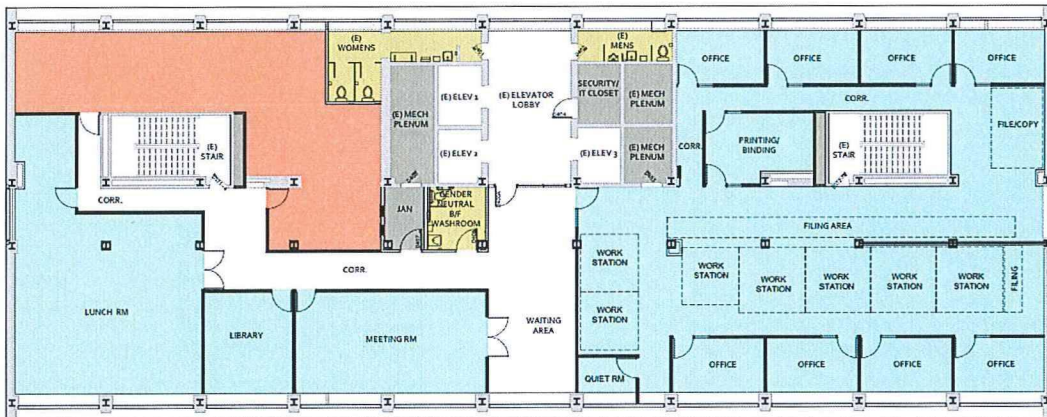


Figure 2 - Fourth Floor Test-Fit Plan

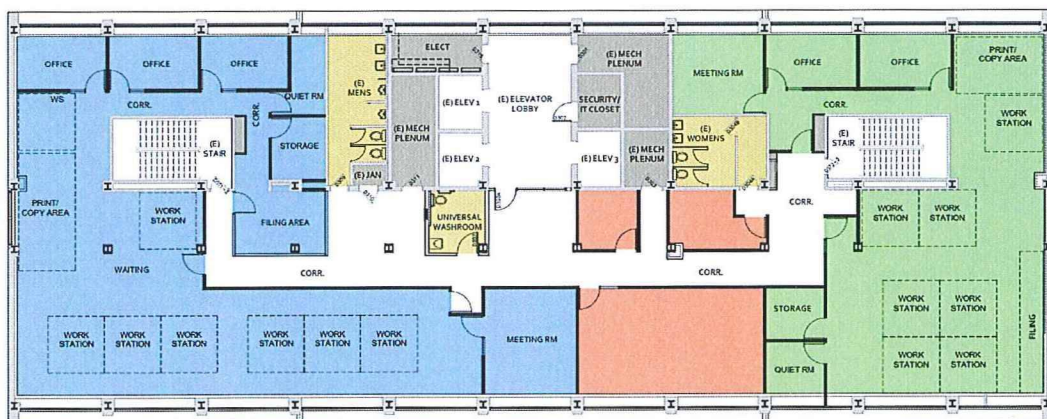


Figure 3 - Third Floor Test-Fit Plan

5.0 Business Case

5.1 Analysis of Options

This business case analysis assess the costs of the following Options for the short-listed Units:

1. Relocate - moving the Units to the Courthouse;
2. Stay - leaving the short-listed Units in their current locations.

Costs are assessed in accordance with City standards of identifying capital and financing costs up front (as opposed to tracking them amortization payments become due). The table below gives a summary of this analysis showing a moderate to strong business case for relocating all of the short-listed Units. Operating costs are reduced after the third year (after the expiry of the Risk Management lease).

Option 2 includes the cost to the City of operating the Courthouse building as a vacant space, which may be required if these Units remain in their existing spaces.

Table 5.1.4 – Business Case Analysis		
	Option 1 - Relocate	Option 2 - Stay
Capital cost	2,570,000	714,000
Financing cost	786,000	145,000
Total capital required	3,240,000	837,000*
Year 1 net operating costs*	318,000	697,000
Year 3 net operating costs*	269,000	715,000
Operating cost savings after year 3	446,000	0
Simple payback	7.5 years	n/a

*Option 2 Capital requirement is split across future years in 2018, 2019, 2025, 2026

** Excludes debt repayment which is capitalized

Option 1 – Relocate will reduce annual occupancy costs for the three Units by 25% to 35%, thereby saving about \$10M over 25 years (after capital costs) as compared to Option 2 – Stay. Therefore, the City should allocate \$3.24M to relocate Legal Services, Risk Management and Audit Services.

In addition to these savings, there is likely to be almost 1,800 sq. ft. of unassigned space in 50 Main Street West available for other purposes, the cost of which has been absorbed in this business case analysis.

We note that if Legal Services, Risk Management and Audit Services do not move to 50 Main Street E as part of the current project to fit out 50 Main Street East for the POA Court Services:

- The City will be unlikely to achieve market rent and may not be able to find tenants for the top three floors of 50 Main Street East because of the challenge of having to pass through building security to access the spaces. This would leave the City bearing the operating costs for that portion of the building, estimated to be about \$400,000 (2017 dollars).

- If these units move to 50 Main Street East at a later date, the cost of construction is expected to be about 30-40% more expensive because there will be additional overhead, there will be a premium for night work (about 20 – 25% more than daytime work), there will be additional costs for full-time security while night work is in progress, and there will be additional cleaning costs to leave the building ready for court operations at the end of each shift.
- If the units are relocated at a later date there will also be an increase in construction cost as a result of construction price escalation, which is expected to be an average of 2% - 4% per year.
- If these units move to 50 Main Street East after the POA Court is in operation, the construction period will be longer because night work is less productive.

5.2 Capital Cost

This subsection reviews the capital cost assumptions included in the business case.

5.2.1 Option 1: Relocate to the Courthouse

The estimated capital cost for design, fit-out construction, moving and other costs for levels 3 – 5 is shown in the table below with further detail and assumptions presented in Appendix 1. The unit cost of \$108/USF is consistent with the typical unit costs for interior renovation projects at this time in Hamilton.

Table 5.2.1 – Capital Cost of Relocation		
Element	Rate	Cost
Construction (including design and post-tender contingencies)		2,300,000
Design	6%	138,000
Relocation		40,000
Owner's Reserve	4%	92,000
Total Capital (excluding HST)		2,570,000
Capital cost / USF of space		\$118

This capital cost estimate is based on the following assumptions and the additional assumptions listed in Appendix 1:

- Construction costs are prorated from the Class C Estimate Update prepared by Hanscomb for Levels 4 and 5 of the Provincial Offences Administration Office Relocation dated June 2015.
- The construction cost estimate assumes that the work would be executed under the Construction Management contract for the POA courthouse renovations and would occur at the same time as that work.
- Construction cost escalation is calculated to October 2017 as would be required to have work done under the base building contract;
- The allowance for Design fees is a typical rate for a medium quality office interior. Some cost reduction could be expected if this work was awarded to the Architect for the Courthouse renovation because there would be savings in preparing base building work and site review.

- Moving costs are estimated as a lump sum based on typical office relocations.
- An Owner's Reserve is allowed for changes in scope that might be identified during the project.

5.2.2 Option 2: Stay

ADDITIONAL SPACE FOR LEGAL SERVICES

Our analysis of the functional requirements identified that, if the short-listed Units are not re-located to the Courthouse, Legal Services will soon require additional space. The business case analysis must compare options that are functionally equal and thus we have assumed that Legal Services will require additional space if they are not relocated.

- An area of approximately 2,000 USF would be required;
- Additional leasing costs of \$11/sf plus \$8.84/sf additional rent (the current lease rate – negotiated rates could be higher);
- A low level of renovations at a rate of \$75/USF (vs. the \$108/USF in the Courthouse);
- A resulting investment of approximately \$150,000 of capital to develop.
- This value does not include office furniture, which would be required, but may be available as surplus stock.

REFRESH OF EXISTING SPACES

We have assumed a minor capital expenditure for the refresh of existing spaces if the short-listed Units are not relocated. It is standard practice to replace carpet and repaint after about 15 years in a location (some owners seek to stretch this to 20 years but by that time most carpets are fraying which can cause a health and safety risk). We have assumed a cost of \$25/sq. ft. (net) in current dollars with escalation at the expected Consumer Price Index inflation rate. Based on our understanding of the leases, the 15 year refresh would be required as follows:

- Legal Services: 2019 (lease start date of Sept 1, 2004)
- Risk Management: 2025 (lease start date of Nov 1, 2009)
- Audit Services: 2026 (lease start date of June 2010)

5.3 Operating Cost

Operating costs are based on the current costs for the spaces with projected increases over time, including the following:

5.3.1 Option 1: Relocate to the Courthouse

LEASE COSTS

- No lease costs for the Courthouse;
- Lease savings for Legal Services and Risk Management on the basis of their current leases;
- Lease cost avoidance for Audit Services if it is relocated. Because Audit Services occupies space at 77 James Street, it will be impractical to give that space back at the end of the lease. However, we understand that there are space constraints with other Units at 77 James Street and by vacating the Audit Services space, it would be possible to relieve those space pressures without leasing additional space, thereby avoiding increased costs.
- All Units will move into the Courthouse and will vacate their existing spaces by May 1, 2018.

- Legal Services: \$11.00 net Expires August 31, 2019 – Termination permitted on 6 month notice. Provide notice by November 30, 2017.
- Risk Management: \$10.00 net Expires August 31, 2019 – No early termination permitted. Seek to sublease. Business case is based on the assumption that a sublease is not possible.
- Audit Services: \$19.50 net Expires May 2021 – Termination conditions are not applicable because the space will be used by the City to expand existing departments currently in 77 James Street North.

ADDITIONAL RENT

- Additional rent (utilities, cleaning, building costs) will as per the 2016 budgeted operating costs, allocated on a prorated basis at \$8.13/sq. ft.;
- Additional rent at the Courthouse will escalate at 2% per year as the expected Consumer Price Index inflation rate;
- No reduction in energy cost with the implementation of the district heating plant and the renewal of the mechanical systems – it is likely that energy costs would be reduced but the magnitude or reduction is unknown;
- While the short-listed Units do not occupy the entire space on Levels 3, 4 and 5, we have assumed that all operating costs for these areas will be allocated to them proportionate to their use of the spaces.

5.3.2 Option 2: Stay

If the short-listed Units are not relocated, we have assumed the following:

LEASE COSTS

- Leases for each Unit will be renewed;
- Lease renewals will be subject to a 10% rate increase every five years after the renewal (there is likely to be fluctuation in lease rates over this time based on market conditions but there is no data to support either an increase or decrease in rent).

ADDITIONAL RENT

- Additional rent (utilities, cleaning, building costs) will as per the 2016 budgeted operating costs. Current rates are:
 - Legal Services: \$8.84
 - Risk Management: \$8.84
 - Audit Services: \$0.80 (energy only)
- Additional rent will escalate at 2% per year as the expected Consumer Price Index inflation rate.

5.4 Project Schedule

For the purpose of this analysis, we have assumed the following project schedule which aligns the completion date of renovated space with the expected earliest completion date of the Courthouse renovations.

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It must be noted that delays in approval, design, or construction will increase the cost of construction because construction will extend into the period of Courthouse operations and thus will entail additional costs for night work and security.



Figure 4 - Project Schedule

The relocation planning will need to be planned in concert with the move-in dates for the POA Court such that the office relocation occurs with or before the POA Court move. If the relocation occurs after the POA court is operating, there will be additional move-related costs for night work and security.

5.5 Business Case Assumptions

The following assumptions were used in the calculation of Net Present Cost in addition to the assumptions above.

Table 5.5 – Business Case Assumptions		
Element	Metric	Comments
Construction Financing	3.5%	As advised by Joe Spiler. This is an approximation of the 15 year serial rate.
Debt Financing	3.5%	
Discount Rate	6.5%	Per City instructions
Inflation Rate	2%	This is the anticipated long term rate of change in the Consumer Price Index.
Percent of capital cost financed	100%	
Construction start	October 17, 2017	
Construction duration	7 months	
Construction completion	April 2, 2018	This date aligns with the expected completion date for the Courthouse Renovations.
Terminal value	The difference between the current lease and operating costs and the operating costs in the Courthouse building, applied for a ten year period.	

Appendix 1 CONSTRUCTION COSTS

The construction cost for the interior fit-out is estimated at approximately \$2.18M for the three floors of the courthouse. The details and assumptions are provided below.

Table A1 – Construction Cost Analysis				
	Hanscomb Estimate (June 2015)		Colliers Project Leaders Extension (October 2016)	
	Factor	Value	Factor	Value
Level 4 & 5 Fit out		1,212,200		
Level 3, 4 and 5 Fit out			150%	1,818,000
Design and Pricing Allowance	10%	121,220	10%	182,000
Escalation (12 months)	2.5%	33,336		0
Escalation (28 months)			5.8%	117,000
Construction Allowance	5%	68,338	5%	105,000
Construction Management Fee	3.5%	50,228	3.5%	78,000
Total Construction Estimate (excluding HST)		1,485,322		2,300,000
Design			6%	138,000
Relocation (Allowance)				40,000
Owner's Reserve			4%	92,000
Total Project Cost				2,570,000

- Construction costs are derived from the Class C Estimate Update prepared by Hanscomb for the Provincial Offenses Administration Office Relocation dated June 2015 providing the fit-out cost of Levels 4 and 5.
- Our extension of the Hanscomb cost estimate increases the cost of the 2-floor fit-out by 50% to provide the estimate for the 3-floor fit-out.
- Hanscomb's estimate included 12 months of escalation for an assumed tender date of June 2016. We have included an estimate of an additional 16 months of escalation for an expected construction start of October 2017.
- We assume that all furniture is re-used and no new furniture is required. For the purpose of this analysis, any requirement for furniture would apply to all Options and sub-options. For project planning purposes, we recommend carrying an additional allowance of about \$150,000 for miscellaneous furniture requirements.