



CITY OF HAMILTON
PUBLIC WORKS DEPARTMENT
 Energy, Fleet and Facilities Management Division
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	March 21, 2018
SUBJECT/REPORT NO:	50 Main Street East Finance Update (PW18021) (FCS18024) (Ward 2 and City Wide)
WARD(S) AFFECTED:	Ward 2 and City Wide
PREPARED BY:	Tom Briatico (905) 546-2424, Extension 7042 Robyn Ellis (905) 546-2424, Extension 2616 Joseph Spiler (905) 546-2424, Extension 4519
SUBMITTED BY:	Rom D'Angelo, C.E.T.;CFM Director, Energy, Fleet and Facilities Management Public Works Department
SIGNATURE:	
SUBMITTED BY:	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That the additional project budget, as described in Report PW18021 / FCS180424, in the amount of \$1.438M, be debt financed and funded from lease savings;
- (b) That the revised funding for the \$37,237,998 overall project budget at 50 Main Street East (3541441401) be approved as follows:
 - \$17,480,000 Original Construction – Debt funded from additional Net POA Revenues – Debt charge of \$1.575 M; 15 years, amortized at 4% interest rate;
 - \$10,000,000 Original Construction – Debt funded through levy of \$7.7 M and Development Charges (DC) of \$2.3 M;

SUBJECT: 50 Main Street East Budget Update (PW18021 / FCS18024) (Ward 2 and City Wide) ~ Page 2 of 9

- | | |
|-------------|--|
| \$4,900,000 | Hamilton Community Energy Infrastructre – Debt funded through levy – Debt charge of \$440 K; 15 years, amortized at 4% interest rate; |
| \$349,998 | Capital Budget Increase Work-in-Progress (WIP) Appropriations (December 2017); |
| \$500,000 | Window Insulation funded from Red Light Camera Reserve; |
| \$1,000,000 | Tenant Fit-ups – Funded from 50 Main Street East Facility Capital Reserve; |
| \$1,570,000 | Tenant Fit-ups – Debt funded from lease savings – Debt charge of \$150 K; 15 years, amortized at 4% interest rate; |
| \$1,438,000 | Capital Budget Increase – Debt funded from additional lease savings – Debt charge of \$130 K; 15 years, amortized at 4% interest rate. |
- (c) That the General Manager, Finance and Corporate Services, be authorized to negotiate the terms and placement of a debenture issue(s), and / or private placement debenture issue(s), and / or bank loan agreement and debenture issue(s), and / or variable interest rate bank loan agreement and debenture issue(s), in an amount not to exceed \$35,388,000 Canadian currency related to 50 Main Street East included in Report PW18021/FCS18024, which includes \$2,300,000 in Development Charges Tax Supported debt;
- (d) That the General Manager, Finance and Corporate Services, be authorized to engage all required professional services to implement subsection (b), including but not limited to, external legal counsel and fiscal agents;
- (e) That the General Manager, Finance and Corporate Services, Mayor and City Clerk are each authorized and directed to enter into and / or execute, on behalf of the City of Hamilton, all agreements and necessary ancillary documents requiring their respective signatures to implement subsection (b), in a form satisfactory to the City Solicitor;
- (f) That all necessary By-Law(s) be passed to authorize the debenture issue(s) negotiated and placed in accordance with subsection (b).
- (g) That pursuant to the City's Procurement Policy By-law (Policy #11 – Non-Competitive Procurements), a single source procurement for the additional budget requirements for 50 Main Street East, Hamilton, be awarded to the Construction Manager currently onsite, Eastern Construction Company Limited, to be added to the Purchase Order to complete contract C11-15-15;
- (h) That the General Manager of Public Works be authorized to negotiate, enter into and execute all required documentation to give effect thereto with Eastern Construction Company Limited, in a form satisfactory to the City Solicitor.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

EXECUTIVE SUMMARY

The purpose of this report is to gain Council approval on remaining funding required to complete the capital renovation at 50 Main Street East, and an increase to the Construction Manager’s (Eastern Construction Company Ltd.) scope and Purchase Order as a follow up to staff Report PW17044 in July 2017.

Referring to the analysis section of the report, there are a number of factors behind the requested budget increase as follows:

1. Unforeseen expenses due to site conditions;
2. Past value-engineering was successful but is complete;
3. Funding gap required to complete the project; and,
4. Avoiding schedule delay.

Alternatives for Consideration – See Page 9

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The increase in capital budget of \$1.438M is required to complete the project at 50 Main Street East, as described in Report PW18021/FCS18024:

Table 1

POA Project Cost / Funding Update

Item	Budget	Funding	Funding Details
GIC Nov. 2013 FCS13090(a)	\$32,380,000		
Original Construction		\$17,480,000	Debt funded from additional Net POA revenues - Debt charge of \$1.575 M; 15 years, amortized at 4% interest rate
Original Construction		\$10,000,000	Debt funded – Levy debt of \$7.7 M and DC Debt of \$2.3 M
HCE Infrastructure		\$4,900,000	Levy debt financed – Debt charge of \$440 K; 15 years, amortized at 4% interest rate
HCE pipes tie-in	\$349,998	\$349,998	WIP Appropriations (Dec. 2017)
GIC Jan. 2014 FCS13909(a) Window insulation	\$500,000	\$500,000	Red Light Camera Reserve

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: 50 Main Street East Budget Update (PW18021 / FCS18024) (Ward 2 and City Wide) ~ Page 4 of 9

Tenant Fit-up Renovations, Floors 3 to 5 re Legal, Risk Management and Audit	\$2,570,000	\$1,000,000	50 Main Street East Facility Capital Reserve (formerly named McMaster Facility Capital Reserve)
		\$1,570,000	Debt funded from lease savings for Legal and Risk Management – Debt charge of \$150 K; 15 years, amortized at 4% interest rate
Capital Project Budget Increase (detailed in this Report)	\$1,438,000	\$1,438,000	Debt funded from lease savings – Debt charge of \$130 K; 15 years, amortized at 4% interest rate
Total	\$37,237,998	\$37,238,998	

Table 1 above is a summary of the revised project costs/funding. Table 2 as follows is a summary of the operating costs and existing lease savings.

Table 2

Summary of the Operating Costs and Existing Lease Savings

50 Main Street East Revised Operating Costs:

Estimated Energy and Utility Pay per Use Central Plant	\$114,000	Variable
Utility estimate per use remainder of building	150,000	Variable
Estimated Operating and Maintenance Costs	60,000	TBD
Capital Reserve Provision	96,290	
Estimated Facility Operating Costs (less Energy)	369,000	Variable
Subtotal	\$789,290	
Less Uncommitted POA Revenues:		
Current 50 Main Street East Operating and Maintenance Budget	\$322,000	
POA, Legal and Risk Management Uncommitted Lease	467,290	
Subtotal	\$789,290	
Net Operating Cost Impact	\$0	

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: 50 Main Street East Budget Update (PW18021 / FCS18024) (Ward 2 and City Wide) ~ Page 5 of 9

Lease Cost Savings Summary:

Sopinka Courthouse	\$430,000
Legal and Risk Management	317,290
Less Tenant Fit-ups debt financing of \$1.57 M	-150,000
Less Construction Capital Budget increase debt Financing of \$1.438 M	-130,000
Total	\$467,290

Total Debt Financing for 50 Main Street East:

Original Construction – Levy Debt Funded	\$ 7,700,000
HCE Infrastructure – Levy Debt Funded	4,900,000
Subtotal – Levy funded Debt	\$12,600,000
Original Construction – DC Debt Funded	\$ 2,300,000
Original Construction – Debt charges funded from POA Revenue Increase	17,480,000
Tenant Fit-ups – Debt charges funded from Lease Savings	1,570,000
Construction Capital Budget Increase Jan. 2018 – Debt charged funded from Lease Savings	1,438,000
Total Debt	\$35,388,000

As of 2017, the annual operating/maintenance budget for 50 Main Street East had not been updated since it was reduced due to its vacancy status and remained at the original \$322 k. Table 2, above, outlines how annual Operating Costs would be funded moving forward with zero net Operating Cost Impact at 50 Main Street East.

Staffing: There are no new staffing implications associated with this Report. Staffing for additional courts and Provincial Offences Administration (POA) operations was covered within the previous report, Relocation of POA Courtrooms and Offices (PED13204) (PW13079) (LS13035) (FCS13090) (City Wide), November 20, 2013. As it relates to Facilities operations and maintenance, there are no new staffing implications when this building comes back on line in 2018. Over the past five years we have seen an increase in the facilities stock to over 500 facilities, without the offsetting request to increase staff. This creates a gap in the relative needs in sustaining, maintaining and operating the building systems within the existing and the new stock of facilities. Meanwhile, existing facilities face a growing backlog of deferred capital. While recognizing the need to be frugal and responsible in managing resources, the staff originally stationed 50 Main Street East was redeployed during construction to help address the backlog at the other sites, this move provided management the flexibility to schedule work and avoid outsourcing of services at these sites thereby avoiding a higher cost. Staff will now be moved back to 50 Main Street East to operate & maintain the facility upon completion of construction.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Legal: There are no new legal implications associated with this Report. All agreements will be in a form acceptable to the City Solicitor. There will be no constructor issues under the Occupational Health and Safety Act as long as the same general contractor is used for all of the renovations at 50 Main Street East.

HISTORICAL BACKGROUND

On August 13, 2012, City staff was informed by then Ontario Realty Corporation (ORC) that this would be the final lease renewal of the John Sopinka Courthouse (JSCH). The reason provided was identified as the escalating and projected demands for courtrooms and related space in the JSCH.

On November 20, 2013, GIC approved the Recommendation Report (PED13204) (PW13079) (LS13035) (FCS13090) (City Wide), later approved by Council. This included approval and budget to renovate 50 Main Street East, which was approved as the new location of the Provincial Offences Administration (POA) courtrooms and offices on floors 1 and 2. On January 17, 2014 Information Report (PED13204b) (PW13079b) (LS13035b) (FCS13090b) (City Wide) first considered occupancy for the upper floors, floors 3 to 5, of 50 Main Street East. This included a preliminary assessment of some Divisions coming from lease which might be relocated to the upper floors.

The demolitions & renovations at 50 Main Street East began in early 2016, after being tendered to a Construction Manager. Under the Construction Management model, tendering of sub-trade construction packages were ongoing throughout the project to gain competitive pricing.

On June 7, 2017, GIC approved the Recommendation Report (PW17044) (Ward 2 and City Wide), later approved by Council. This included approval and budget to renovate floors 3 to 5 to accommodate Legal, Risk and Audit at 50 Main Street East. That work is commencing shortly and is anticipated to be completed within the required schedule.

Now early 2018, it is anticipated that all subcontractors on the current renovation project at 50 Main Street East will be approaching completion within the next 3 months, prior to City staff moving in early Q3 2018. The project is on schedule, however does require a budget increase. The remaining work covered by the budget increase cannot be easily completed once the POA Courthouse is occupied and operational. City staff are tentatively scheduled to move back into the building starting in June 2018 and regular POA operations are anticipated to commence late August 2018.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

➤ Budget Increase

In accordance with the Procurement By-Law and Appropriation Policy, staff is bringing this matter to Council since the project costs are anticipated to exceed the budget by more than \$250,000. The additional project budget of \$1.438M represents less than 4% of the total project budget.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

➤ Single Source

The recommendation of a single source is consistent with Procurement Policy #11, Non-competitive Procurements. A Request for Proposals was issued to secure the services of a Construction Manager. Eastern Construction Company Limited was the successful proponent and was awarded the contract. The Request for Proposals facilitated a competitive and transparent process as per the City's Procurement Policy and as recommended by the City of Hamilton Procurement Section.

➤ Facility Design

There are no new policy implications associated with the design of the facility. The facility design being implemented 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. A design that is consistent with Standards and Guidelines as well as heritage conservation was developed to address the interior renovations of all floors. The design also took into account all applicable policies (e.g. The Accessibility for Ontarians with Disabilities Act (AODA), Ontario Building Code (OBC), etc.) and develop an approach that minimizes impact on the heritage features and is compatible with heritage value.

RELEVANT CONSULTATION

The following Departments / Divisions / Sections have reviewed and contributed to this Report:

Corporate Services, Procurement

- Reviewed the procurement aspects of the Report.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following are some of the factors behind the requested budget increase:

1. Unforeseen expenses due to site conditions

Unforeseen unbudgeted expenses already completed (or started) included but were not limited to a \$2,633,721 overage compared to budget on items as follows in Table 3 below:

Table 3: Unforeseen expenses already completed (or started)

Description	Initial Cost Estimate	Resulting Tender / Cost	Overage (Unbudgeted)
Asbestos Abatement	\$ 383,472	\$ 966,944	\$583,472
Demolition	1,033,492	1,204,761	471,269
HCE Underground Pipe	0	349,998	349,998
Main Sewer Line Replacement, plus adjoining services and associated floor	0	275,000	275,000

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: 50 Main Street East Budget Update (PW18021 / FCS18024) (Ward 2 and City Wide) ~ Page 8 of 9

Generator in lieu of Alectra delay	100,000	290,000	190,000
Alectra electrical feed upgrade	186,153	223,135	36,982
Removal of contaminated soil	0	30,000	30,000
Unanticipated lead removal	0	20,000	20,000
Design, engineering & due diligence	1,636,000	1,780,000	144,000
Accommodation renos, floors 3 to 5	2,100,000	2,633,000	533,000
Total	\$5,439,117	\$7,772,838	\$2,633,721

2. Past value-engineering was successful but is complete

In an attempt to keep the project on budget, and overcome the set-back of unforeseen expenses, staff completed value-engineering with the Project Team wherever possible to bring the costs back in line with the overall Council-approved budget. This process of value-engineering was completed many times throughout the project. Examples include savings from removal of scope such as the retaining wall work, HVAC cost-savings on floors 3-5, etc. While this past work was successful at overcoming some of the unforeseen expenses to bring the project closer to budget, there is no remaining scope, time, or opportunity to complete any further value-engineering.

3. Funding gap required to complete the project

Despite successful value-engineering in the past to overcome some of the unforeseen expenses, the project team has a funding gap required to complete the project and pay all remaining project expenses as follows in Table 4.

Table 4: Remaining Project Expenses (Jan. 2018)

Description	Cost
Eastern PO Increase, Floors 3 to 5	\$2,633,000
Contingency and Fees for Floors 3 to 5	399,018
HCE underground pipe	349,998
IT	210,000
Moving Costs and Furniture	300,000
Invizij Design and Contract Admin	144,000
Invoice for extra from Alectra	36,982
Total	\$4,072,998
Available Funds Report (AFR)	2,635,000
Shortfall	-\$1,437,998

4. Avoiding schedule delay

Now early 2018, it is anticipated that all subcontractors on the current renovation project at 50 Main Street East will be approaching completion within the next 3 months, prior to City staff moving in early Q3 2018. The project is on schedule, however does require a budget increase.

The remaining work covered by the budget increase cannot be easily completed once the POA Courthouse is occupied and operational. Not approving the budget increase or delaying a budget increase would impact the project schedule. A delay to the project

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: 50 Main Street East Budget Update (PW18021 / FCS18024) (Ward 2 and City Wide) ~ Page 9 of 9

schedule could negatively impact move-in dates for staff and the start of POA operations. City staff are tentatively scheduled to move back into the building starting in July 2018 and regular POA operations are anticipated to commence late August 2018.

In summary, despite requests for additional funds, the reality is that the final project expense in cost per square foot is within the industry standard overall. Project costs for 50 Main Street East were less than \$340 per square foot. Looking at hard construction costs within the revised project budget, this equates to less than \$280 per square foot construction costs, and still includes items such as asbestos & lead abatement. This falls well within industry standard for this type of construction in a Courthouse. As an example of a similar retrofit, City Hall exceeded \$380 per square foot construction costs nearly 9 years ago, which is \$100 per square foot more than the expenditure at 50 Main Street East. The total unfavourable budget variance at 50 Main Street is less than 4% of the total project budget. Variance within 10% of the project budget is fairly typical for major construction, particularly where market rates may vary as an external factor and with inflation at an average of 2.5% per year.

ALTERNATIVES FOR CONSIDERATION

At this time, there are no alternatives for consideration.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Built Environment and Infrastructure

Hamilton is supported by state of the art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

None.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.