



CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
General Manager's Office
Economic Development Division
&
FINANCE AND CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division
&
PUBLIC HEALTH SERVICES DEPARTMENT
Planning and Business Improvement Division
&
OFFICE OF THE CITY MANAGER

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: Ward 2
COMMITTEE DATE: February 27, 2012	
SUBJECT/REPORT NO: Public Health Services Accommodation – McMaster Health Campus (PED11134(c) / FCS11063(c) / BOH11026(c) / CM11008(c)) (Ward 2)	
SUBMITTED BY: Tim McCabe General Manager Planning and Economic Development Department Robert Rossini General Manager Finance and Corporate Services Department Elizabeth Richardson, MD, MHSc, FRCPC Medical Officer of Health Public Health Services Department Chris Murray City Manager	PREPARED BY: Chris Philips, 905-546-2424, Ext. 5304 Bill Farkas, 905-546-2424, Ext 7019 Mike Zegarac, 905-546-2424, Ext. 2739 John Savoia, 905-546-2424, Ext. 7298 Teresa Bendo, 905-546-2424, Ext. 7999

RECOMMENDATIONS

- (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.
- (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; and,
 - (iii) Landlord obtaining its Board approval.
- (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.

EXECUTIVE SUMMARY

On January 9, 2012, staff presented Report PED11134(b) / FCS11063(b) / BOH11026(b), entitled “Public Health Services Accommodation – McMaster Health Campus” to the General Issues Committee (GIC), in which staff sought Council’s direction to enter into a lease agreement with Second Real Property Limited (Yale Properties) for a lease of 63,128 square feet of contiguous office space at 110 King Street West, Hamilton, encompassing Suites 200, 300 and 400 for the purpose of accommodating Public Health Services (PHS) staff consolidation.

In response, GIC referred this Report back to staff with the following direction:

- (i) delete the \$210,000 tax rebate fees;
- (ii) negotiate for 52,300 square feet of space only; and,
- (iii) negotiate a better per square foot deal with the School Board in terms of the transitional time that it will be occupying space in the Robert Thomson Building (RTB) as a sub-lease from the City.

This Report and its recommendations reflects the status of the negotiations between all parties, fulfils the direction given by GIC, and provides clear background and analysis of the issues raised by Committee. Specifically, this Report deals with the following issues:

1. How do the recommendations compare financially to the original direction approved at the August 9, 2011 GIC?;
2. What were the criteria used by staff in determining the alternative leasing locations and terms?;
3. What criteria are being employed by Public Health Services (PHS) in determining their long-term accommodation needs for their consolidated services?; and,
4. How does the recommended sub-lease to the HWDSB address its “swing-space” requirements?.

From a financial and a real estate leasing perspective, the recommendations directly align with the approval obtained at the August 9, 2011 GIC meeting, and the subsequent direction given at the January 9, 2012 GIC meeting: That is:

- Proposed lease is for 52,300 square feet, which is exactly the amount of space approved by GIC on August 9, 2011 and directed on January 9, 2012;
- Proposed total lease cost for the City of Hamilton’s PHS in Year 1 (2014) is \$18.36 per square foot, which is less than the estimated cost approved by GIC on August 9, 2011;
- Proposed \$1,407,325 budget for one-time costs for tenant “Fit-Up”, which is exactly the same as the budgeted amount approved by GIC on August 9, 2011; and,
- Proposed total lease cost of \$20.35 per square foot, for the “sub-lease” period, payable in its entirety, and including all municipal taxes by the HWDSB, is consistent with the approved GIC direction on January 9, 2012. The \$210,000 in property tax exemption has been eliminated.

Furthermore, based on the work of the Real Estate Division staff canvassing of Downtown core locations for available space to meet the Council direction, the subsequent negotiations have been based on staff’s research, discussions, and meetings with respective landlords. The recommendation to enter into an agreement with Second Real Properties Limited (Yale Properties) is based on their ability to provide the required suitable space. Therefore, it is staff’s best advice and recommendation that Council authorize the securing of a long-term lease for twenty (20) years, at 110 King Street West.

The City of Hamilton is not involved in any way with the agreement of purchase and sale between McMaster and the HWDSB for the 100 Main St. W. property. As part of their negotiations, both parties have a tentative agreement pertaining to the HWDSB’s interim “swing-space” costs, which also satisfies any Ministry of Education requirements. As well, the City of Hamilton has never been responsible for locating, negotiating or acquiring, temporary “swing-space” for the HWDSB, as the City’s role has only been in assisting the HWDSB.

The staff recommendation requests that Council authorize the “sub-letting” of this space in its entirety, to the HWDSB, for a period of two (2) years, commencing April 1, 2012 until March 31, 2014, as detailed at the January 9, 2012 GIC meeting.

Throughout the duration of this “sub-lease”, any and all rental payments attributable for this office space will be the sole responsibility of the HWDSB, and therefore, will have no financial impact on PHS’s accommodation requirements during this time. The HWDSB will pay the full rental rate, operating costs, and property taxes, as well as any customized, capital “Fit-Up” costs required for their purposes, accruing to the premises.

Both the HWDSB and McMaster University understand that even if the lease for the RTB and/or the “sub-lease” to the HWDSB are not approved, the HWDSB could still acquire suitable space on its own, and that this decision does not impact the GIC approvals of August 9, 2011 regarding the City’s contributions to the proposed McMaster Health Campus project.

However, if this staff report and its recommendations are approved, this represents a unique partnering opportunity for the City of Hamilton, the HWDSB, and, indirectly, McMaster University and facilitates the final transaction and development of the McMaster Health Campus.

The lease at 110 King Street West will allow for the long-term consolidation of PHS staff within the Downtown core, and, as a result of the timing of the newly proposed McMaster Health Campus (MHC) at 100 Main Street West, this lease will also provide for the availability of interim “swing space” for the HWDSB during the construction phase of their proposed new Education Centre.

Alternatives for Consideration – See Page 21

FINANCIAL / STAFFING / LEGAL IMPLICATIONS
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Financial:

Table 1 and Table 2 of Report PED11134(c)/FCS11063(c)/BOH11026(c)/CM11008(c)/, outlines the financial impact of changes in assumptions utilized for the financial analysis of the proposed new Downtown lease space for PHS consolidation (refer to Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) and Report PED11134(b)/FCS11063(b)/ BOH11026(b)).

Per the terms of the proposed lease, the following assumptions have been updated from that presented at the August 9, 2011 and January 9, 2012 meetings of the GIC:

- Proposed rentable square footage of 52,300 square feet (previously 52,293 square feet identified in August 2011 and 63,128 square feet identified in January 2012);
- Year 1 of City occupancy assumed to be Spring of 2014 from 2013;
- Year 1 (2014) lease cost (inclusive of operating costs) is estimated to be \$18.36 per square foot (inflated to 2014\$) versus 2013 Year 1 City occupancy \$19.00/square foot in August 2011 and \$19.36 in January 2012;
- \$1,407,325 budget for one-time costs for tenant fit-up remains unchanged from August 2011; and,
- No requirement to pay \$210,000 in property tax rebates.

Table 1 of Report PED11134(c)/ FCS11063(c)/BOH11026(c)/ CM11008(c) reflects that based on the proposed lease terms, rentable square footage inflated to 2014\$, there will be a lower annualized lease cost for the Year 1 operating budget of \$33,339 than originally identified in August 2011. As identified in Table 1 below, the slight decrease in the rental rate represents a reduced operating pressure in Year 1 of \$33,339. Based on previous discussions, it is also assumed that the Ministry of Health will not provide increased funding related to increased PHS accommodation costs.

TABLE 1: REVISED YEAR 1 LEASE COST AT ROBERT THOMPSON BUILDING

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)
Annual Lease Cost	\$ 993,567	\$ 1,222,158	\$ 960,228	\$ (33,339)
* Includes operating costs with 3% inflation from 2012 cost estimate				
2014 \$18.36 cost = \$7.00 base rent + \$11.36 estimated operating costs				

Table 2 of Report PED11134(c)/FCS11063(c)/BOH11026(c)/CM11008(c) reflects base rent increases of \$2 per square foot as set forth in the proposed lease. As a result, there will be a budgetary pressure with each year of base rent escalation amounting to \$104,600 for each occurrence (2016, 2020, and 2026) with operating costs being a flow through cost item to the City. It should be noted, that base rent escalation is common within long-term leases and that the 2028 base rent of \$14.00 per square foot is competitive with base rents available in the Downtown core in 2011.

TABLE 2

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

Table 3 of Report PED11134(c)/ FCS11063(c)/BOH11026(c)/CM11008(c) reflects that, the total fit-up costs for the new Downtown leased space for PHS will be accommodated within the original identified budget of \$1,407,325. Per the proposed lease, there is a landlord inducement of \$10 per square foot for the Phase Two (final “fit-up” for PHS) tenant improvements which reduces the gross cost of \$1,772,153 by \$523,000 to \$1,407,255.

It should be noted, PHS will be submitting a request to the Ministry of Health and Long Term Care for one-time funding to assist with the one-time costs associated with the PHS consolidation plan which may lower the City’s costs in this regard.

Per Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a), the total capital requirements identified for the PHS consolidation plan was a total \$4.22 million less the estimated proceeds of a City owned PHS location that will be vacated in 2014 with an appraised value of \$1.8 million for a net cost of \$2.42 million.

TABLE 3

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)
Total Tenant Fit-Up Costs	\$ 1,407,325	\$ 1,772,153	\$ 1,407,325	\$ -

* In August 2011, assumed \$25/sq ft + \$100,000 for professional fees
 ** Landlord inducement of \$10 per sq ft for Phase 2 tenant improvements

Financial Summary

In Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) provided in August 2011, staff identified that in Year 1 of the lease, the estimated budget pressure would amount to \$520,337 (i.e. the increase in Public Health’s operating budget). The operating budget pressure of \$520,337 included the costs for Year 1 of the proposed lease, the incremental City paid parking costs for PHS staff (estimated at \$191,000) and the one-time fit up financing costs. As per Table 1 of Report PED11134(c)/ FCS11063(c)/BOH11026(c)/CM11008(c), the operating budget pressure Year 1 is estimated to be \$486,998 (\$520,337 less \$33,339 in lower lease costs).

- Year 1 Operating Costs will be \$33,000 lower than estimated in August 2011;
- Net One-time Capital Costs total of \$1.4M - represents no change from August 2011; and,
- Tax Impact of PHS consolidation plan essentially unchanged from August 2011 at 0.08% or \$2.12 per household.

Staffing:

There are no increases to staff levels associated with the recommendations of this Report.

Legal:

Legal Services Division will be involved in the review and approval of the commercial lease and sub-lease and, if not already completed, will provide its assistance in designation of the premises as a Municipal Capital Facility under Section 110 of the Municipal Act.

Yale Properties Outstanding Litigation

As outlined in Report PED11134(b)/FCS11063(b)/BOH11026(b), entitled “Public Health Services Accommodation – McMaster Health Campus”, Yale Properties, the owner of the RTB located at 110 King St. W, has outstanding litigation against the City of Hamilton. Legal Services is preparing a separate report on this issue that will also be presented at the February 27, 2012 GIC meeting.

HISTORICAL BACKGROUND

Detailed background information was presented in Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) at the August 9, 2011 GIC. The report and subsequent Committee direction, addressed various issues relating to the proposed MHC, but generally speaking, the report focussed on three (3) distinct elements:

1. A direct City of Hamilton contribution of \$20 million towards the MHC project, as well as other indirect contributions;
2. A City of Hamilton commitment to integrate a portion of PHS staff within the MHC project, by way of a long-term lease with McMaster; and,
3. The consolidation of other core PHS staff and services, to a central location, within the Downtown Hamilton, by way of a new long-term lease.

Formally, Committee addressed the issue of the consolidation of PHS through the approved direction contained in recommendation (c) of Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a), as follows:

“That staff be authorized and directed to negotiate standard commercial leases for dedicated and shared space as per Option 1 (shared clinic space up to 11,000 square feet at MHC (excluding dental), up to 19,000 square feet PHS dedicated space at MHC, up to 52,300 square feet PHS consolidation into new leased downtown core location including dental clinic, and retain two downtown existing leased space. New leased

Central mountain location required to relocate existing sexual health clinic located at the Upper Ottawa site) in the MHC for a term of 30 years, with the option of three five-year renewals, as well as, for new Downtown and Mountain leased location sites by April 30, 2012.”

This Report, and recommendations, deals solely with the issues relating to the consolidation of core PHS staff and services to a central location, within Downtown Hamilton, by way of a new long-term lease.

POLICY IMPLICATIONS

2.1 City Accommodation Strategy

Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 GIC, highlighted a May 9, 2005 Committee of the Whole approval of a short to mid-term accommodation strategy incorporating several directions and principles. The staff recommendation is consistent with (a) and (c) of these principles, as follows:

- (a) That consolidation of office space for all Departments be focused in the Downtown Core Area in as few building locations as practical and economically viable.
- (c) That the Downtown Core consolidations be strategically chosen and linked to maximize efficiencies within and between Departments and to enhance customer service delivery, and that any associated financial enhancements be identified for the 2006 Budget.

2.2 Portfolio Management Strategy Plan

Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 GIC, highlighted the Portfolio Management Strategy Plan. The staff recommendation is consistent with this policy, as approved by City Council on November 24, 2004 and Procedural By-Law No. 04-299.

2.3 City’s Policy respecting Contracting with Parties involved in Litigation with the City of Hamilton

Council passed the following Motion on March 26, 2008 as follows:

“City’s Policy respecting Contracting with Parties involved in Litigation with the City of Hamilton

- (a) That the City temporarily waives its policy respecting contracting with parties with whom it is engaged in litigation as it would apply to Yale properties in order to:

- (i) continue its current tenancies with Yale Properties on a short-term basis;
 - (ii) continue discussions with Yale Properties with the goal of establishing a mutually-advantageous solution which will enable the City and Yale properties to resolve the on-going litigation, enter renewed longer-term leases and/or further leases and have a sound business relationship going forward into the future.
- (b) That the General Manager of Public Works and the City Solicitor report back to the Committee of the Whole with respect to this matter no later than the end of September 2008.”

RELEVANT CONSULTATION

- City Manager’s Office
- City Manager’s Office, Legal Services Division
- Public Works Department, Facility Services Division
- Public Health Services Department, Planning and Business Improvement Division
- Corporate Services Department, Financial Planning and Policy Division
- Hamilton-Wentworth District School Board
- McMaster University

ANALYSIS / RATIONALE FOR RECOMMENDATION

3.0 Real Estate – Criteria, Alternatives, and Assessment for PHS Lease

At the January 9, 2012 GIC, staff presented Report PED11134(b)/FCS11063(b)/BOH11026(b), recommending Committee’s approval to enter into a lease agreement with Second Real Property Limited (Yale Properties) for contiguous office space in the RTB, located at 110 King Street West, Hamilton, encompassing Suites 200, 300 and 400 for the purpose of accommodating Public Health Services (PHS) staff consolidation.

During the GIC meeting, Committee members asked staff a series of questions pertaining to the criteria used, the alternatives considered, and an analysis of the recommended leasing option. Staff have prepared the following analysis in response.

3.1 Unsolicited “*Expression of Interest*” (EOI) from Yale Properties Ltd.

On July 6, 2011, Members of Council received correspondence from Yale Properties Limited (Yale Properties), through an unsolicited “*Expression of Interest*” (EOI) (included as Appendix “B”), identifying available and contiguous office space in the RTB, located at 110 King Street West. The proposed EOI offered the “as-is” space at a gross rental rate of approximately \$19.00 per square foot.

Although staff did not respond to the EOI or make a specific leasing recommendation at that time, the configuration, proximity, availability, and the financial leasing terms identified for the 110 King Street West property, were established by City staff as a “base-case” for comparison purposes, and formed the basis for the staff recommendations presented at the August 9, 2011 GIC.

3.2 Criteria Used to Evaluate Leasing Options within the Downtown

Based on Council direction, staff representing Real Estate, PHS, and Facilities, canvassed the Downtown core for available commercial space that would be suitable for the purposes of consolidating PHS’s staff and operations. The criteria employed to determine viable options for the space requirements and needs of the parties were based on the following parameters:

1. Total approximate available space of 52,300 square feet;
2. A lease commencement date of April 30, 2012; and,
3. The degree to which the space was “contiguous”.

Defined as being either “multiple suites/spaces within the same building and on the same floor which can be combined and rented to a single tenant”, or “a block of space located on multiple adjoining floors in a building (i.e., a tenant leases floors 6 through 12 in a building, for example).

In general terms, since the purpose of the direction was to “consolidate” PHS operations, staff were looking to have as much of the space as possible located in the same suites and/or buildings as possible. A single landlord, with three (3) contiguous floors would be preferable under these criteria, compared to the same single landlord that had to assemble multiple floors in multiple buildings.

4. Estimated “Total Lease” Costs and Total “Fit-Up” Costs:

Lease costs can be communicated in different ways by different property owners and leasing agents.

For the purposes of this analysis, staff defined the “Total Lease Costs” as being the “Base Rent” amount plus the anticipated “Operating Costs”

Base Rent + Operating Costs = Total Lease Costs

Generally, known as the “Gross Lease”, this calculation reflects the rental rate plus the costs associated with the operation of the property. These costs may include items such as insurance, repairs, utilities, cleaning, taxes, and maintenance. Since these

“Operating Costs” can reflect a large percentage of the total lease costs, and may be variable year-over-year, staff relied on the Total Lease Costs as a basis of comparison.

As noted in the August 9, 2011 GIC Report, staff’s budget estimates were based on a “Total Lease Cost” of \$19.00 per square foot.

Staff defined the total “Fit-Up” costs as the improvements needed to the leased premises by the City in order for it to be suitable for the PHS needs. Also known as “Tenant Improvements”, these would include hard costs such as the physical construction of walls, lighting, flooring, IT cabling, electrical outlets, as well as other “soft-costs” such as design, project management and moving costs.

It’s important to note that “Fit-Up” costs would vary depending on the specific space and the final user. For example, a corporate call-centre may have different electrical and IT demands than a public health clinic would. As well, even in a normal office environment, a floor that contains 50 employees, offices, board rooms, and reception areas, would have different “Fit-Up” needs than if the same 50 employees were to be housed in one open space with cubicles.

For the purposes of this analysis, Real Estate and PHS staff were assisted by the City’s Facilities Services staff, to ascertain a high-level estimate for the “Fit-Up” costs required for the different sites. As noted in the August 9, 2011 GIC Report, these “Fit-Up” costs are reflected as “one-time” costs, with an overall budget estimate of \$1,407,325.

5. Proximity to the proposed McMaster Health Campus:

Similar to the “Contiguous Space” criteria, since the purpose of the direction was to “consolidate” PHS operations, staff assessed the various locations on the proximity to the proposed MHC, to be located at 100 Main St. W. For operational purposes, a location across the street from the MHC was preferable to a location that was several blocks away. Of the five (5) criteria used, staff recognized that this was the most subjective in nature, and therefore ranked lower for the high-level analysis.

3.3 Sites Reviewed by Real Estate, Facility, and PHS Staff

Based on the criteria and using internal resources, staff canvassed the Downtown for available commercial space. The following is a summary of the various sites that were reviewed by Real Estate, Facility, and PHS staff.

Blair Blanchard Stapleton:

Their real estate portfolio data base did not identify any potential office space that would meet the criteria as set out above.

City Centre (formerly owned by Fercan Developments):

Although the property owner identified 50,000 – 55,000 square feet of vacant office space within the building, the space conforming to the criteria was not available. Vacant space within this facility is currently listed with Colliers Macaulay Nicolls Inc., Brokerage. The lease rate identified pursuant to their listing is \$20.00 per square foot gross, with utility and cleaning costs additionally applied.

Yale Properties Limited:

Yale Properties Limited has a number of buildings within its portfolio within the Downtown core.

The former Bank of Montreal Pavilion at 1 James Street North comprising approximately 46,000 square feet of useable space was determined to be unavailable by the property owner.

The former “Stelco Towers” located at 100 King St. W, contains several of the upper floors (16-24) available for lease with floor plates (meaning the total square footage per floor) ranging from 16,249 square feet to 16,980 square feet. Suites 1700, 1800 and 1900 which combined approximately 50,966 square feet of rentable area was identified as suitable. The estimated Tenant Improvement cost to fit-up the space is estimated at \$50.00- \$53.00 per square foot, for an estimated total of \$2,548,300 - \$2,701,198.

RTB located at 110 King St. W., contains Suites 200, 300 and 400, comprising a gross rentable area of 21,088.6 square feet of second floor, 21,019.58 square feet on each of the third and fourth floors, for a combined total square footage of approximately 63,128. This space was deemed suitable by staff.

Park Place Real Estate Limited Partnership (Aragon) – “The Right House”:

Park Place Real Estate Limited Partnership owns the “Right House Building”, located at 35 King St. E. / 1 Hughson Ave. N., and contains an area of approximately 53,592 square feet. At the time of the review, the City of Hamilton was occupying some 53,592 square feet, with 18,129 square feet for Community Services (CS), and 35,463 square feet for PHS. With the completion of the new “Lister Block” in 2012, the current CS staff will be vacating their 18,129 square feet of space, and therefore as part of this review, the property owner has listed this space and also the space occupied by PHS for lease, with a six-month notice for possession.

As detailed in previous reports, the need to consolidate the staff and operations of PHS has been analyzed dating back to 2005. From the “*Education Square*” proposal, to the “*Lister Block*”, to the jointly proposed “*King William*” project, the Portfolio Management Committee has been consistent in trying to both consolidate the PHS staff, as well as

ensure a location and space that meets their operational needs. Although PHS currently occupies 35,463 square feet of space within this facility, staff does not believe this property can meet the long-term operational needs for a fully consolidated PHS Department in an effective way, on the basis of the criteria discussed throughout this Report.

MLS Listing Search

In addition, staff also researched the geographical market area through the use of the current MLS Listings and IXC.ca (Canada’s Gateway to Commercial Real Estate), in order to further expand the search for commercial space availability.

Table 4 represents a summary of the various sites that were reviewed by Real Estate, Facility, and PHS staff.

TABLE 4

Municipal Address	Total Square Footage	Use	Style
31 King St.	14,474	Instl. Office	Multi Storey
(Aragon)	7,343		
225 King William	1,474	Office	Free Standing
(Amity Goodwill)	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.	1,395	Instl, Office	Multi Unit
(Aragon)	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	
54 Hess St. S.	1,700	Office/Retail	Multi Unit
151 York Blvd.	1,250	Office	Multi Unit
RTB 110 King St. W.	63,057	Office	Multi Unit

3.4 Comparative Lease Rates and Operating Costs of Various Sites

Again, following the criteria, in order to compare Total Lease Costs, Real Estate staff undertook a survey of the “Base Rental Rates” and corresponding “Operating Costs” for the various sites.

Table 5 represents a summary of the various sites used as comparables to existing rental rates.

TABLE 5

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 St. W.	\$13.00	\$11.75	\$24.75
Standard Life (120 King St.)	\$10.00-\$12.00	\$13.25	\$23.25-\$25.25
One Main St. 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

- 2011 Downtown Survey, prepared by Blair Blanchard Stapleton Limited.
- Focus of survey is mid to large scale Class “A” & “B” office buildings in the Downtown core of Hamilton.

3.5 Conclusion and Real Estate Assessment

Overall, the staff analysis identified only a few buildings containing sufficient leaseable space in a configuration that would fit the PHS consolidation and operational needs. Financially, the analysis also shows that the asking comparable lease rates range from \$20.00 per square foot to a high of \$31.00 per square foot.

Staff believes that the recommended actions are consistent with the overall direction given by Council, and that the leasing option recommended reflects fair market value, for the size and type of office space, within the Downtown core.

4.0 The Consolidation of PHS Operations

PHS has pursued consolidation for more than nine years and has done so in order to improve client service, staff accommodation and productivity.

Currently, staff work in geographical and program silos. With the implementation of the Ontario Public Health Standards (OPHS), corporate priorities, and strategies that span the Department, there is an identified need for all programs to work more collaboratively and integrate departmentally. Working in different locations throughout the City does not allow for such integration. Consolidating staff, predominately located in one location, will allow staff in different programs to have a better understanding of all public health services, collaborate on OPHS and departmental initiatives that cross programs and divisions, and increase the referral of clients to other beneficial programs within PHS.

For example, currently throughout many of the PHS locations, PHS offices do not have reception areas or private consultation areas, to welcome and serve clients. This makes the client experience confusing, frustrating, and lacks personal interaction. Additionally, since some clients may require several different PHS services, they may need to attend multiple PHS locations, and thereby causing further confusion.

There are a number of areas of opportunity for PHS to more appropriately and better accommodate staff to encourage and realize increased productivity. These include:

- decreasing staff travel costs traveling from location to location;
- providing on site large group meeting space currently paid for at off-site locations;
- providing space for temporary short term staff, medical residents and other learners;
- providing more appropriate supervision of the West Nile Virus (WNV) lab and better access to Managers and Directors for staff; and,
- decreasing administrative transactions.

4.1 PHS Consolidation within the Robert Thompson Building (RTB)

From a PHS perspective, the RTB provides the right amount of contiguous office space, that can be easily and cost effectively configured to meet both operational and servicing requirements, while also being in close proximity to the MHC.

PHS and Facility Services staff have worked to ensure that the 52,300 square feet of space proposed within the RTB, will be utilized in the most efficient manner. The size of the individual floors has even allowed staff to utilize space in a way that even surpasses the efficiency found during the renovation of City Hall.

Simply, the recommended site's size, set-up, location, and total cost estimates, match the overall goals of the consolidation.

It also provides many other benefits important to the delivery of public health services including:

- a loading dock which is directly accessible and immediate access to a freight elevator;
- a floor plate which allows multiple teams from different divisions to be located on one floor to support our need for increased collaboration across PHS teams;
- a floor plate which is able to efficiently accommodate both offices and workstations;
- office space which is able to accommodate the weight of our vaccine refrigerators, and high density client file storage;
- office space which is able to support the heating, cooling, ventilation needs of high density staff workstations; and,
- reliable back up energy supply to service vaccine refrigerators during power outages and for emergency response.

4.2 Review of the Current PHS Accommodation and Assessment – June 2010

As part of the planning for an eventual consolidation of PHS's accommodation needs, McGregor Design Group was engaged in June 2010, to provide their observations and opinions regarding the current PHS facilities, and was asked to recommend solutions that could lead to a more effective use of PHS's accommodations. The facilities visited were the following:

- 35 King St. E./1 Hughson St. N. (2nd, 3rd, 4th and 6th floors)
- 4 Hughson St. S.
- 2 King St. W.
- 1447 Upper Ottawa St.
- 2255 Barton St.
- 250 Main St. E.
- 100 Main St. E.
- 21 Hunter St.

Through this review McGregor Design had estimated that PHS would require an investment of approximately \$3.78 M to comply with code standards and accommodate staff growth, and functional requirements within the existing facilities. The estimated construction cost to renovate and meet code standards was estimated at \$35.00 per square foot, and further, any expansion of these facilities would require an estimated \$65.00 per square foot.

Specifically, the McGregor report identified the following examples of deficiencies that would need to be addressed at these facilities if PHS was to maintain them for the longer term:

- Poor air quality and temperature control in most locations, as most of the facilities were not designed to be offices;
- Space constraints in some locations resulted in convoluted and “maze-like” floor plates, that result in less efficient utilization of space;
- Incremental growth in some locations has resulted in the creation of “dead-end” and narrow corridors;
- Space limitations and outdated design has resulted in mobility challenges as some spaces are too tight to provide acceptable AODA turning radius for wheelchairs or walkers, for visitors or handicapped staff;
- Inadequate size and number of meeting rooms, resulting in rental of off-site space; and,
- Some locations have inadequate or non existent private counselling and file storage areas due to space limitations, making for narrow corridors that are potentially not safe for staff or visitors.

The conclusion was that significant capital costs would be incurred to “fit-up” much of the current PHS accommodations to meet today’s operational standards. And based on further discussions with space planners, architects, and other professionals, it is not clear that any of these locations could actually accommodate all the staff, as well as the specialized requirements for clinics, vaccination, and file storage space.

5.0 McMaster Health Campus Project – McMaster University – HWDSB

At the January 9, 2012 GIC, staff presented Report PED11134(b) / FCS11063(b) / BOH11026(b), recommending Committee’s approval to enter into a long-term lease constituting twenty (20) years, at 110 King St. W., and that Council authorize the “sub-letting” of this space in its entirety, to the HWDSB, for a period of two (2) years and two (2) months, commencing January 1, 2012 until March 31, 2014.

Throughout the duration of this “sub-lease”, any and all rental payments attributed for this office space will be the sole responsibility of the HWDSB, and therefore, will have no financial impact on PHS’s accommodation requirements during this time. The

HWDSB will pay its full proportionate share of operating costs and property taxes accruing to the premises.

During this session of GIC, Committee members asked staff a series of questions pertaining to the details of all arrangements between the City, the HWDSB, and the McMaster Health Campus (MHC) proposal. Staff has prepared the following in response:

5.1 Specific Requirements for the HWDSB’s “swing-space”

From the outset of discussions between the City of Hamilton, McMaster University, and the HWDSB, it has been known that based on the proposed timing of the new MHC project at 100 Main St. W., the HWDSB would require a short-term lease to accommodate current staff that would be displaced during the construction of both the new MHC and any new HWDSB Education Centre.

With the City’s Real Estate and Urban Renewal staff acting as a resource for their search, the HWDSB assumed they would require approximately 50,000 square feet of general commercial office space, for a period of approximately two years, starting in April 2012 until March 2014. As detailed in section 3.0 of the Analysis section of this Report, HWDSB staff were privy to the same leasing options, availability, and costing that were studied by the City’s Real Estate staff. In fact, the HWDSB’s options were even more limited, with several identified property owners being uncertain to the prospect of a “short-term” lease.

5.2 What is the City’s Role in Determining the HWDSB’s “swing-space”?

The City of Hamilton is not involved in any way with the agreement of purchase and sale between McMaster and the HWDSB for the 100 Main St. W. property. As part of their negotiations, both parties have a tentative agreement pertaining to these interim “swing-space” costs, which also satisfies any Ministry of Education requirements. As well, the City of Hamilton was never responsible for locating, negotiating or acquiring, temporary “swing-space” for the HWDSB.

Recognizing that McMaster University is responsible for the overall cost of the HWDSB’s “swing-space”, as it adds to McMaster’s overall purchase price for the 100 Main Street West property, City staff actively facilitated discussions with all parties, to assist in meeting the timelines, space requirements, and budget constraints for the required “swing space”.

During the City’s lease negotiations, City staff recognized that the office-space requirements and needs of the City’s PHS were similar in nature to those of the HWDSB. Therefore, City staff started to focus on ways in which the HWDSB could temporarily locate its operations to the exact same location as the anticipated PHS

consolidation. It was thought that if this could be accomplished, the City would leverage its own lease and tenant improvement investments in a way that would reduce the potential impacts for the HWDSB and their short-term “swing-space” costs. Simply put, the City was in a better position than the HWDSB to negotiate lease terms.

To be clear though, City staff have consistently expressed to both McMaster University and the HWDSB, that the City of Hamilton has no responsibility for locating, negotiating or acquiring, temporary “swing-space” for the HWDSB.

Further, both the HWDSB and McMaster University understand that even if the lease for the RTB and/or the “sub-lease” to the HWDSB are not approved, the HWDSB could still acquire suitable space on its own, and that this decision does not impact the GIC/Council approval of August 2011 regarding the MHC.

5.3 Sub-Lease to the HWDSB for “swing-space” – Who Pays for What?

Throughout the duration of this “sub-lease”, any and all rental payments, operating costs, and customized capital “Fit-Up” costs, attributed for the entire 52,300 square feet of office space, will be the sole responsibility of the HWDSB. Therefore, throughout the term of the sub-lease, the HWDSB would be responsible for a total cost of \$20.35 per square foot, calculated as (\$7.00 Base Rent + \$13.35 Operating Costs), for a total of \$2,128,610 over the two-year period.

As a tenant in a commercial lease arrangement, the HWDSB will also be responsible to pay their full proportionate share of property taxes accruing to the premises, which is already calculated and included as part of the \$13.35 in Operating Costs.

From a City perspective, this means that there is no subsidy from Hamilton taxpayers for any or all of the direct costs of the HWDSB’s “swing-space” requirements.

As mentioned in the January 9, 2012 Report, the City’s new long term lease for the RTB will trigger the identified \$1,419,901 in one-time “Fit-Up” costs for the purposes of consolidating and accommodating the City’s PHS staff into the 52,300 square feet of space for RTB. This “Fit-Up” design and implementation is led by the City’s PHS, with support from Facility staff, and is focussed solely on the City’s PHS needs.

These one-time “Fit-Up” costs were budgeted for within the 2012 Capital Budget, and were always anticipated to be spent in the first year of occupancy. Staff’s recommendation to “sub-lease” this space to the HWDSB would only mean that the “Fit-Up” costs are incurred prior to the City’s PHS occupying the space.

The HWDSB would be solely responsible for any and all additional “capital customization” costs of this space, beyond what the needs of PHS would be. Further,

the HWDSB would also be responsible for any and all costs of returning the space back to its original state as designed and required by PHS.

Lastly, staff's recommendation is clear that the "sub-lease" has both a fixed commencement, but also a fixed termination date (April 1, 2012-March 31, 2014), meaning the HWDSB is fully responsible to ensure the property is vacated on time.

5.4 Status - McMaster University – HWDSB Property Transaction

The agreement of purchase and sale between McMaster and the HWDSB has been signed and negotiated to the point where both parties have agreed to all substantive issues. All conditions under the agreement have been waived, save and except for the final condition requiring HWDSB to enter into a lease for interim accommodation.

McMaster University and the HWDSB have agreed that if the staff recommendations concerning the long-term lease in the RTB and the subsequent sub-lease are approved, they will immediately waive the final condition, and their agreement will be a firm (unconditional) and binding obligation between the parties.

If the staff recommendations are not approved, the final condition requiring HWDSB to enter into a lease for interim accommodation will continue to be unresolved, likely postponing the timing of the purchase transaction, as the HWDSB will have to find another location for its temporary "swing-space" needs.

ALTERNATIVES FOR CONSIDERATION

Alternative 1: Approve the Lease with Second Real Property Limited, as recommended.

The staff recommendation follows the August 9, 2011 direction, as outlined:

"...negotiate standard commercial leases for...up to 52,300 square feet PHS consolidation into new leased downtown core location..." Real Estate staff believes that due to the limited supply of contiguous office space within the Downtown core, the recommended option is the only workable option that allows for the consolidation of PHS, as outlined in the August 9, 2011 report. Real Estate staff also is of the view that the leasing rates, operating costs, and terms, are consistent with the current marketplace for like-space within the Downtown core.

Both from a financial and a real estate leasing perspective, the recommendations directly align with the approval obtained at the August 9, 2011 GIC meeting, and the subsequent direction given at the January 9, 2012 GIC meeting:

- Proposed lease is for 52,300 square feet, which is exactly the amount of space approved by GIC on August 9, 2011 and directed on January 9, 2012;
- Proposed total lease cost for the City of Hamilton's PHS in Year 1 (2014) is \$18.36 per square foot, which is less than the estimated cost approved by GIC on August 9, 2011;
- Proposed \$1,407,325 budget for one-time costs for tenant "Fit-Up", which is exactly the same as the budgeted amount approved by GIC on August 9, 2011; and,
- Proposed total lease cost of \$20.35 per square foot, for the "sub-lease" period, payable in its entirety, and including all municipal taxes by the HWDSB, fulfilling the approved GIC direction on January 9, 2012. Accordingly, the requirement to pay \$210,000 in property tax rebates has been eliminated.

This option also allows for the leveraging of resources between the City of Hamilton, the HWDSB, and McMaster.

Alternative 2: Do not approve the Lease with Second Real Property Limited

Not approving the staff recommendations at this time simply delays the decision to consolidate PHS into a new location Downtown. Although a delay in approval could give staff further time to investigate potential leasing options, possibly to begin an RFP process, Real Estate staff believe that the current market conditions within the Downtown indicate a lack of supply of contiguous or suitable office space to meet the proposed PHS consolidation needs.

Since the staff recommendations represent fair market value for money in terms of the leasing rates, operating costs, and terms, it is possible that a delay in approval could actually result in a future "Offer to Lease" being more expensive for the City than the current recommendation.

Both the HWDSB and McMaster University understand that even if the lease for the RTB and/or the "sub-lease" to the HWDSB are not approved, the HWDSB could still acquire suitable space on its own, and that this decision does not impact the GIC/Council approvals of August 2011 regarding the MHC. But, this will result in a further delay in the 100 Main St. W. property transaction, as the HWDSB will have to find another location for its temporary "swing-space" needs.

CORPORATE STRATEGIC PLAN

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ◆ An effective work environment that enables effective communication, respectful culture, well-being and safety.
- ◆ Council and Senior Management Team are recognized for their leadership and integrity.

Financial Sustainability

- ◆ Lease costs will be secured.
- ◆ Generate assessment growth/non-tax revenues.

Growing Our Economy

- ◆ Improved customer service to clients and community stakeholders who use the Career Development Centre.

Social Development

- ◆ Residents in need have access to adequate support services.

Healthy Community

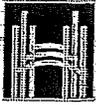
- ◆ Compatible uses and/or social services are located within close vicinity.

APPENDICES / SCHEDULES

Appendix "A": Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) - McMaster Health Campus Proposal - McMaster University

Appendix "B": Letter from Yale Properties Limited dated July 6, 2011, entitled "Expression of Interest, Public Health Department"

WF/CP/sd/dt



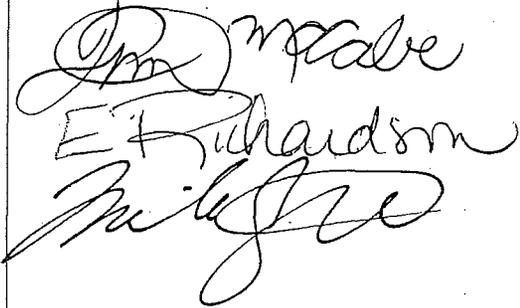
Hamilton

CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Economic Development Division
 &
CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division
 &
PUBLIC HEALTH SERVICES DEPARTMENT
Planning and Business Improvement Division

<p>TO: Mayor and Members General Issues Committee</p>	<p>WARD(S) AFFECTED: Ward 2</p>
<p>COMMITTEE DATE: January 9, 2012</p>	
<p>SUBJECT/REPORT NO: Public Health Services Accommodation – McMaster Health Campus (PED11134(b) / FCS11063(b) / BOH11026(b)) (Ward 2)</p>	
<p>SUBMITTED BY:</p> <p>Tim McCabe General Manager Planning and Economic Development Department</p> <p>Robert Rossini General Manager Finance and Corporate Services Department</p> <p>Elizabeth Richardson, MD, MHSc, FRCPC Medical Officer of Health Public Health Services Department</p>	<p>PREPARED BY:</p> <p>Chris Phillips, 905-546-2424, Ext. 5304 Bill Farkas, 905-546-2424, Ext 7019 Mike Zegarac, 905-546-2424, Ext. 2739 John Savoia, 905-546-2424, Ext. 7298 Theresa Bendo, 905-546-2424, Ext. 7999</p>

SIGNATURE:



RECOMMENDATIONS

- (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 21,088.6 square feet of second floor, 21,019.58 square feet each for the third and fourth floors, for a combined total square footage of approximately 63,128 square feet;
 - (iii) **Rental Rate:** From the date of commencement, being January 1, 2012, the Base Rental rate shall be:

Years 1 and 2 at \$6.00 per square foot;
Years 3 and 4 at \$8.00 per square foot;
Years 5 to 8 at \$10.00 per square foot;
Years 9 to 14 at \$12.00 per square foot;
Years 15 to 20 at \$14.00 per square foot;
 - (vi) **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.

- (b) That staff report back prior to March 31, 2014 identifying options to mitigate financial pressures in one-time costs as well as the change in the gross rentable area identified in Recommendation a (ii) above relative to the estimated gross rentable area identified in Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a).
- (c) That Real Estate staff of the Planning and Economic Development Department be authorized and directed to sub-lease the whole of the premises to the Hamilton-Wentworth District School Board and McMaster University during the term commencing January 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;
- (d) That the General Manager of Finance and Corporate Services be authorized and directed to rebate the municipal realty tax component to the Hamilton-Wentworth District School Board and McMaster University during the term of occupation of the leased premises estimated at \$1.67 per square foot (2011 to be funded through the Tax Stabilization Reserve 110046);
- (e) That Legal Services be authorized to prepare a by-law under Section 110 of the Municipal Act to propose the leased space to become a City Capital Facility, whereby the City would be exempt from paying Realty Taxes at this location commencing June 1, 2014;
- (f) That Council agree to waive its policy respecting Contracting with Parties involved in Litigation with the City of Hamilton, as related only to this subject lease with Second Real Property Limited.
- (g) That all rent and operating costs be funded from Account 55358-677500;
- (h) 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;
- Ministry of Education approval of the sale of 100 Main Street West from the Hamilton-Wentworth District School Board to McMaster University;
 - Landlord obtaining a Surrender of Lease from the existing Tenant; and
 - Landlord obtaining its Board approval.
- (i) That the General Manager of the Public Works Department, 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, in a form satisfactory to the City Solicitor.

- (j) That the Mayor and City Clerk be authorized and directed to execute the agreement as outlined in Report PED11134(b) / FCS11063(b) / BOH11026(b) as recommended in Recommendation (i) above.

EXECUTIVE SUMMARY

This Report seeks Council's direction to enter into a lease agreement with Second Real Property Limited for lease of 63,128 square feet of contiguous office space at 110 King Street West, Hamilton, encompassing Suites 200, 300 and 400 for the purpose of accommodating Public Health Services (PHS) staff consolidation.

This Report represents a unique partnering opportunity for the City of Hamilton, the Hamilton-Wentworth District School Board (HWDSB) and McMaster University (McMaster). The lease at 110 King Street West will allow for the long-term consolidation of PHS staff within the Downtown core, but because of the timing of the newly proposed McMaster Health Campus (MHC) at 100 Main Street, this lease will also provide for the availability of interim "swing space" for the HWDSB during the construction phase of their newly proposed Education Centre. This lease allows all three (3) public administrations to leverage existing resources for the benefit of broader public policy goals.

Currently, PHS employees are located in a number of buildings throughout the City that are either leased or owned by the City of Hamilton. For the past eight years PHS has been pursuing a strategy that would consolidate its core operations, in accordance with the City's Accommodation Strategy, passed by Council in May 2005, but there have been no actions to-date. Through several discussions and reports, City staff from Facilities, Real Estate, the Portfolio Management Committee, Senior Management Team, and even Council, has detailed the significant challenges and shortcomings within the current locations housed by PHS staff.

Staff believes that the current approach of accommodating the PHS Department is unsustainable in terms of customer service and financial aspects. Simply put, staff believes that a "do nothing" scenario for PHS accommodations is not an option, as considerable upfront investments will need to be made, even under existing conditions.

Recognizing this, staff looked at approaches where the City can leverage its resources to provide the best value for money invested for local taxpayers, while at the same time taking advantage of unique opportunities to create a new cluster within and around the proposed McMaster Health Campus.

On July 6, 2011, Members of Council received correspondence from Yale Properties Limited, through an unsolicited "Expression of Interest" (EOI), identifying available and contiguous office space in the Robert Thompson Building, located at 110 King Street. The proposed EOI offered the "as-is" space at a gross rental rate of approximately

\$19.00 per square foot. This EOI formed the basis for the staff recommendations presented at the August 9, 2011 General Issues Committee (GIC).

Through Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a) attached as Appendix "A" to Report PED11134(b) / FS11063(b) / BOH11026(b) presented August 9, 2011 at the GIC, Committee directed staff to negotiate standard commercial leases for dedicated and shared space as per Option 1 (shared clinic space) up to 11,000 square feet at MHC (excluding dental), up to 19,000 square feet PHS dedicated space at MHC, up to 52,300 square feet Public Health consolidation into new leased downtown core location including dental clinic, and retain two downtown existing leased space.

Based on Council direction, Real Estate staff canvassed the downtown core for available contiguous office space to meet Council's direction. Based on staffs' research, discussions, and meetings with respective landlords, Second Real Properties Limited is able to provide such space.

Of note, however, as part of the terms and conditions of the lease as presented, Second Real Properties Limited, as the Landlord, must negotiate a suitable arrangement by obtaining a "Surrender of Lease" from the existing Tenant. Although this has not been finalized, staff is satisfied that this condition is a preferred option by both the landlord and the tenant, and therefore this issue is expected to be resolved prior to the execution of this lease.

From the outset, discussions between the City of Hamilton, the HWDSB, and McMaster, have contemplated that the HWDSB employees would have to vacate their location at 100 Main Street West prior to their new Education Centre being completed by March 2013. Therefore, the HWDSB has always needed to find suitable office space to be used for the two (2) year transitional period.

Recognizing that the anticipated "swing-space" only adds to McMaster's overall purchase price for the 100 Main Street West property, City staff actively facilitated discussions with all parties, to assist in meeting the timelines, space requirements, and budget constraints for the required "swing space". By facilitating these discussions, City staff has demonstrated a commitment to work with all parties to bring the MHC project to fruition in a cost-effective way.

Staff recognized that the office-space requirements and needs of the City's PHS were similar in nature to those of the HWDSB. Therefore, City staff started to focus on ways in which the HWDSB could temporarily locate its operations to the exact same location as the anticipated PHS consolidation. It was thought that if this could be accomplished, the City would leverage its own lease and tenant improvement investments in a way that would reduce the potential impacts for the HWDSB and their short-term "swing-

space” costs. Simply put, the City was in a better position than the HWDSB to negotiate lease terms.

Staff is recommending that Council authorize the securing of a long term lease constituting twenty (20) years, at 110 King Street West. The recommendation requests that Council authorizes the “sub-letting” of this space in its entirety, to the HWDSB, for a period of two (2) years and two (2) months, commencing January 1, 2012 until March 31, 2014.

Throughout the duration of this “sub-lease”, any and all rental payments attributed for this office space will be the sole responsibility of the HWDSB, and therefore, will have no financial impact on PHS’s accommodation requirements during this time. The HWDSB will pay its full proportionate share of operating costs and property taxes accruing to the premises.

This new long term lease will trigger the “Tenant Fit-Up for new lease space”, as detailed in Appendix “A” to Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a) (Appendix “A”) presented August 9, 2011 at the GIC.

PHS staff acknowledges that the contemplated space is approximately 10,000 square feet larger than requested in the August 9, 2011 report. Staff will work to find a suitable partner to share/sublet such space. Should staff be unable to find a partner or some similar way to off-set the cost of the excess space, PHS will relocate its Child & Adolescent Services to this location in 2015 to occupy that 10,000 sq ft to mitigate the costs.

Standard commercial real estate practice dictates that municipal realty taxes are generally contained as part of the landlord’s “operating costs”. In the case of the City of Hamilton, Section 110 of the Municipal Act allows for the City to be exempt of this portion once the space is deemed a City Capital Facility. The Assessment Act, however, only exempts school boards from assessment and payment of municipal realty taxes on any land that it owns, uses and occupies. Where the Board merely leases and occupies land, exemption only applies if the landlord/owner is also exempt from assessment under the Act.

Therefore, throughout the period of the “sub-lease” to the HWDSB, Second Real Properties would be responsible for the payment of taxes during the term of its sub-lease, resulting in a gross rent of \$19.35 per square foot, calculated as (\$6.00 base rent + \$10.71 operating costs + \$1.67 Municipal Realty Tax + \$0.97 Education Realty Tax).

Recognizing that once occupied by the City, the office space would be deemed a “Capital Facility”, staff is also recommending the City allow a rebate of the municipal portion of the realty tax, to the HWDSB, during the term of occupation of the leased premises. This is estimated at \$1.67 per square foot. Staff believes that this option

allows the HWDSB to reduce its effective lease rate without adversely impacting the City, since at the present time, the HWDSB is exempt from municipal tax in its current location, and the new space will be exempt once occupied by PHS staff. This would benefit the Board and McMaster by reducing the gross rent to \$17.68 per square foot, the same amount that would be paid by the City, since it is exempt from realty taxes.

During the lease negotiations, Real Estate staff were aware that Second Real Properties Limited, has outstanding litigation against the City of Hamilton, and therefore, any potential lease would be subject to the City's current policy respecting "Contracting with Parties involved in Litigation with the City of Hamilton". In an effort to resolve the impasse to the on-going litigation, the City Manager's Office engaged Yale Property representatives to entrench a better business relationship between all parties on a go forward basis. These discussions are ongoing and staff is of the opinion that a mutual agreement can be reached to resolve this matter.

Therefore, staff further recommends the City waive its policy respecting Contracting with Parties involved in Litigation with the City of Hamilton, as it relates only to this subject lease, in a similar fashion to the Council motion of March 26, 2008:

"City's Policy respecting Contracting with Parties involved in Litigation with the City of Hamilton:

- (a) *That the City temporarily waives its policy respecting contracting with parties with whom it is engaged in litigation as it would apply to Yale properties in order to:*
 - (i) *continue its current tenancies with Yale Properties on a short-term basis;*
 - (ii) *continue discussions with Yale Properties with the goal of establishing a mutually-advantageous solution which will enable the City and Yale properties to resolve the on-going litigation enter renewed longer-term leases and/or further leases and have a sound business relationship going forward into the future."*

Alternatives for Consideration – See Page 15

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial:

Table 1 and Table 2 of Report PED11134(b) / FS11063(b) / BOH11026(b), outlines the financial impact of changes in assumptions utilized for the financial analysis of proposed new downtown lease space for PHS consolidation (refer to Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a) attached for details).

**SUBJECT: Public Health Services Accommodation – McMaster Health Campus
(PED11134(b) / FS11063(b) / BOH11026(b)) (Ward 2) - Page 8 of 16**

Per the terms of the proposed lease, the following assumptions have been updated from that presented at the August 9, 2011 meeting of the GIC:

- Increase in rentable square footage of 10,835 square feet, from 52,293 square feet to 63,128 square feet,
- Year One of City occupancy assumed to be Spring of 2014 from 2013,
- Year One (2014) lease cost (inclusive of operating costs) is estimated to be \$19.36 per square foot (inflated to 2014\$) versus the previous \$19.00 per square foot assumption for 2013 Year One City occupancy,
- Assumed \$25 per square foot for tenant fit-up and current estimates at 65% design stage are at \$30 per square foot.

Table 1 of Report PED11134(b) / FCS11063(b) / BOH11026(b) reflects that, based on the proposed lease terms, increased rentable square footage inflated to 2014\$, there will be an annualized Year One operating budget pressure of \$228,732. Based on previous discussions, it is also assumed that the Ministry of Health will not provide increased funding related to increased PHS accommodation costs.

In Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a) staff identified that in year one of the lease the estimated budget pressure would amount to \$520,337. The budget pressure figure for year one of the lease incorporated lease costs, parking costs and one-time financing costs. As identified in Table 1 below, the additional gross rental space and slight increase in rental rate, reflecting a 2014 transition rather than in 2013, represents a potential additional pressure of \$228,591 over and above the \$520,337 identified previously.

As identified in Recommendation (b) of this Report staff will report back identifying options to mitigate the change in the gross rentable area prior to March 31, 2014.

TABLE 1

Operating Costs	Aug 9th GIC	Jan 2012 GIC	Change
Square Footage	52,293	63,128	10,835
Year One Cost/Square Foot *	\$19.00 (2013\$)	\$19.36 (2014\$)	\$0.36
Annual Lease Cost	\$ 993,567	\$ 1,222,158	\$ 228,591
* Includes operating costs with 3% inflation from 2012 cost estimate			

Table 2 of Report PED11134(b) / FCS11063(b) / BOH11026(b) reflects base rent increases of \$2 per square foot as set forth in the proposed lease. As a result, there will be a budgetary pressure with each year of base rent escalation amounting to \$126,256 for each occurrence (2012, 2014, 2016, 2020, and 2026) with operating costs being a flow through cost item to the City.

**SUBJECT: Public Health Services Accommodation – McMaster Health Campus
(PED11134(b) / FS11063(b) / BOH11026(b)) (Ward 2) - Page 9 of 16**

It should be noted, that base rent escalation is common within long-term leases and that the 2028 base rent of \$14.00 per square foot is competitive with base rents available in the downtown core in 2011.

TABLE 2

Base Rent	
2012	\$ 6.00
2014	\$ 8.00
2016	\$ 10.00
2020	\$ 12.00
2026	\$ 14.00

Table 3 of Report PED11134(b) / FCS11063(b) / BOH11026(b) reflects that, based on the current estimate, fit-up costs of \$28.07 per square foot (at 65% design stage) and the increased rentable square footage, the total fit-up costs for the new downtown leased space for PHS will have an anticipated one-time financial impact of \$364,828.

It should be noted that the fit-up cost estimates may change as the design reaches full completion. Additionally, PHS will be submitting a request to the Ministry of Health and Long Term Care for one-time funding to assist with the one-time costs associated with the PHS consolidation plan which may lower the City's costs in this regard.

Per Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a) attached as Appendix "A", the total capital requirements identified for the PHS consolidation plan was a total of \$4.22 million, less the estimated proceeds of a City owned PHS location that will be vacated in 2014 with an appraised value of \$1.8 million for a net cost of \$2.42 million.

Therefore, the one-time capital cost increase outlined in Table 3 may also be mitigated, in part, within the overall \$2.42 million capital budget for the PHS consolidation plan.

TABLE 3

Tenant Fit-up Capital Costs	Aug 9th GIC	Jan 2012 GIC	Change
Phase 1 (2012) *	\$ 1,407,325	\$ 1,861,729	\$ 454,404
Phase 2 (2014)	-	510,424	510,424
Less Landlord Fit-up Contribution	-	(600,000)	(600,000)
Total Tenant Fit-Up Costs	\$ 1,407,325	\$ 1,772,153	\$ 364,828
* Assumed \$25/sq ft + \$100,000 for professional fees			

Per recommendation (d) of Report PED11134(b) / FCS11063(b) / BOH11026(b), the City would be providing a rebate to the HWDSB of the municipal property tax for the period of time it will be sub-leasing from the City (assumed to be March 2012 to March 2014). The total cost to the City based on current tax rates would be approximately \$210,000 recommended to be funded by the City's Tax Stabilization Reserve 110046.

Staffing:

There are no increases to staff levels associated with the recommendations of this Report.

Legal:

Legal Services Division will be involved in the review and approval of the commercial lease and sub-lease and, if not already completed, will provide its assistance in designation of the premises as a Municipal Capital Facility under Section 110 of the Municipal Act.

HISTORICAL BACKGROUND

Detailed background information was presented in Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a) at the August 9, 2011 GIC. The report and subsequent Committee direction, addressed many different issues relating to the proposed MHC, but generally speaking, the report focussed on three (3) distinct elements:

1. A direct City of Hamilton contribution of \$20 million towards the MHC project, as well as other indirect contributions;
2. A City of Hamilton commitment to integrate a portion of PHS staff within the MHC project, by way of a long-term lease with McMaster; and,
3. The consolidation of other core PHS staff and services, to a central location, within the Downtown Hamilton, by way of a new long-term lease.

This Report, and staff recommendations, solely deal with the issues relating to the consolidation of core PHS staff and services, to a central location, within downtown Hamilton, by way of a new long-term lease.

As detailed in the August 9, 2011 report, PHS has made multiple unsuccessful attempts in recent years to co-locate its core operations downtown:

- 2005 - toured the Standard Life and City Centre locations which were found to unsuitable for its long term occupancy;
- 2007-2008 - negotiations to be housed at the Lister Block; and,
- 2008-2009 - negotiations to co-locate with McMaster and HWDSB.

**SUBJECT: Public Health Services Accommodation – McMaster Health Campus
(PED11134(b) / FS11063(b) / BOH11026(b)) (Ward 2) - Page 11 of 16**

PHS continues to operate its core operations in locations disbursed across the City. In order to accommodate some current unmet needs, PHS recently acquired additional short-term lease space of approximately 5,200 square feet to meet its temporary space needs until a long term solution can be found.

As described in previous reports, relocating a majority of its core operations in one facility downtown affords PHS the opportunity to:

- Provide dental services in an area where our clients require dental services;
- Increase collaboration across PHS so we can more effectively implement the Ontario Public Health Standards, our obesity and neighbourhood strategies;
- Provide a welcoming reception area to PHS services and appropriate private / confidential client consultation areas;
- Increase productivity by avoiding travel time to attend meetings with colleagues;
- Provide appropriate on-site meeting room space;
- Accommodate temporary and part-time staff, students, research staff, medical residents and other learners that we are unable to accommodate with our current office configurations;
- Address AODA and other compliance issues; and,
- Provide better supervision for the WNV lab staff.

At the GIC meeting of August 9, 2011, Committee addressed this issue formally through the approved direction contained in recommendation (c) of Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a), as follows:

“That staff be authorized and directed to negotiate standard commercial leases for dedicated and shared space as per Option 1 (shared clinic space up to 11,000 square feet at MHC (excluding dental), up to 19,000 square feet PHS dedicated space at MHC up to 52,300 square feet PHS consolidation into new leased downtown core location including dental clinic, and retain two downtown existing leased space. New leased central mountain location required to relocate existing sexual health clinic located at the Upper Ottawa site) in the MHC for a term of 30 years, with the option of three five-year renewals, as well as, for new downtown and mountain leased location sites by April 30, 2012.”

The August 9, 2011 GIC Report highlighted critical timelines as it relates to the MHC project, which included the need for McMaster to commence with demolition by March 2012. This accelerated time-frame, combined with the HWDSB's simultaneous building of their new Education Centre on Hamilton Mountain, necessitated discussions between McMaster and the HWDSB over the timing, logistics, and overall costs associated with temporary office space for the current HWDSB operations, currently housed in 100 Main Street West. It was anticipated that the HWDSB would require approximately 50,000 – 60,000 square feet of space, until such time their new administration building is completed.

City of Hamilton Real Estate staff were asked, based on their relevant expertise and experience, to facilitate discussions in an effort to find a solution for both parties. Through these discussions, it became clear that the City's needs for PHS lease space was consistent with the HWDSB's needs for temporary "swing-space", and therefore, staff of both started to discuss how the same space could be shared in order to leverage investments made by both parties.

Staff worked together in developing plans for blocking the HWDSB space requirements onto the overall plans for PHS, allowing for the programming requirements and floor space needs to coincide with both the parties needs.

Specifically, by work planning jointly, investments made by the City and the HWDSB have been leveraged, subsequently reducing the costs required.

POLICY IMPLICATIONS

City Accommodation Strategy

Report CM11008(a) / PED11134 / FCS11063 / BOH11026 of the July 4, 2011 GIC, highlighted a May 9, 2005 Committee of the Whole approval of a short to mid-term accommodation strategy incorporating the following directions and principles;

- (a) That consolidation of office space for all Departments be focused in the Downtown Core Area in as few building locations as practical and economically viable.
- (b) That this consolidation include the relocation of staff from Building & Licensing, Long Range Planning and Development & Real Estate Divisions of the Department of Planning and Development from the Stoney Creek City Hall, subject to securing and acceptable, mid to long-term, market value lease of the building. Said lease to provide for the continued City/public use of the Library, Service Centre, Council Chambers and Salfleet Room.
- (c) That the Downtown Core consolidations be strategically chosen and linked to maximize efficiencies within and between Departments and to enhance customer service delivery, and that any associated financial enhancements be identified for the 2006 Budget.
- (d) That leasing strategies include high priority consideration to redevelopment plans and adaptive re-use of key existing buildings that would contribute towards achieving the City's Downtown revitalization goals.

- (e) That for purpose of integrating with the recommended long-term accommodation strategy, new leases, generally structured to not exceed a 15 year total term, beyond 2020.
- (f) That a long-term accommodation strategy be approved, in principle, providing for the construction of a second office tower of approximately 250,000 square feet, integrated with the existing renovated City Hall and including a new parking structure; this new facility to be targeted to start construction in 2018 and all subject to an acceptable capital financing plan.

Consolidation of Public Health Services core operations is consistent with (a), (c), and (d) of these principles.

Portfolio Management Strategy Plan

The recommendation is consistent with the City's Real Estate Portfolio Management Strategy Plan as approved by City Council on November 24, 2004 and Procedural By-Law No. 04-299.

City Council, in approving the Consolidation of Routine Real Estate Matters, authorized the delegation of authority to approve the acquisition, disposition or lease as follows: to the General Manager or designate for a lease value not exceeding \$150,000 annual rental; to the City Manager or designate for a lease value not exceeding \$250,000 annual rental. As the annual lease payments are in excess of the above referenced limits, City Council approval is required to approve the recommendations contained within this Report.

City's Policy respecting Contracting with Parties involved in Litigation with the City of Hamilton

Council passed the following Motion on March 26, 2008 as follows:

"City's Policy respecting Contracting with Parties involved in Litigation with the City of Hamilton

- (a) That the City temporarily waives its policy respecting contracting with parties with whom it is engaged in litigation as it would apply to Yale properties in order to:
 - (i) continue its current tenancies with Yale Properties on a short-term basis;
 - (ii) continue discussions with Yale Properties with the goal of establishing a mutually-advantageous solution which will enable the City and Yale properties to resolve the on-going litigation, enter renewed longer-term

leases and/or further leases and have a sound business relationship going forward into the future.

- (b) That the General Manager of Public Works and the City Solicitor report back to the Committee of the Whole with respect to this matter no later than the end of September 2008”.

RELEVANT CONSULTATION

- City Manager’s Office
- City Manager’s Office, Legal Services Division
- Public Works Department, Facility Services Division
- Public Health Services Department, Planning and Business Improvement Division
- Finance and Corporate Services Department, Financial Planning and Policy Division
- Hamilton-Wentworth District School Board
- McMaster University

ANALYSIS / RATIONALE FOR RECOMMENDATION

At the August 9, 2011 GIC, as part of Report CM11008(b) / PED11134(a) / FCS11063(a) / BOH11026(a), Committee approved the following direction, contained in recommendation (c) as follows:

“That staff be authorized and directed to negotiate standard commercial leases for dedicated and shared space as per Option 1 (shared clinic space up to 11,000 square feet at MHC (excluding dental), up to 19,000 square feet PHS dedicated space at MHC up to 52,300 square feet PHS consolidation into new leased downtown core location including dental clinic, and retain two downtown existing leased space. New leased central mountain location required to relocate existing sexual health clinic located at the Upper Ottawa site) in the MHC for a term of 30 years, with the option of three five-year renewals, as well as, for new downtown and mountain leased location sites by April 30, 2012.”

Staff believes that the recommended actions are consistent with the overall direction given by Council, and that the leasing option presented reflects fair market value, for the size and type of office space, within the downtown core.

Staff also notes that by working together and in partnership, the City of Hamilton and the HWDSB have arrived at a recommendation that leverages the limited resources for all involved, thereby enabling a successful property transaction between McMaster and the HWDSB.

ALTERNATIVES FOR CONSIDERATION

Alternative 1: Approve the Lease with Second Real Property Limited, as recommended.

The staff recommendation follows the August 9, 2011 direction, as outlined, to "...negotiate standard commercial leases for...up to 52,300 square feet PHS consolidation into new leased downtown core location..." Real Estate staff believes that due to the limited supply of contiguous office space within the downtown core, the recommended option is the only workable option that allows for the consolidation of PHS, as outlined in the August 9, 2011 report. Real Estate staff also is of the view that the leasing rates, operating costs, and terms, are consistent with the current marketplace for like-space within the downtown core.

This option also allows for the leveraging of resources between the City of Hamilton, the HWDSB, and McMaster.

Alternative 2: Do not approve the Lease with Second Real Property Limited

Due to the current market conditions within the downtown Hamilton marketplace, there is a limited supply of contiguous office space within the core to meet PHS consolidation into new leased downtown core location. As well, according to Real Estate staff research, the leasing rates, operating costs, and terms, represent fair value for money.

As the recommended option was designed to allow for the HWDSB to "sub-lease" the office space for use as transitional "swing-space", a rejection of the recommended option would leave the HWDSB without a firm solution to their transition out of 100 Main Street West, and as a result, could lead to uncertainty in McMaster's acquisition of the 100 Main Street West property.

CORPORATE STRATEGIC PLAN

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ◆ An effective work environment that enables effective communication, respectful culture, well-being and safety.
- ◆ Council and Senior Management Team are recognized for their leadership and integrity.

Financial Sustainability

- ♦ Lease costs will be secured.
- ♦ Generate assessment growth/non-tax revenues.

Growing Our Economy

- ♦ Improved customer service to clients and community stakeholders who use the Career Development Centre.

Social Development

- ♦ Residents in need have access to adequate support services.

Healthy Community

- ♦ Compatible uses and/or social services are located within close vicinity.

APPENDICES / SCHEDULES

Appendix "A": Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) -
McMaster Health Campus Proposal - McMaster University

WF/CP/sd/dkm



CITY OF HAMILTON

PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Office of the General Manager

CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

PUBLIC HEALTH SERVICES
Planning and Business Improvement Division

OFFICE OF THE CITY MANAGER

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: August 9, 2011	
SUBJECT/REPORT NO: McMaster Health Campus Proposal - McMaster University (CM11008(b)) (PED11134(a)) (FCS11063(a)) (BOH11026(a)) (City Wide)	
SUBMITTED BY: Tim McCabe General Manager Planning and Economic Development Department Roberto Rossini General Manager Finance and Corporate Services Department Elizabeth Richardson, MD, MHSc, FRCPC Medical Officer of Health Public Health Services Department Chris Murray City Manager	PREPARED BY: Chris Phillips, 905-546-2424 Ext. 5304 Teresa Bendo, 905-546-2424 Ext. 7999 Mike Zegarac, 905-546-2424 Ext. 2739 John Savoia, 905-546-2424 Ext. 7298 Debbie Sheehan, 904-546-2424 Ext. 4888

RECOMMENDATIONS

- a) That Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) be received;
- b) That the \$20 million funding contribution to McMaster University for the Family Medical Campus approved by Council on July 7, 2011 in approving Item 13, as amended, of the General Issues Committee Report 11-023, be based on the following financing sources and conditions:
 - i) Economic Development Initiatives Fund (Accounts 3620755700 and 3620908900) for \$5 million;
 - ii) 2012 Budget Allocation re Economic Development Initiatives Fund for \$2 million;
 - iii) Interest Earned on Capital Funds for \$2 million;
 - iii) Work In Progress Capital Project Review for \$1 million;
 - iv) Hamilton Future Fund for \$10 million on a grant or loan basis;
 - v) That there is an agreement between the City of Hamilton and McMaster University, that an amount equal to \$1 million, will be heldback as a condition of generating new municipal tax revenue of \$600,000 being fulfilled by July 1, 2020;
 - vi) That the Hamilton Municipal Parking System (HMPS) be authorized to sign an undertaking to provide McMaster University the use of parking spaces in the Convention Centre parking garage, within 300 metres of the McMaster Health Campus to account for the deficiency of on-site parking associated with the development in partial satisfaction of the Zoning By-law requirement; and,
 - vii) That the General Manager of Finance and Corporate Services be delegated the authority to draft and execute a contribution agreement on behalf of the City of Hamilton, in a form satisfactory to the City Solicitor, with McMaster University by December 31, 2011.
- c) That staff be authorized and directed to negotiate standard commercial leases for dedicated and shared space as per Option 1 (shared clinic space up to 11,000 square feet at McMaster Health Campus (excluding dental), up to 19,000 square feet Public Health Services (PHS) dedicated space at McMaster Health Campus; up to 52,300 square feet PHS consolidation into new leased downtown core location including dental clinic, and retain two downtown existing leased space. New leased central mountain location required to relocate existing sexual health clinic located at the Upper Ottawa site) in the McMaster Health Campus (MHC) for a term of 30 years, with the option of three five-year renewals, as well as, for new downtown and mountain leased location sites by April 30, 2012.

EXECUTIVE SUMMARY

McMaster University's proposal to build its McMaster Health Campus (MHC) in Hamilton's downtown presents an important opportunity for the City of Hamilton. In particular, by choosing to locate this new facility on a property of prominence within the heart of the downtown, this proposal clearly achieves the long sought after goal of bringing a post-secondary institution to the downtown core.

This opportunity, however, does not come without a major investment by the taxpayers of Hamilton. McMaster University has sought a \$20 million contribution from the City of Hamilton to make this project a reality, as well, is seeking a partnership with the City by co-locating some key elements of the City's Public Health Services Department (PHS) within the Campus, with a larger vision of creating a nationally recognized educational, health care, and public health centre of excellence.

The proposed new facility, based on the staff recommendation, is a 152,000 square foot LEED certified campus development that would create a post-secondary campus in the downtown, giving McMaster University an investment "footprint" within the core of the City. McMaster proposes to co-locate the academic Department of Family Medicine, the Maternity Centre of Hamilton, nurse practitioner educational programs, the Shelter Health Network, as well as various other continuing health sciences education and research programs. The approximate value of the recommended campus development is over \$80 million and, when operational, it is expected to service approximately 4,000 students, 450 employees, and 54,000 patient visits per year this from the downtown location.

But aside from the investment in land, quality design, and new construction, there is an opportunity for the City of Hamilton and McMaster University to turn this building into a nationally recognized partnership between the Department of Family Medicine and the City's Public Health Services Department (PHS). It is this consolidation opportunity that McMaster has envisioned from the start. It capitalizes on synergies within the McMaster Health Campus that will allow for the integration of public health professionals, programs and services with both primary care and the broader health care system. The impact of this integration will be felt and can be measured by greater effectiveness in primary and public health care delivery. As well, the quality of care will be seen by the citizens of Hamilton in ways such as:

- Providing more seamless care across the continuum from prevention to treatment;
- Providing integrated clinic services in an area of highest need not currently served by PHS;
- Providing expectant and new mothers with improved access to group based prenatal education, nutrition education and breastfeeding support;
- Exposing learners to an inter-professional approach to health care;

- Enhancing our collective community emergency response; and,
- Advancing relevant public health education and research.

Currently, PHS employees are located in a number of buildings throughout the City that are either leased or owned by the City of Hamilton. For the past eight years PHS has been pursuing a strategy that would consolidate its core operations, in accordance with the City's Accommodation Strategy, passed by Council in May 2005, but there have been no actions to-date. But, through several discussions and reports, City staff from Facilities, Real Estate, the Portfolio Management Committee, Senior Management Team, and even Council, have detailed the significant challenges and shortcomings within the current locations housed by PHS staff.

Staff believe that the current approach of accommodating the PHS Department is unsustainable in terms of both a customer service and its financial aspects. Simply put, staff believe that a "do nothing" scenario for PHS accommodations is not an option, as considerable upfront investments will need to be made, even under existing conditions.

Recognizing this, staff looked at approaches where the City can leverage its resources to provide the best value for money invested for local taxpayers, while at the same time taking advantage of unique opportunities to create a new cluster within and around the proposed McMaster Health Campus.

As part of Report CM11008(a)/PED11134/FCS11063/BOH11026 at the July 4, 2011 General Issues Committee, Council directed staff to negotiate terms and conditions for the McMaster Health Campus, and to report back with recommendations including the inclusion of Public Health Services staff within the McMaster Health Campus. Much of this report seeks to provide this analysis.

Through a series of complex planning exercises between City staff, McMaster University, NORR Architects Limited, the Hamilton-Wentworth District School Board (HWDSB), and other private sector leasing companies, staff believe that the recommendations within this report are sustainable and balance the desire to invest in a greater vision for the McMaster Health Campus, with the need to make prudent and efficient investments.

The staff recommendation would consolidate over eighty per cent (80%) of the PHS Department between two locations within the downtown core; by leasing approximately 19,051 square feet of space within the new McMaster Health Campus and the co-location of an additional 10,949 square feet of space to be shared with McMaster University's Department of Family Medicine. As well, PHS would consolidate much of their other operations by relocating to approximately 52,293 square feet of contiguous office space that is currently vacant within the downtown.

Even accounting for the approximate loss of the 300 employees currently housed by the HWDSB, the Campus would lead to a substantial net gain of full-time employees (about 363 employees) in the downtown core. Remembering too, the Campus itself will also generate energy, activity, and the purchasing power of 4,000 students, 54,000 patients, and other support personnel that will service the needs of the Campus.

The recommendation also contains a continued commitment of \$10 million for the MHC, to be funded as a grant or loan from the Hamilton Future Fund, as well as provides clear recommendations on a re-allocation of resources within the existing capital budget in order to finance the additional \$10 million in the City's contribution to the project. This reallocation has been done with a view to utilizing resources that match the project's objectives itself, while at the same time not affecting other current Council priorities as established during the capital budget process.

The July 4, 2011 report also highlighted the partnering opportunity for both the City of Hamilton and McMaster University, that would see the University add to the underground parking capacity of the MHC while working with the Hamilton Municipal Parking System (HMPS) to utilize existing capacity within 300 metres of the site, to accommodate the remainder of their parking requirement. Staff have reviewed the proposed site plan based on the recommended PHS space, and have determined that this approach is still valid.

On behalf of McMaster University, NORR Limited is currently in the process of hiring the Heritage Preservation Consultant, Mr. Andre Scheinman, who is known by City staff and is regarded for his professional abilities. As part of his contract, he will review and research background material, complete a site investigation and general photo documentation, liaise and seek input from City staff, and provide McMaster with a detailed report which will include a summary of the evolution of the building, an assessment of its cultural value in terms of its associations, design and content.

Since arriving at McMaster University just over a year ago, McMaster President, Dr. Patrick Deane has expressed a desire to engage in local citizenship by working to support the City of Hamilton's priorities. The MHC is a proposal that McMaster believes can assist in meeting this vision.

By increasing their presence in the downtown and working with the City's Public Health Services Department to extend clinical health care practices throughout the community, this new downtown campus will establish a "beachhead" for the University within the downtown that may lead to further investments down the road.

Alternatives for Consideration – See Page 23

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: The City is contributing \$20 million with a holdback condition of \$1 million to facilitate the development of the proposed McMaster Health Campus in downtown Hamilton. Additionally, in order to consolidate Public Health's program and service delivery, and to strategically co-locate some PHS staff at the McMaster Health Campus, the City will incur incremental operating costs of \$520,337 in 2013, net of expected municipal tax recapture from property taxes to be realized from re-purposed City leased and/or owned sites to be vacated by PHS. The recommended approach would have a residential tax impact of 0.08% or \$2.12 based on an average residential assessment of \$245,100.

Staffing: A multi-disciplinary team of senior staff was established to analyze and negotiate with McMaster University the terms and conditions of the proposal, and to prepare this report. It would be expected that this team, along with others, would assist in the preparations of any final agreements between the City and McMaster University. City staff will also continue to assist in ensuring a successful outcome in the transaction between McMaster University and the HWDSB, as well as providing professional advice and assistance to the HWDSB in their transition from their current 100 Main Street West property. As the project itself will be owned and managed by McMaster University, the only staffing commitments would be for City Public Health and Facilities representation on a project implementation committee.

Legal: Legal Services will be involved in all stages of the preparations of the final agreements and negotiations with McMaster University, and any other lease negotiations related to the mountain clinic space and the new downtown office location.

HISTORICAL BACKGROUND (Chronology of events)

Detailed background information was presented in Report CM11008(a)/PED11134/FCS11063/BOH11026 at the July 4, 2011 General Issues Committee. There are several items however, that have specific relevance to this report and, therefore, staff have briefly summarized them within this section.

1.0 Council Direction

At their meeting of July 7, 2011, as part of GIC Report 11-023, Council approved the following resolution:

**SUBJECT: McMaster Health Campus Proposal - McMaster University
(CM11008(b)) (PED11134(a)) (FCS11063(a)) (BOH11026(a)) (CITY WIDE)
- Page 7 of 26**

- (a) *That Report PED11134/FCS11063/BOH11026/CM11008(a) and staff presentation be received;*
- (b) *That the City Manager and/or designate, be authorized and directed to commit an amount of \$10 million to McMaster University, on condition that the McMaster Health Campus is built to the general scope and use as presented in the McMaster University proposal, as per Appendix "B" attached hereto, received by the General Issues Committee on June 27, 2011;*

The following sub-section (c) was referred to the Future Fund Board of Governors for consideration prior to the August 11, 2011 meeting of Council.

- (c) *That the \$10 million contribution to McMaster University be funded as a grant from the Hamilton Future Fund A (Account 112246);*
- (d) *That the City Manager and/or designate, be authorized and directed to further develop and negotiate the terms and conditions of a final agreement with McMaster University for the McMaster Health Campus, as per Appendix "B" attached hereto and received by the General Issues Committee on June 27, 2011, to an overall upset limit of \$20 million, and that some or all of the Public Health Services department may be relocated to this location, subject to a lease arrangement acceptable to Council being reached by August 31, 2011;*
- (e) *That staff report on the progress of these negotiations and provide recommendations, including financing options for the remaining \$10 million subject to (d) above, for consideration at the August 9, 2011 General Issues Committee.*

1.1 McMaster Health Campus Proposal (MHC)

McMaster University is proposing to build its McMaster Health Campus (MHC) in downtown Hamilton. Located at 100 Main Street West, this 152,000 square foot (based on the recommended Public Health option) will be a LEED certified campus development, and would co-locate the academic Department of Family Medicine, the Maternity Centre of Hamilton, nurse practitioner educational programs, the Shelter Health Network, as well as various other continuing health sciences education and research programs, in the new facility.

The approximate value of the recommended campus development is over \$80 million and when operational, it is expected to service approximately 4,000 students, 450 employees, and 54,000 patient visits per year.

McMaster also anticipates a "Phase 2" development containing 40,000 square feet of retail, and two 12-storey residential towers, fronting on King Street and Bay Street, respectively. This initiative would be led by McMaster University and a private-sector development partner, and, if implemented, would bring additional tax assessment and growth to the downtown location. Although the "Phase 2" development is not anticipated to begin until at least the time of the opening of the MHC and neither the University nor any private-sector development partner has guaranteed the investment, the concept is desirable from a City standpoint and staff believe that it would be in the City's best interest to continue to push for this development over the next few years.

The McMaster Health Campus also presents an opportunity for the City of Hamilton's Public Health Services Department to co-locate its operations within the facility. This is the issue that is mainly addressed by the balance of this report and its recommendations.

McMaster University has submitted a "*Letter of Intent*" to purchase the property at 100 Main Street West, and has until August 15, 2011 to submit a formal "*Offer to Purchase*" to the HWDSB. McMaster has set aside four "Key Requirements" for the City of Hamilton which include:

- City of Hamilton Contribution – a confirmation of the \$20 million commitment from the City of Hamilton to McMaster for the downtown Health Campus;
- Some integration of the Public Health Services Department relocated into the McMaster Health Campus;
- Parking agreement with the City of Hamilton in order to meet its zoning requirements; and,
- Agreement with the City of Hamilton to accelerate the planning process, including the issuance of a demolition permit on application, needed by September 15, 2011.

1.2 Public Health Services Accommodation

For eight years, PHS has been pursuing a strategy to co-locate its core operations.

In 2005, senior staff from the former Public Health and Community Services Department toured available space at the Standard Life Centre in an effort to locate suitable space to replace accommodations at 1 Hughson Street North. That same year senior staff also toured available space in the former Eaton's department store in the City Centre, but in both cases, the space was deemed unsuitable for long-term occupancy.

In 2007-2008, it was proposed that PHS relocate some of its staff to the Lister Block but, ultimately, other City programs and services will occupy the Lister Block.

In 2008-2009, the City entered into negotiations to co-locate PHS with McMaster University and the Hamilton Wentworth District School Board downtown at King and Bay Streets but the negotiations proved unsuccessful.

PHS continues to operate its core operations in locations disbursed across the City. In order to accommodate some current unmet needs, PHS recently acquired additional short-term lease space of approximately 5,200 square feet to meet its temporary space needs until a long-term solution can be found.

In March 2010, the HRCC submitted a proposal to the City to design, build, finance and lease new purpose-built office space for PHS at 140 King William Street. The proposed leased space includes 79,000 square feet of office space that would incorporate the West Nile Virus (WNV) lab, allow for a 5,000 square foot street level clinic space and provide PHS staff with on-site parking.

1.3 Benefits for Economic Development and Downtown Revitalization

It is recognized that McMaster University and other key educational and health care institutions, provide major and direct benefits to Hamilton's economy. McMaster is the fifth largest employer in Hamilton, with more than 7,300 employees, 24,432 full-time students, and their \$900 million budget broadly benefits economic growth in the community. Likewise, Hamilton's healthcare sector has over 90 specialty clinics, a number of ambulatory and critical care centres, and six hospitals that directly employ over 15,000 people.

Immediately, MHC will bring over \$80 million in construction value, and more tangibly will bring approximately 4,000 students, 450 employees, and 54,000 patient visits all to the downtown core each and every year. The anticipated "Phase 2" development, if implemented, would increase both the residential and non-residential tax base, and most importantly increase the number of people living and working in the downtown, leading to additional economic activity and growth to the area.

Even when the eventual re-location of the HWDSB is accounted for, there will be a net increase of at least 150 full-time employees in the downtown core from the MHC project alone. And with an additional 213 Public Health Services staff being re-located into the core, the net increase will be over 363 employees within the downtown, based on the staff recommendation.

In more general terms, it is recognized that educational institutions, both public and private, bring many benefits to any downtown. The City's Urban Renewal Section of Economic Development prepared a report entitled "*Rationale for a Downtown Post-Secondary Campus*" in June 2011 that outlined a variety of benefits of post-secondary campuses within downtown precincts in cities across North America.

The report identifies that post-secondary campuses located in a city's downtown brings with it high paying jobs, stimulates spending, and generally adds vitality, ultimately leading to economic and social spin-offs. The results, the creation of new housing units, the attraction of support industries, increased ridership and revenues for public transit all of which leads to elevating the downtown tax assessment base, property values, and the prestige of the entire city to external audiences.

From a "Healthy Neighbourhoods" perspective, there are currently 15,000 Hamilton citizens lacking a family doctor, and many of these also face financial limitations. This new Health Campus is expecting approximately 54,000 patient visits per year, and when co-located with the City's Public Health Services, the Campus will see many more patient visits within one of the City's most diverse neighbourhoods, directly aligning to the City's commitment to building healthier and sustainable neighbourhoods.

1.4 Will the MHC Lead to Increased Commercial Vacancy Rates Downtown?

As none of McMaster's estimated 450 employees planned for the MHC are currently located within the downtown area, this new investment of space will have no direct impact on current occupancy rates, and in fact will lead to an intensification of some 150 additional employees at the 100 Main Street West property alone.

The staff recommendation calls for the City's PHS Department to co-locate some of their operations within the MHC, but at the same time, staff recommend most of the remaining PHS operations be consolidated in another, currently vacant, location within the downtown. This option would bring an additional 213 PHS employees to the downtown core leading to the leasing of 52,293 square feet of privately held and currently vacant commercial space. It is recognized that some of this is a reallocation of current PHS employees to different locations within downtown, but when the PHS space that is being co-located and shared as part of the MHC are taken into account, PHS will occupy over 82,000 square feet of space in downtown, the vast majority of which is privately owned.

1.5 What are the Incremental Tax Assessment and Municipal Taxes Increases?

From a tax assessment and municipal tax point of view, the new Campus does not provide much in the way of direct impact. The current School Board facility located at 100 Main Street West is tax-exempt, as will the new Campus building. McMaster's "Phase 2" private-sector development would add more residential and commercial assessment to the downtown core. Based on assumptions in the Report CM11008(a)/PED11134/FCS11063/BOH11026 at the July 4, 2011 General Issues Committee, the "Phase 2" development would be fully taxable.

Staff have estimated that the total asset value of the residential portion of the "Phase 2" development would be \$48 million, resulting in approximately \$600,000 annually, based

on 2011 municipal tax levels. The commercial portion is estimated to generate approximately \$4 million in assessment and nearly \$100,000 based on 2011 municipal tax levels. Accordingly, the total direct property tax increase from the Phase 2 development could be \$700,000 per year. Staff believe, however, that this "Phase 2" should be viewed as an important and desirable goal, but that the proposal is still too early to assess its viability.

Additionally, the research by the City's Urban Renewal Section indicates that development of the type and scale of the proposed MHC would lead to increased interest in the downtown by a variety of "support" industries that would choose to locate close to this centre. This interest could lead to increased values within the area, thereby increasing the tax assessment base, and assist in decreasing vacancy rates. By way of example, a property within close proximity to the new MHC should be a beneficiary of the increased traffic, leading to better tenants, less vacancy, higher rents and higher taxes. It would be expected that property values will be positively affected for several blocks in all directions of this development.

Also of note is that by re-locating the Campus building in the downtown, lands previously identified for the project at the McMaster Innovation Park (MIP) would remain as a viable option for private-sector investment, and add to the future assessment base.

1.6 Hamilton Wentworth District School Board (HWDSB) – 100 Main Street West

In April 2011, the HWDSB formally declared their property at 100 Main Street West "surplus", and on April 18, 2011 they publicly notified "preferred agencies" of their ability to submit a bona fide offer within 90 days, as required by legislation.

McMaster University submitted a "Letter of Intent" to purchase, and have until August 15, 2011 to execute a formal "Offer of Purchase and Sale" for the transaction to proceed. McMaster has indicated that they will proceed with this transaction on the basis of a formal commitment from the City of Hamilton on their specified conditions.

1.7 Hamilton Future Fund (HFF)

Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 General Issues Committee included an analysis of how the proposed McMaster Health Campus aligns with the HFF "Mission Statement" and "Guiding Principles". In general, it was concluded by staff that the MHC proposal lends itself to being able to achieve most of the elements desired by the HFF. As well, media reports indicated that Mr. Tom Weisz, the Chairman of the Hamilton Future Fund, stated:

"I want to be clear, I think this is just a wonderful thing for the City ... It fits the criteria for (the Future Fund) perfectly, Weisz said of the McMaster project billed as a shot in the

arm for downtown Hamilton. "But I think a loan would be the way to go. If we keep dipping into the fund and giving it away, there will be nothing left."

On July 7, 2011, City Council voted to subsequently refer, sub-section (c) of the resolution to the Future Fund Board of Governors for consideration prior to the August 11, 2011 meeting of Council. This meeting is scheduled to take place on August 2, 2011, the minutes of which will be included in the August 9, 2011 GIC Agenda.

1.8 Municipal Partnership and Support in other Jurisdictions

As part of Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 General Issues Committee, McMaster provided evidence of the current trend where municipal governments are open to partnering directly with local institutions in order to accelerate their economic, neighbourhood, and downtown development initiatives.

Municipalities such as the Regions of Waterloo and Halton, the Cities of Kitchener, Burlington, London, and Windsor, have all agreed to financially contribute to local university and college capital projects that serve the goals and ambitions of the broader community.

POLICY IMPLICATIONS

2.0 City Accommodation Strategy

Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 General Issues Committee, highlighted a May 9, 2005 Committee of the Whole approval of a short to mid-term accommodation strategy incorporating the following directions and principles:

- i) That consolidation of office space for all Departments be focused in the Downtown Core Area in as few building locations as practical and economically viable.
- ii) That this consolidation include the relocation of staff from the Building & Licensing, Long Range Planning and Development & Real Estate Divisions of the Department of Planning and Development from the Stoney Creek City Hall, subject to securing an acceptable, mid to long-term, market value lease of the building. Said lease to provide for the continued City/public use of the Library, Service Centre, Council Chambers and Saltfleet Room.
- iii) That the Downtown Core consolidations be strategically chosen and linked to maximize efficiencies within and between Departments and to enhance customer service delivery, and that any associated financial enhancements be identified for the 2006 Budget.

- iv) That leasing strategies include high priority consideration to redevelopment plans and adaptive re-use of key existing buildings that would contribute towards achieving the City's Downtown revitalization goals.
- v) That for purposes of integrating with the recommended long-term accommodation strategy, new leases, generally be structured to not exceed a 15 year total term, beyond 2020.
- vi) That a long-term accommodation strategy be approved, in principle, providing for the construction of a second office tower of approximately 250,000 square feet, integrated with the existing renovated City Hall and including a new parking structure; this new facility to be targeted to start construction in 2018 and all subject to an acceptable capital financing plan.

Consolidating PHS core operations is consistent with i, iii, iv and v of these principles.

2.1 Potential Positive Impact for Physician Recruitment and Retention

In response to the Ontario government's initiative to expand the number of physicians and other health professionals, McMaster's Faculty of Health Sciences has doubled enrolment during the past decade, adding programs such as those for physician assistants, health management and biomedical engineering and growing its schools of medicine and nursing and other programs, including midwifery.

The popular family medicine residency program has grown in recent years to 85 first-year residents in the two-year program, with about 30 residents completing their training in Hamilton, centered mainly at the two current teaching unit clinics at Stonechurch Family Health Centre and McMaster Family Practice. The downtown Campus would allow the program to grow to 100 first-year family medicine residents, with about 50 in Hamilton.

But that is not the whole complement. The Health Campus will also host many students from nursing, nurse practitioner, physician assistant, midwifery, social work, physiotherapy and other programs at the Family Health Centre and the Maternity Centre, as well as practically all of the 10,000 registrants annually for programs of McMaster's Continuing Health Education Program.

For the City of Hamilton, the proximity to the MHC should have a dramatic and positive influence on the retention and recruiting of new family practice physicians to the area. Not only will medical students and residents be attracted to Hamilton for educational purposes, but being located in a City that is home to a leading edge facility such as the one proposed could easily influence their decision to stay in the area and locate their practice to Hamilton. The increased integration with PHS is also attractive because PHS

provides complementary and supporting services to family physicians and the visibility and awareness of these programs among primary care will be increased.

2.2 Parking Requirements – Zoning – Planning

Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 General Issues Committee highlighted the unique partnering opportunity for both the City of Hamilton and McMaster University, where the University proposes to add underground parking capacity to the existing parking at 100 Main Street West, while working with the Hamilton Municipal Parking System (HMPS) to utilize existing capacity within 300 metres of the site, to accommodate the remainder of their parking requirement.

Planning staff concluded that the subject lands are zoned Downtown Central Business "D1" Zone, By-law 05-200 and parking calculations are based on a "Space Usage for Parking Calculations" chart.

Since the original assessment was based on PHS occupying 84,000 square feet exclusively within the MHC, Planning staff reviewed the revised plan, based upon the recommended option which includes 19,051 square feet of exclusive PHS space. All other aspects of the McMaster site plan remained constant, with uses such as teaching rooms, medical clinic space, medical office space, research labs, retail space, and their respective common area and support service uses.

Based on the analysis, the MHC building would now require approximately 164 spaces, down from the original proposed amount of 285. The revised site plan from McMaster anticipates approximately 60 new underground spaces within the new building, which contains 20 additional spaces from the original proposal.

HMPS have confirmed parking supply to accommodate the deficiency is readily available at the Convention Centre at the present time. The existing Zoning By-law permits that parking can be supplied within a 300 metre distance of the development, subject to the other owner's agreement.

The HMPS would support the signing of an undertaking that would provide parking spaces (non-reserved) toward meeting the zoning deficiency, to a maximum upset limit of 104 spaces. All additional revenue from this "new customer" will increase the HMPS revenue stream with no anticipated increase in operational expenses.

To be clear, there is no request from McMaster University for the City of Hamilton to contribute either financially or "in-kind" for either their staffing or operational parking needs.

2.3 Heritage Assessment of 100 Main Street West

Report CM11008(a)/PED11134/FCS11063/BOH11026 of the July 4, 2011 General Issues Committee indicated that the property at 100 Main Street West is not designated under the Ontario Heritage Act nor is it contained in the *Register*, but the property is listed in the "*Inventory of Buildings of Architectural and Historical Interest*".

As such, there is no legal implication related to the demolition of the existing School Board building, for the MHC proposal under the Ontario Heritage Act. The Secondary Plan does require a Heritage Impact Assessment for properties listed. However, the Chief Building Official would be mandated to issue a demolition permit if the property is not designated under the Heritage Act or included in the Register.

At their meeting of January 2008, the Hamilton Local Architectural Conservation Advisory Committee (LACAC) Report 08-001 passed the following motion regarding the Hamilton Wentworth District School Board Education Centre, 100 Main Street West, Hamilton "The Hamilton LACAC (Municipal Heritage Committee) requests that Council include consideration of the heritage value in any future deliberations regarding the Hamilton Public School Board property." This was received by Economic Development and Planning Committee on February 19, 2008.

McMaster University officials along with representatives from their architectural team at NORR Limited have met with staff from the City's Community Planning and Heritage Sections where McMaster has indicated a desire to work with City staff and its processes to ensure adequate attention is paid to the heritage values of the property.

On behalf of McMaster University, NORR Limited is currently in the process of hiring the Heritage Preservation Consultant, Mr. Andre Scheinman, who is known by City staff and is regarded for his professional abilities. As part of his contract, he will review and research background material, complete a site investigation and general photo documentation, liaise and seek input from City staff, and provide McMaster with a detailed report which will include a summary of the evolution of the building, an assessment of its cultural value in terms of its associations, design and content. It is expected that this work will take a few weeks to complete.

Staff also understand that the HWDSB have an interest in ensuring heritage issues are addressed in a manner consistent with the approach laid out by McMaster and has expressed an interest in working with the University in this regard.

RELEVANT CONSULTATION

City Manager's Office
City Manager's Office – Legal Services

City Manager's Office – Neighbourhood Strategy
Planning and Economic Development - Planning
Planning and Economic Development - Real Estate and Urban Renewal
Corporate Services – Financial, Planning and Policy
Public Health Services
Public Works – Facilities and Fleet
McMaster University
Hamilton Wentworth District School Board

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

McMaster University officials appeared before the General Issues Committee (GIC) on July 4, 2011, and made a formal presentation on their proposed McMaster Campus in Hamilton's downtown.

At the conclusion of their formal presentation, members of the GIC had an opportunity to ask questions of McMaster President, Dr. Patrick Deane, Dr. John Kelton, Dean and Vice-President, Faculty of Health Sciences, Dr. David Price, Chair, Department of Family Medicine, Mr. Roger Couldrey, Vice-President, Administration, Ms. Debbie Martin, Executive Director, Faculty of Health Sciences, and Mr. Gord Arbeau, Director, Public and Community Relations.

As City staff want to ensure that Council has the best information available in order to make a decision on a matter that could have such an impact within the downtown, staff have prepared the following "Analysis / Rationale for Recommendation" Section to address many of the questions, concerns, and issues that arose at the meeting of July 4, 2011.

3.0 Financial Analysis

3.1 Funding Contribution

Staff are recommending that the \$20 million funding contribution be comprised accordingly:

- i) Economic Development Initiatives Fund (Accounts 3620755700 and 3620908900) for \$5 million;
- ii) 2012 Budget Allocation re Economic Development Initiatives Fund for \$2 million;
- iii) Interest Earned on Capital Funds for \$2 million;
- iii) Work In Progress Capital Project Review for \$1 million; and,
- iv) \$10 million in Hamilton Future Fund funding on a grant or loan basis.

With respect to the Economic Development Initiative Fund, since 2009, Council approved \$9.5 million in funding. Since 2009, Council has similarly approved the following projects and associated funding commitments for a total of approximately \$4,873,050:

- Ancaster Farmer's Market \$15,000
- Dundas Farmer's Market \$15,000
- Innovation Park (land purchase) \$2,343,050
- Accelerate Shovel Ready Land Program \$2,000,000
- Hamilton Creative Catalyst \$500,000

Staff are likewise recommending that Council pre-approve \$2,000,000 in 2012 capital discretionary funding that was forecast to add to the Economic Development Initiatives Fund, towards the City's \$20 million commitment. Also, as identified above, staff are recommending that Council direct staff to identify \$1 million in Works In Progress (WIP) funding to support the \$20 million contribution.

Finally, staff continue to recommend using \$10 million from the Hamilton Future Fund to finance the \$20 million McMaster grant. In Report CM11008(a)/PED11134/FCS11063/BOH11026 presented at the July 4, 2011 General Issues Committee, staff outlined the tax impacts of financing the HFF contribution on a repayable loan basis. The annual budgetary impact is about \$838,000 for a 15 year term at 3%. This would result in a residential tax impact of 0.12% or \$3.42 per average household with an average assessment of \$245,100.

The matter of a grant or loan from the Hamilton Future Fund was referred to the Board of Trustees of the HFF who are to meet on August 2, 2011 to consider this matter.

In an effort to fully realize the taxation benefit of the redevelopment of the school board property, staff are recommending a \$1 million holdback which would be conditional on the University proceeding with the Phase 2 development and that it generates \$600,000 in new municipal tax revenue by July 1, 2020.

3.2 Public Health Service (PHS) Accommodations

A series of alternative accommodation scenarios were formed by staff with the aid of NORR consultants. In total, four alternatives were formed and evaluated on the basis of program delivery and value for money.

In addition, a further two scenarios are presented for Council's information, however, since these only move some clinical Public Health spaces into the new proposed McMaster Health Campus, they are not supported by the University. As a result, they are not viable since it is uncertain as to whether McMaster would proceed with their

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proposed development without a more significant presence from the City's Public Health Services Department.

Sharing clinic space ensures that front line staff of PHS work along side and with other practitioners, creating opportunities to improve individual client care. However, it is the co-location and collaboration of the leadership of both organizations which provides opportunities to plan and integrate programs to have a greater impact on the health of the whole community.

In general, the alternatives (Options 1-4) represent varied levels of lease space across existing leased or owned space, leased space in the McMaster Health Campus, and leased space in an alternative new downtown location.

The four options identified below can be described accordingly:

- Option 1 - shared clinic space (11,000 sq. ft) at McMaster Health Campus (excluding dental), 19,000 sq. ft. Public Health Services (PHS) dedicated space at McMaster Health Campus, 52,300 sq. ft. PHS consolidation into new leased downtown core location including dental clinic, and retain two downtown existing leased space. New leased central mountain location required to relocate existing sexual health clinic located at Upper Ottawa site.
- Option 2 - shared clinic space (11,000 sq. ft.) at McMaster Health Campus (excluding dental), more PHS dedicated space (34,750 sq. ft) at McMaster Health Campus, less PHS consolidation into new leased downtown core location (36,600 sq. ft) including dental clinic, and retain two downtown existing leased space. New leased central mountain location required to relocate existing sexual health clinic located at Upper Ottawa site.
- Option 3 - shared clinic space (11,000 sq. ft.) at McMaster Health Campus (excluding dental), greater PHS dedicated space (43,000 sq. ft.) at McMaster Health Campus, even less PHS consolidation into new leased downtown core location (29,450 sq. ft.) including dental clinic, and retain two downtown existing leased space. New leased central mountain location required to relocate existing sexual health clinic located at Upper Ottawa site.
- Option 4 – shared clinic space (12,000 sq. ft) at McMaster Health Campus including dental clinic, 81,500 sq. ft. (i.e., the maximum quantity) of PHS dedicated space at McMaster Health Campus including dental clinic, retain two downtown existing leased space and no new downtown core

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location. New leased central mountain location required to relocate existing sexual health clinic located at Upper Ottawa site.

Table 1 of Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) below offers a summary of the financial impacts for each of the alternatives.

Each of the alternatives offer a higher level of consolidation of Public Health staff in the downtown core relative to the current circumstances. The pros and cons for each of the alternatives are presented in the Alternatives for Consideration Section of this report.

The financial impacts identified below represent an effort to fully quantify the cost impacts by capturing the following costs:

- lease impacts;
- parking impacts; and,
- one-time costs (fit-up costs, moving, furniture, fixture and equipment costs, professional fees, parking costs).

In addition to the above cost impacts, the financial analysis also reflects the potential of mitigating measures including sale of City-owned assets, and the potential annual taxation impact from property tax recapture of existing Public Health leased space.

Appendix "A" to Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) provides a detailed summary of the financial impact by option. The appendix also presents for Council's information the two additional scenarios which have only the Public Health Services Department's clinic spaces moving into the McMaster Health Campus and that the University believes are not acceptable.

The annual lease costs below are based on a 30 year lease established assuming the capital investment is debentured over a similar period with an associated cost to borrow of 5%. In addition, all net one-time costs are assumed to be debt financed, over a period of 10 years, with an associated cost to borrow of 4%. It should be noted that actual debenture rates would vary and be established at project completion.

TABLE 1

	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>	<i>Option 4</i>
TOTAL SPACE (gross sq. ft.)				
Existing Leased and Owned	16,716	16,716	16,716	16,716
New Downtown Lease Location	52,293	36,596	29,452	0
New Mountain Lease Location	2,100	2,100	2,100	2,100

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McMaster Shared	10,949	10,949	10,949	12,027
McMaster Stand-alone	19,051	34,748	42,963	64,805
Total PHS Accommodation	101,109	101,109	102,180	95,648
FINANCIAL IMPACTS				
Annual lease costs	2,082,089	2,306,906	2,444,894	2,631,076
Annual additional parking	193,200	193,200	193,200	192,200
Annual one-time financing costs (applies to initial 10-year period)	298,172	238,177	164,022	136,420
Total annual costs (Year 1)	2,573,461	2,738,284	2,802,116	2,960,696
<i>Less: existing base budget</i>	<i>(1,863,099)</i>	<i>(1,863,099)</i>	<i>(1,863,099)</i>	<i>(1,863,099)</i>
<i>Less: estimated municipal taxes</i>	<i>(190,025)</i>	<i>(190,025)</i>	<i>(190,025)</i>	<i>(190,025)</i>
Budget Pressure Year 1	520,337	685,160	748,993	907,573
Residential Tax Impact				
\$ (based on average home assessment of \$245,100)	\$2.12	\$2.80	\$3.06	\$3.70
% Impact	0.08%	0.10%	0.11%	0.13%

The additional accommodation costs of the four above identified options range from \$520,337 to \$907,573. The range in costs is influenced by the cost factors and potential mitigating measures identified above.

It should be noted that in the case of existing lease space, staff have assumed a tenant fit-up cost of \$35 / square foot. This allowance reflects the estimated cost of necessary improvements in existing PHS leased space including for example, AODA requirements, storage needs, and vaccine storage requirements, as identified in 2010 by the McGregor Design Group.

As identified previously, all options provide a higher level of consolidation of Public Health in the downtown core relative to the current circumstances. This consolidation of staff in the downtown core translates into a varied level of costs that support moving and reconfiguration, professional fees, and furniture costs. It should be noted that it is assumed by staff that the availability of new downtown lease space carries a tenant fit-up allowance of \$25 / square foot in recognition to the availability of relatively high-quality lease space, in addition to a gross lease cost of \$19 / square foot. Also, the analysis reflects additional parking related costs reflecting the consolidation of staff in

the downtown, in part, from areas outside of downtown that have available no cost parking. The parking cost impacts are consistent with existing approved City policy on Employer Paid Parking.

Options 1 through 4 assume PHS will continue to lease and own space of approximately 16,700 square feet. While this space represents a lower cost per square foot, as identified above, it is assumed this space will require tenant fit-ups due of a series of deficiencies. The range in net cost of Options 1 through 4 reflects the varied mix in downtown lease space principally between the McMaster Health Campus and an alternative new downtown lease location. This mix in downtown lease space also impacts the range in one-time costs.

In the case of the last option (Option 4), which represents the greatest level of integration of PHS in the McMaster Health Campus and the highest cost pressure, the cost is very much influenced by the forecast lease costs at the Campus site relative to existing and alternative downtown lease costs. As per the table above, this option which assumes fuller integration at the McMaster Health Campus consequently includes the lowest one-time costs, as this option assumes tenant fit-up costs within the forecast lease costs.

As identified above, two additional options were evaluated financially but have not been included in the Analysis Section of this report as the level of participation by PHS did not provide for the level of collaboration sought by both McMaster and PHS. These two scenarios are presented for Council's information in the appendices of this report.

3.3 Key Synergies and Enhanced Service with PHS Co-Location at MHC

Increased access to service:

- Primary health care for underserved or vulnerable individuals
- Health information for multicultural clients through Women's Health Educators
- Early childhood developmental assessments
- On-site dental services for low-income families
- On-site and community support for breastfeeding
- Immediate access to consultation re parenting information via on-site parenting
- On-site smoking cessation counselling and nicotine replacement therapy ¹

Higher quality service:

- One-stop model of care for vulnerable individuals and families in the downtown core
- Seamless continuum of care for individuals with mental health issues
- More relevant and timely community referrals
- Immediate referrals to Healthy Babies Healthy Children (HBHC) and Nurse-Family Partnership (NFP) Program
- Rapid response to health sector and public health emergencies

Improved Health Outcomes:

- Decreased obesity rates
- Decreased smoking rates
- Early identification of childhood development and/or behavioural issues
- Improved birth outcomes

NOTE: Some potential improved outcomes are tied to specific options

This model has the potential to build on existing collaborations and develop new partnerships that will contribute to the identified “better outcomes for citizens” outlined above:

<i>Existing Partnerships and Collaborative Models:</i>	<i>Emerging Partnerships:</i>
<ul style="list-style-type: none"> • Shelter Health Network • Maternity Centre • PHN Secondment with Hamilton Family Health Team (HFHT) • Health Sector emergency response • 18 month well-baby strategy through Best Start • ADGS programs with HFHT: Drinkwise and Methadone Case Manager • Interprofessional Learning in the Inner City Program • On-site surveillance 	<ul style="list-style-type: none"> • STD and Sexual Health Clinics • HBHC and Nurse-Family Partnership home visiting programs • Immunization services • Code Red prevention of low-birth weight initiative • Collaborative health campaigns • Dissemination of health information to patients

The co-location of the Department of Family Medicine, some key City of Hamilton Public Health Services staff and other relevant academic groups offers the unique opportunity for the City of Hamilton to become a national centre of innovation and excellence. The co-location of the senior management teams for both organizations and, at least, a small number of Public Health staff on-site is essential to the success of this partnership.

Regardless of the number of PHS staff co-located and moved to the downtown core, direct service to the broader community will continue through the provision of:

- Sexual health services in satellite clinics (Dundas, East End, Mountain and Waterdown);
- Support for new mothers, children and families continues through the HBHC Home Visiting Program throughout the City;
- Parenting groups and prenatal classes continue to be provided at a variety of community locations;
- Breastfeeding support remains on-site at Today's Family OEYC in Limeridge Mall;
- Mental Health Outreach Program;
- Public Health inspections; and,
- Access to telephone counselling.

ALTERNATIVES FOR CONSIDERATION
 (include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

4.0 Options for Co-Location of PHS in the MHC and Consolidation of Services

Report CM11008(a)/PED11134/FCS11063/BOH11026 at the July 4, 2011 General Issues Committee, recommended that Council direct staff to negotiate standard commercial leases for dedicated and shared space as per Option1 in the McMaster Health Campus, as well as a new downtown location by April 30, 2012.

Staff recommends that the lease term for the McMaster Health Campus dedicated and shared space be for a period of 30 years with three options for 5 year renewals, for a potential total lease period of 45 years. The negotiated terms and lease rates for the lease extensions / renewal would exclude the original capital financing costs in recognition that the facility will be fully capitalized during the initial 30 year lease term. Therefore, the costs that will be borne by PHS during the 3 five year option periods would be significantly reduced and would be limited to operating costs and some level of capital renewal/maintenance contribution.

The “status quo” of keeping Public Health Services in multiple locations does not meet the ongoing needs of Public Health Services, so staff did consider two other options which were assessed as not being acceptable since they did not meet the minimum on-site staff required to establish a partnership between the Department of Family Medicine and Public Health Services senior management staff.

The table below sets out the “Pros” and “Cons” of the four options set out in this report:

<i>Option</i>	<i>Description</i>	<i>Pros</i>	<i>Cons</i>
1	<ul style="list-style-type: none"> Share clinic space that includes sexual health, immunizations, breastfeeding, tobacco cessation Co-locate senior leadership of PHS and McMaster Small number of PHS staff at the McMaster Health Campus, majority of PHS staff at alternate location 	<ul style="list-style-type: none"> Provides some opportunity for collaboration with McMaster and PHS within each Division Provides appropriate supervision of WNV worksite Decreases the number of PHS locations, concentrating staff in two locations Provides some opportunity for collaboration with McMaster and PHS within each Division Removes health and safety and building environment 	<ul style="list-style-type: none"> Duplicate office reception areas at McMaster Campus and other downtown location requiring both space and staffing Requires finding a new site for a central mountain sexual health clinic Does not provide full consolidation of PHS

**SUBJECT: McMaster Health Campus Proposal - McMaster University
 (CM11008(b)) (PED11134(a)) (FCS11063(a)) (BOH11026(a)) (CITY WIDE)
 - Page 24 of 26**

<i>Option</i>	<i>Description</i>	<i>Pros</i>	<i>Cons</i>
	<p>downtown, that includes dental clinic and excludes ADGS and Child and Adolescent Services</p> <ul style="list-style-type: none"> Maintain outlying sexual health clinic services 	<p>concerns</p> <ul style="list-style-type: none"> Revitalizes downtown core through rental of new space 	
	<p>Net Cost = \$520,337</p>		
2	<ul style="list-style-type: none"> Share clinic space that includes sexual health, immunizations, breastfeeding, tobacco cessation Co-locate senior leadership of PHS and McMaster Consolidate PHS staff at McMaster Health Campus and an alternate downtown location that includes dental clinic and excludes ADGS and Child and Adolescent Services Maintain outlying sexual health clinic services 	<ul style="list-style-type: none"> Provides opportunity for collaboration with McMaster and PHS Provides appropriate supervision of WNV worksite Decreases the number of PHS locations, concentrating staff in two locations Provides opportunity for collaboration with McMaster and PHS Removes health and safety and building environment concerns Revitalizes downtown core through rental of new space 	<ul style="list-style-type: none"> Duplicate office reception areas at McMaster Campus and other downtown location requiring both space and staffing Requires finding a new site for a central mountain sexual health clinic Does not provide full consolidation of PHS
	<p>Net Cost = \$685,160</p>		
3	<ul style="list-style-type: none"> Share clinic space that includes sexual health, immunizations, breastfeeding, tobacco cessation Co-locate senior leadership of PHS and McMaster Consolidate a majority of PHS 	<ul style="list-style-type: none"> Provides downtown core clinic space, including dental clinic Consolidates all core operations of PHS Maximizes opportunity for collaboration and synergies with McMaster Provides appropriate supervision for WNV worksite Removes health and safety 	<ul style="list-style-type: none"> Duplicate office reception areas at McMaster Campus and other downtown location requiring both space and staffing Requires finding a new site for a central mountain sexual health clinic Does not provide full consolidation of PHS

**SUBJECT: McMaster Health Campus Proposal - McMaster University
(CM11008(b)) (PED11134(a)) (FCS11063(a)) (BOH11026(a)) (CITY WIDE)
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<i>Option</i>	<i>Description</i>	<i>Pros</i>	<i>Cons</i>
	staff in two locations downtown, predominately at the McMaster Health Campus <ul style="list-style-type: none"> Maintain outlying sexual health clinic services 	and building environment concerns <ul style="list-style-type: none"> Revitalizes downtown core through rental of new space Allows more PHS staff at McMaster Health Campus than Option 2 	
	Net Cost = \$748,993		
4	<ul style="list-style-type: none"> "All-in model" Consolidates all PHS staff at McMaster Health Campus including the dental clinic This excludes ADGS and Child and Adolescent Services Maintain outlying sexual health clinic services 	<ul style="list-style-type: none"> Maximizes opportunity for collaboration and synergies with McMaster Provides downtown core clinic space, including dental clinic Consolidates all core operations of PHS Maximizes opportunity for collaboration and synergies with McMaster Provides appropriate supervision for WNV worksite Removes health and safety and building environment concerns 	<ul style="list-style-type: none"> Most expensive option Leaves a potentially vacant office site in the downtown core Requires finding a new site for a central mountain sexual health clinic
	Net Cost = \$907,573		

NOTE: All options maintain access to sexual health clinic service in outlying areas (East End, Mountain, Dundas and Waterdown). All options have ADGS and Child and Adolescent Services remaining at their current locations.

4.1 Alternatives for Financing of the \$20 million Financial Contribution

As identified previously, staff are recommending a \$1 million holdback with respect to the \$20 million City funding contribution towards the McMaster Health Campus. This recommended holdback represents an effort to realize the benefits in terms of redevelopment in the downtown core and the associated taxation benefit to the City. The terms of this holdback include a completed development by July 1, 2020 with an associated annual municipal taxation of \$600,000 (2011\$). McMaster University has agreed to this condition.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative and Respectful Organization

- ◆ More innovation, greater teamwork, better client focus
- ◆ Council and Senior Management Team are recognized for their leadership and integrity

Financial Sustainability

- ◆ Effective and sustainable Growth Management
- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner
- ◆ Generate assessment growth/non-tax revenues

Intergovernmental Relationships

- ◆ Acquire greater share of Provincial and Federal grants (including those that meet specific needs)
- ◆ Maintain effective relationships with other public agencies

Growing Our Economy

- ◆ Newly created or revitalized employment sites

Social Development

- ◆ Residents in need have access to adequate support services

Environmental Stewardship

- ◆ Reduce the impact of Hamilton's industrial, commercial private and public operations on the environment
- ◆ Aspiring to the highest environmental standards

APPENDICES / SCHEDULES

Appendix "A" to Report CM11008(b)/PED11134(a)/FCS11063(a)/BOH11026(a) – Proposed Accommodations Options – Financial Summary

Proposed Accommodations - OPTION 1

	Square Footage	Estimated Cost/Sq Ft	Estimated Operating Cost/Sq Ft
Continued Existing Lease & Owned Space	16,716	\$ 13.34	Not applicable
New Mountain Leased Space for SH Clinic	2,100	\$ 16.00	\$ 7.00
New Downtown Leased Space	52,293	\$ 19.00	Not applicable
New Shared Space @ McMaster Health Campus *	10,949	\$ 13.66	\$ 3.00
New PHS Space @ McMaster Health Campus *	19,051	\$ 27.32	\$ 6.00
Total New PH Accommodation	101,109		
Incremental PH Parking Expense (161 spaces)			
Annual net one-time capital cost repayments *			
Total Annual New PH Accommodation			

* assume 5% cost to borrow, 30 year term

** assume 4% cost to borrow, 10 year term

New PH Lease Option 2013 Budget Pressure

Estimated 2013 Gross Budget

2013 Budget Pressure

Year One (2013) Projected Costs			
Base Rent	Operating Costs	Total Costs	Total Costs Per Square Foot
\$ 222,991	\$ -	\$ 222,991	\$ 13.34
\$ 33,600	\$ 14,700	\$ 48,300	\$ 23.00
\$ 993,567	\$ -	\$ 993,567	\$ 19.00
\$ 149,574	\$ 32,847	\$ 182,421	\$ 33.22
\$ 520,504	\$ 114,306	\$ 634,810	\$ 33.32
\$ 1,920,236	\$ 161,853	\$ 2,082,089	
		\$ 193,200	
		\$ 298,172	
\$ 1,920,236	\$ 161,853	\$ 2,573,461	\$ 25.45

One-Time Financial Impacts Related to PHS Consolidation

Tenant Fit-up for existing lease space eg code issues	\$ 585,060
Tenant Fit-up for new lease space	1,454,325
Tenant Fit-up for new/existing lease space	\$ 2,039,385
Moving & FFE Costs	
Move and Reconfiguration Costs	\$ 1,465,000
Additional Furniture Requirements	300,000
Professional Fees	414,054
	\$ 2,179,054
Total One-Time Costs	\$ 4,218,439
Less: Sale of City-owned 1447 Upper Ottawa, Unit 9	
Appraised value	\$ (1,800,000)
Net One-Time Costs	\$ 2,418,439

OPTION DESCRIPTION

- Shared clinic space at McMaster Campus excluding dental clinic
- Some PHS dedicated space at McMaster Campus
- PHS consolidation into new leased core location including dental clinic
- Retain two downtown existing leased locations
- Relocate existing Up Ottawa sexual health clinic to new leased mtn site

municipal tax impacts

					Year 1 Municipal Taxes	Year 5 Municipal Taxes
Public Health						
A	Property Tax Recapture on Previously Leased				\$ 223,559	\$ 223,559
B	Property Tax Rebate for Vacant Units				33,534	-
					190,025	223,559

A With new non-tax exempt tenants in re-leased space vacated by Public Health, the new tenants will be responsible for paying property taxes.

B Property owners may pursue annual application for property tax rebates on vacant commercial units which are unused & that are not subject to a lease. The property tax rebate amounts to 30% of the property taxes attributable to the vacant units. Assumption of a 50% vacancy rate in year one.

Public Health Financial Summary

Public Health Operating Budget Impacts

2013 Net Budget Pressure of increased accommodation costs \$ 710,362

Estimated Municipal Taxes

Year One (2013) \$ 190,025

Total Estimated Budget Impact Net of Municipal Taxes
 Year One (2013) \$ 520,337

Residential Tax Impact *

Dollar Impact \$ 2.12
 % Impact 0.08%

* Based on average home assessment of \$245,100

Proposed Accommodations - OPTION 2

	Square Footage	Estimated Cost/Sq Ft	Estimated Operating Cost/Sq Ft
Continued Existing Lease & Owned Space	16,716	\$ 13.34	Not applicable
New Mountain Leased Space for SH Clinic	2,100	\$ 16.00	\$ 7.00
New Downtown Leased Space	36,596	\$ 19.00	Not applicable
New Shared Space @ McMaster Health Campus *	10,949	\$ 13.66	\$ 3.00
New PHS Space @ McMaster Health Campus *	34,748	\$ 27.32	\$ 6.00
Total New PH Accommodation	101,109		
Incremental PH Parking Expense (161 spaces)			
Annual net one-time capital cost repayments *			
Total Annual New PH Accommodation			

Year One (2013) Projected Costs			
Base Rent	Operating Costs	Total Costs	Total Costs Per Square Foot
\$ 222,991	\$ -	\$ 222,991	\$ 13.34
\$ 33,600	\$ 14,700	\$ 48,300	\$ 23.00
\$ 695,324	\$ -	\$ 695,324	\$ 19.00
\$ 149,574	\$ 32,847	\$ 182,421	\$ 33.22
\$ 949,382	\$ 208,488	\$ 1,157,870	\$ 33.32
\$ 2,050,871	\$ 256,035	\$ 2,306,906	
		\$ 193,200	
		\$ 238,177	
\$ 2,050,871	\$ 256,035	\$ 2,738,284	\$ 27.08

* assume 5% cost to borrow, 30 year term
 ** assume 4% cost to borrow, 10 year term

New PH Lease Option 2013 Budget Pressure

Estimated 2013 Gross Budget	\$ 1,863,099
2013 Budget Pressure	\$ 875,185

One-Time Financial Impacts Related to PHS Consolidation

Tenant Fit-up for existing lease space eg code issues	\$ 585,060
Tenant Fit-up for new lease space	1,061,900
Tenant Fit-up for new/existing lease space	\$ 1,646,960
Moving & FFE Costs	
Move and Reconfiguration Costs	\$ 1,465,000
Additional Furniture Requirements	300,000
Professional Fees	319,872
	\$ 2,084,872
Total One-Time Costs	\$ 3,731,832
Less: Sale of City-owned 1447 Upper Ottawa, Unit 9	
Appraised value	\$ (1,800,000)
Net One-Time Costs	\$ 1,931,832

OPTION DESCRIPTION

- Shared clinic space at McMaster Campus excluding dental clinic
- PHS dedicated space at McMaster Campus
- PHS consolidation into new leased core location including dental clinic
- Retain two downtown existing leased locations
- Relocate existing Up Ottawa sexual health clinic to new leased mtn site

					Year 1 Municipal Taxes	Year 5 Municipal Taxes
<u>Public Health</u>						
A	Property Tax Recapture on Previously Leased				\$ 223,559	\$ 223,559
B	Property Tax Rebate for Vacant Units				33,534	-
					190,025	223,559

A With new non-tax exempt tenants in re-leased space vacated by Public Health, the new tenants will be responsible for paying property taxes.

B Property owners may pursue annual application for property tax rebates on vacant commercial units which are unused & that are not subject to a lease. The property tax rebate amounts to 30% of the property taxes attributable to the vacant units. Assumption of a 50% vacancy rate in year one.

Public Health Financial Summary

Public Health Operating Budget Impacts

2013 Net Budget Pressure of increased accommodation costs \$ 875,185

Estimated Municipal Taxes

Year One (2013) \$ 190,025

Total Estimated Budget Impact Net of Municipal Taxes

Year One (2013) \$ 685,160

Residential Tax Impact *

Dollar Impact \$ 2.80

% Impact 0.10%

* Based on average home assessment of \$245,100

Proposed Accommodations - OPTION 3

	Square Footage	Estimated Cost/Sq Ft	Estimated Operating Cost/Sq Ft
Continued Existing Lease & Owned Space	16,716	\$ 13.34	Not applicable
New Mountain Leased Space for SH Clinic	2,100	\$ 16.00	\$ 7.00
New Downtown Leased Space	29,452	\$ 19.00	Not applicable
New Shared Space @ McMaster Health Campus *	10,949	\$ 13.66	\$ 3.00
New PHS Space @ McMaster Health Campus *	42,963	\$ 27.32	\$ 6.00
Total New PH Accommodation	102,180		
Incremental PH Parking Expense (161 spaces)			
Annual net one-time capital cost repayments *			
Total Annual New PH Accommodation			

* assume 5% cost to borrow, 30 year term

** assume 4% cost to borrow, 10 year term

New PH Lease Option 2013 Budget Pressure

Estimated 2013 Gross Budget

2013 Budget Pressure

Year One (2013) Projected Costs			
Base Rent	Operating Costs	Total Costs	Total Costs Per Square Foot
\$ 222,991	\$ -	\$ 222,991	\$ 13.34
\$ 33,600	\$ 14,700	\$ 48,300	\$ 23.00
\$ 559,588	\$ -	\$ 559,588	\$ 19.00
\$ 149,572	\$ 32,847	\$ 182,419	\$ 33.22
\$ 1,173,818	\$ 257,778	\$ 1,431,596	\$ 33.32
\$ 2,139,569	\$ 305,325	\$ 2,444,894	
		\$ 193,200	
		\$ 164,022	
\$ 2,139,569	\$ 305,325	\$ 2,802,116	\$ 27.42

\$ 1,863,099

\$ 939,018

One-Time Financial Impacts Related to PHS Consolidation

Tenant Fit-up for existing lease space eg code issues	\$ 585,060
Tenant Fit-up for new lease space	883,300
Tenant Fit-up for new/existing lease space	\$ 1,468,360
Moving & FFE Costs	
Move and Reconfiguration Costs	\$ 1,085,000
Additional Furniture Requirements	300,000
Professional Fees	277,008
	\$ 1,662,008
Total One-Time Costs	\$ 3,130,368
Less: Sale of City-owned 1447 Upper Ottawa, Unit 9	
Appraised value	\$ (1,800,000)
Net One-Time Costs	\$ 1,330,368

OPTION DESCRIPTION

- Shared clinic space at McMaster Campus excluding dental clinic
- PHS dedicated space at McMaster Campus
- PHS consolidation into new leased core location including dental clinic
- Retain two downtown existing leased locations
- Relocate existing Up Ottawa sexual health clinic to new leased mtn site

Municipal Tax Impacts

					Year 1 Municipal Taxes	Year 5 Municipal Taxes
<u>Public Health</u>						
A	Property Tax Recapture on Previously Leased				\$ 223,559	\$ 223,559
B	Property Tax Rebate for Vacant Units				33,534	-
					190,025	223,559

A With new non-tax exempt tenants in re-leased space vacated by Public Health, the new tenants will be responsible for paying property taxes.
 B Property owners may pursue annual application for property tax rebates on vacant commercial units which are unused & that are not subject to a lease. The property tax rebate amounts to 30% of the property taxes attributable to the vacant units. Assumption of a 50% vacancy rate in year one.

Public Health Financial Summary	
<u>Public Health Operating Budget Impacts</u>	
2013 Net Budget Pressure of increased accommodation costs	\$ 939,018
Estimated Municipal Taxes	
Year One (2013)	\$ 190,025
Total Estimated Budget Impact Net of Municipal Taxes	
Year One (2013)	<u>\$ 748,993</u>
Residential Tax Impact *	
Dollar Impact	\$ 3.06
% Impact	0.11%
* Based on average home assessment of \$245,100	

Proposed Accommodations - OPTION 4

	Square Footage	Estimated Cost/Sq Ft	Estimated Operating Cost/Sq Ft
Continued Existing Lease & Owned Space	16,716	\$ 13.34	\$ -
New Mountain Leased Space for SH Clinic	2,100	\$ 16.00	\$ 7.00
New Downtown Leased Space	0	\$ -	\$ -
New Shared Space @ McMaster Health Campus *	12,027	\$ 13.66	\$ 3.00
New PHS Space @ McMaster Health Campus *	64,805	\$ 27.32	\$ 6.00
Total New PH Accommodation	95,648		
Incremental PH Parking Expense (161 spaces)			
Annual net one-time capital cost repayments **			
Total Annual New PH Accommodation			

* assume 5% cost to borrow, 30 year term

** assume 4% cost to borrow, 10 year term

New PH Lease Option 2013 Budget Pressure

Estimated 2013 Gross Budget

2013 Budget Pressure

Year One (2013) Projected Costs			
Base Rent	Operating Costs	Total Costs	Total Costs Per Square Foot
\$ 222,991	\$ -	\$ 222,991	
\$ 33,600	\$ 14,700	\$ 48,300	
\$ -	\$ -	\$ -	
\$ 164,298	\$ 36,081	\$ 200,379	\$ 33.22
\$ 1,770,576	\$ 388,830	\$ 2,159,406	\$ 33.32
\$ 2,191,465	\$ 439,611	\$ 2,631,076	
		\$ 193,200	
		\$ 136,420	
\$ 2,191,465	\$ 439,611	\$ 2,960,696	\$ 30.95

\$ 1,863,099

\$ 1,097,598

One-Time Financial Impacts Related to PHS Consolidation

Tenant Fit-up for existing lease space eg code issues	\$ 585,060
Tenant Fit-up for new lease space	147,000
Tenant Fit-up for new/existing lease space	\$ 732,060
Moving & FFE Costs	
Move and Reconfiguration Costs	\$ 1,473,000
Additional Furniture Requirements	300,000
Professional Fees	401,430
	\$ 2,174,430
Total One-Time Costs	\$ 2,906,490
Less: Sale of City-owned 1447 Upper Ottawa, Unit 9	
Appraised value	\$ (1,800,000)
Net One-Time Costs	\$ 1,106,490

OPTION DESCRIPTION

- Shared clinic space at McMaster Campus excluding dental clinic
- Maximum PHS consolidation into McMaster Health Campus including dental clinic
- Retain two downtown existing leased locations
- Relocate existing Up Ottawa sexual health clinic to new leased mtn site

Municipal Tax Impacts

					Year 1 Municipal Taxes	Year 5 Municipal Taxes
<u>Public Health</u>						
A	Property Tax Recapture on Previously Leased				\$ 223,559	\$ 223,559
B	Property Tax Rebate for Vacant Units				33,534	-
					190,025	223,559

A With new non-tax exempt tenants in re-leased space vacated by Public Health, the new tenants will be responsible for paying property taxes.
 B Property owners may pursue annual application for property tax rebates on vacant commercial units which are unused & that are not subject to a lease. The property tax rebate amounts to 30% of the property taxes attributable to the vacant units. Assumption of a 50% vacancy rate in year one.

Public Health Financial Summary	
<u>Public Health Operating Budget Impacts</u>	
2013 Net Budget Pressure of increased accommodation costs	\$ 1,097,598
Estimated Municipal Taxes	
Year One (2013)	\$ 190,025
Total Estimated Budget Impact Net of Municipal Taxes	
Year One (2013)	<u>\$ 907,573</u>
Residential Tax Impact *	
Dollar Impact	\$ 3.70
% Impact	0.13%
* Based on average home assessment of \$245,100	

Proposed Accommodations - OPTION 5

	Square Footage	Estimated Cost/Sq Ft	Estimated Operating Cost/Sq Ft
Continued Existing Lease & Owned Space	16,716	\$ 13.34	Not applicable
New Mountain Leased Space for SH Clinic	2,100	\$ 16.00	\$ 7.00
New Downtown Leased Space	66,812	\$ 19.00	Not applicable
New Shared Space @ McMaster Health Campus *	10,949	\$ 13.66	\$ 3.00
New PHS Space @ McMaster Health Campus *			
Total New PH Accommodation	96,577		
Incremental PH Parking Expense (161 spaces)			
Annual net one-time capital cost repayments *			
Total Annual New PH Accommodation			

* assume 5% cost to borrow, 30 year term

** assume 4% cost to borrow, 10 year term

New PH Lease Option 2013 Budget Pressure

Estimated 2013 Gross Budget

2013 Budget Pressure

Year One (2013) Projected Costs			
Base Rent	Operating Costs	Total Costs	Total Costs Per Square Foot
\$ 222,991	\$ -	\$ 222,991	\$ 13.34
\$ 33,600	\$ 14,700	\$ 48,300	\$ 23.00
\$ 1,269,428	\$ -	\$ 1,269,428	\$ 19.00
\$ 149,574	\$ 32,847	\$ 182,421	\$ 33.22
\$ -	\$ -	\$ -	
\$ 1,675,593	\$ 47,547	\$ 1,723,141	
		\$ 193,200	
		\$ 353,664	
\$ 1,675,593	\$ 47,547	\$ 2,270,004	\$ 23.50

\$ 1,863,099

\$ 406,906

One-Time Financial Impacts Related to PHS Consolidation

Tenant Fit-up for existing lease space eg code issues	\$ 585,060
Tenant Fit-up for new lease space	1,817,300
Tenant Fit-up for new/existing lease space	\$ 2,402,360
Moving & FFE Costs	
Move and Reconfiguration Costs	\$ 1,465,000
Additional Furniture Requirements	300,000
Professional Fees	501,168
	\$ 2,266,168
Total One-Time Costs	\$ 4,668,528
Less: Sale of City-owned 1447 Upper Ottawa, Unit 9	
Appraised value	\$ (1,800,000)
Net One-Time Costs	\$ 2,868,528

OPTION DESCRIPTION

- Shared clinic space at McMaster Campus excluding dental clinic
- PHS consolidation into new leased core location including dental clinic
- Retain two downtown existing leased locations
- Relocate existing Up Ottawa sexual health clinic to new leased mtn site

Municipal Tax Impacts

					Year 1 Municipal Taxes	Year 5 Municipal Taxes
<u>Public Health</u>						
A	Property Tax Recapture on Previously Leased				\$ 223,559	\$ 223,559
B	Property Tax Rebate for Vacant Units				33,534	-
					190,025	223,559

A With new non-tax exempt tenants in re-leased space vacated by Public Health, the new tenants will be responsible for paying property taxes.
 B Property owners may pursue annual application for property tax rebates on vacant commercial units which are unused & that are not subject to a lease. The property tax rebate amounts to 30% of the property taxes attributable to the vacant units. Assumption of a 50% vacancy rate in year one.

Public Health Financial Summary	
<u>Public Health Operating Budget Impacts</u>	
2013 Net Budget Pressure of increased accommodation costs	\$ 406,906
Estimated Municipal Taxes	
Year One (2013)	\$ 190,025
Total Estimated Budget Impact Net of Municipal Taxes	
Year One (2013)	<u>\$ 216,881</u>
Residential Tax Impact *	
Dollar Impact	\$ 0.88
% Impact	0.03%
* Based on average home assessment of \$245,100	

Proposed Accommodations - OPTION 6

	Square Footage	Estimated Cost/Sq Ft	Estimated Operating Cost/Sq Ft
Continued Existing Lease & Owned Space	44,964	\$ 11.58	Not applicable
New Mountain Leased Space for SH Clinic			
New Downtown Leased Space	50,981	\$ 19.00	Not applicable
New Shared Space @ McMaster Health Campus *	5,119	\$ 13.66	\$ 3.00
New PHS Space @ McMaster Health Campus *			
Total New PH Accommodation	101,064		
Incremental PH Parking Expense (96 spaces)			
Annual net one-time capital cost repayments *			
Total Annual New PH Accommodation			

* assume 5% cost to borrow, 30 year term

** assume 4% cost to borrow, 10 year term

New PH Lease Option 2013 Budget Pressure

Estimated 2013 Gross Budget

2013 Budget Pressure

Year One (2013) Projected Costs			
Base Rent	Operating Costs	Total Costs	Total Costs Per Square Foot
\$ 520,683	\$ -	\$ 520,683	\$ 11.58
\$ -	\$ -	\$ -	
\$ 968,639	\$ -	\$ 968,639	\$ 19.00
\$ 69,930	\$ 15,357	\$ 85,287	\$ 33.22
\$ -	\$ -	\$ -	
\$ 1,559,252	\$ 15,357	\$ 1,574,609	
		\$ 115,200	
		\$ 481,518	
\$ 1,559,252	\$ 15,357	\$ 2,171,328	\$ 21.48

One-Time Financial Impacts Related to PHS Consolidation

Tenant Fit-up for existing lease space eg. code issues	\$ 1,339,135
Tenant Fit-up for new lease space	1,274,525
Tenant Fit-up for new/existing lease space	\$ 2,613,660
Moving & FFE Costs	
Move and Reconfiguration Costs	\$ 686,000
Additional Furniture Requirements	300,000
Professional Fees	305,886
	\$ 1,291,886
Total One-Time Costs	\$ 3,905,546
Less: Sale of City-owned 1447 Upper Ottawa, Unit 9	
Appraised value	\$ -
Net One-Time Costs	\$ 3,905,546

OPTION DESCRIPTION

- Minimal shared clinic space at McMaster Health Campus
- Some PHS consolidation into new leased core location
- Retain Upper Ottawa site including dental clinic
- Retain outlying sexual health clinics

					Year 1 Municipal Taxes	Year 5 Municipal Taxes
<u>Public Health</u>						
A	Property Tax Recapture on Previously Leased				\$ 65,729	\$ 65,729
B	Property Tax Rebate for Vacant Units				19,719	-
					46,010	65,729

A With new non-tax exempt tenants in re-leased space vacated by Public Health, the new tenants will be responsible for paying property taxes.

B Property owners may pursue annual application for property tax rebates on vacant commercial units which are unused & that are not subject to a lease. The property tax rebate amounts to 30% of the property taxes attributable to the vacant units. Assumption of a 50% vacancy rate in year one.

Public Health Financial Summary	
<u>Public Health Operating Budget Impacts</u>	
2013 Net Budget Pressure of increased accommodation costs	\$ 308,229
Estimated Municipal Taxes	
Year One (2013)	\$ 46,010
Total Estimated Budget Impact Net of Municipal Taxes	
Year One (2013)	<u>\$ 262,219</u>
Residential Tax Impact *	
Dollar Impact	\$ 1.07
% Impact	0.04%
* Based on average home assessment of \$245,100	



First Real Properties Limited | Second Real Properties Limited | Fourth Real Properties Limited

July 6, 2011

VIA EMAIL

City of Hamilton
Attention: Mr. John Hamilton, Property Coordinator
Planning and Economic Development Department
Real Estate Section
700 - 71 Main Street West
Hamilton, Ontario L8P 4Y5

Dear Mr. Hamilton,

Re: Expression of Interest, Public Health Department

We have been following the ongoing media reporting regarding McMaster University's proposed downtown health campus and the City of Hamilton's agreement to contribute up to \$20 million to the construction of this campus. Given the most recent article detailing the full commitment McMaster is seeking from the City of Hamilton and the proposed rental rates associated to this commitment, we believe that the City may wish to consider consolidating the Public Health Department (PHD) into existing space.

We understand that recommendations will be submitted to City Council this evening to discuss the relocation of some or all of the PHD. In this regard Yale Properties Limited would like to express its interest to provide such office space in the Robert Thomson Building, 110 King Street West. There will be a contiguous 81,775 square feet of office space over 4 floors (or a total available area of 102,196 square feet over 5 floors) becoming available for lease in March 2013. The space is currently occupied by Bell Canada and contains a fair amount of leasehold improvements that may be utilized by the PHD.

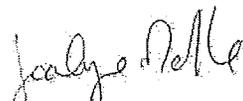
The current gross rental rate (excluding real estate taxes however including janitorial and electrical) for "as is" office space in the Robert Thomson Building is approximately \$19.00 per square foot. We believe that we are uniquely able to provide the PHD with the contiguous space it requires at fair market lease terms in accordance with the numerous transactions we have completed with the City in the past.

The Robert Thomson Building is centrally located in the Lloyd D. Jackson Square complex, directly across the street from the new MacNab Transit Terminal, along the proposed LRT corridor, with underground parking available for patrons. For these and other reasons we are confident that this space can easily meet the needs of the PHD.

We look forward to the opportunity to meet with the City of Hamilton to further discuss the further specifics of this possible tenancy

Yours truly,

YALE PROPERTIES LIMITED


Jocelyne Mainville
Leasing Manager

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