



Finance, Administration and Audit Committee Report

DATE: Monday, February 04, 2019

WARD(S): ALL

**TITLE: VMC YMCA COMMUNITY CENTRE AND LIBRARY PROGRESS
UPDATE AND FIT-OUT BUDGET AMENDMENT**

FROM:

Tim Simmonds, Interim City Manager

Michael Coroneos, Chief Financial Officer and City Treasurer

ACTION: DECISION

Purpose

The purpose of this report is to update Council on the Vaughan Metropolitan Centre (VMC) YMCA Community Centre and Library project and request a budget amendment to complete Phase Two: Fit-out. The Phase Two: Fit-out detailed construction budget was prepared in January 2019 in order to capture prevailing market conditions and an accurate projection of the project construction costs just prior to the close of the construction tender process.

Report Highlights

- The VMC YMCA Community Centre and Library project is financed through Infrastructure Ontario and guaranteed by the City of Vaughan.
- Capital costs associated with Phase One: Base Building and Phase Two: Fit-out are shared between the City and the YMCA based on an approved funding allocation. Costs associated with Phase Three: Furniture, Fixturing and Equipment are the responsibility of each partner and specific to each partner's space.
- Phase One: Base Building is scheduled to be delivered on time and on budget, with an anticipated completion date of March/April 2019.
- Phase Two: Fit-out will begin in March/April 2019 and will be delivered by Fit-out contractor JR Certus.
- A budget amendment is required to provide sufficient funds to complete Phase Two works
- The official opening of the project is anticipated for early 2020.

Recommendations

1. That the budget in capital project RE-9537-17 be increased by \$7,000,000 plus applicable taxes and administration recovery, financed internally until project completion and afterward through Infrastructure Ontario, with repayment funded 90% from Recreation and Library development charges and 10% from non-DC sources;
2. That Council direct Staff to continue to work with the YMCA of Greater Toronto and Infrastructure Ontario to complete the financing of the additional budget for Phase Two: Fit-out as identified in the report;
3. That Council give authority to the Chief Financial Officer and Treasurer to execute any and all agreements required in accordance with the project's master agreement and in a form satisfactory to the City's legal counsel;
4. That Council delegate authority to the Mayor and City Clerk to enter into a revised Guarantor Agreement and related documents as required, in a form satisfactory to the City's legal counsel and with content satisfactory to the Chief Financial Officer, with the YMCA of Greater Toronto and Infrastructure Ontario;
5. That Council direct Staff to reflect the latest project costs and the resulting City contribution, into future Capital budgets and forecasts;
6. That the inclusion of this matter on a Public Committee or Council agenda with respect to increasing the Capital Budget identified as "VMC YMCA Community Centre and Library Progress Update and Fit-Out Budget Amendment" is deemed sufficient notice pursuant to Section 2(1)(c) of By-Law 394-2002.

Background

The VMC YMCA Community Centre and Library designed by Diamond Schmitt Architects and MJMA Architects will provide a wide range of services and programs to support the physical, social and mental health of people living and working in this growing community. This new 109,000 sq. ft. facility will feature:

- A full gymnasium with recreational sports for people of all ages
- Two pools for swim lessons, lane swim and family-friendly recreation
- Programs for children, including swim lessons, martial arts and dance
- Studios for yoga, Pilates, bootcamp, kettlebell and more
- Personal training
- Functional training equipment and programs
- Conditioning and weight room
- Certification programs
- Programs for older adults
- Child care
- Day camps
- Volunteer opportunities
- Recording studio
- Performance arts space
- Event space
- Community learning kitchen
- First-of-its-kind self-serve library
- Full service adult and children's library

In 2016, Council approved the YMCA Community Centre and Library mixed-use project. This approval outlined that the City would contribute up to 2/3 of the construction- and project-related costs of the YMCA Community Centre and 100% of the City Library and Recreation Space. In addition, Council endorsed Staff to work with the YMCA to secure any relevant government grants that could lessen the 2/3 funding commitment from the City.

On June 20, 2017, the YMCA of Greater Toronto and the City celebrated the official groundbreaking of the new VMC YMCA. Co-located with a City of Vaughan public library and performing arts space, the mixed-use project is immediately adjacent to the new VMC Station of the Toronto Transit Commission Line 1 (Toronto-York-Spadina) subway extension.

Previous Reports/Authority.

http://www.vaughan.ca/council/minutes_agendas/AgendaItems/Finance0403_17_4.pdf

[http://www.vaughan.ca/council/minutes_agendas/AgendaItems/CW\(WS\)0209_16_3.pdf](http://www.vaughan.ca/council/minutes_agendas/AgendaItems/CW(WS)0209_16_3.pdf)

Analysis and Options

The YMCA development team has worked closely together since the start of the project to ensure the design and construction of the VMC Community Centre and Library is carefully planned and monitored

The VMC Community Centre and Library project is being delivered through three distinct phases of construction:

- Phase One: Base Building
- Phase Two: Fit-out
- Phase Three: Furniture, Fixtures and Equipment

Phase One of this city-building project (base building construction) began in mid- 2017 and is nearing successful completion. The construction phase for the base building, which is being delivered by SmartReit and constructed by PCL Contractors, will be delivered on time, with a scheduled completion date of March/April 2019. The base building construction is also tracking to be completed within budget.

Throughout Phase One, a monthly loan monitor report and construction certificate was prepared for the construction management team using a third-party independent construction services firm. The construction development team included YMCA project management and City of Vaughan Staff. These documents assisted in a full review of all work completed and invoiced.

During the base-building construction phase, only one interruption was experienced and it ultimately did not cause any significant delay or cost escalation in the project.

Phase Two of the project will be delivered by a Fit-out Contractor that has extensive experience in delivering public-sector and not-for-profit infrastructure.

Phase Two: Fit out is scheduled to begin in March/April 2019. This phase of the project is anticipated to take approximately 12 months to complete and will be delivered by Fit-out contractor JR Certus.

JR Certus, a boutique general contracting firm with 100+ years of employee experience, was chosen through a competitive procurement process led by the YMCA, to deliver the Fit Out phase of construction for the project. Other projects that they have completed include;

- Niagara College Canadian Food Wine Institute (Niagara)
- Milton Hydro Headquarters (Milton)
- Enbridge Technology & Operations Centre Building (Markham)
- Town of Ajax ARC Phase 2 (Ajax)
- Ecole Secondaire Gaetan Gervais (Oakville)

Market conditions are always evolving and more so in a highly charged GTA high-rise and office construction market. These conditions are having an impact on estimated fit-out costs

Once detailed design for fit out was completed in late 2018, the construction management team began to review the original estimated fit-out budget from 2016. In addition, an open and competitive tender process was established and initiated for all fit-out construction. Rather than relying on budget estimates prepared in 2016, this deliberate reconciliation and review was undertaken as a necessary step in the building process. Undertaking this work at the onset of Phase Two promotes smart project management and fiscal prudence as it allows Staff to complete a final budget that takes into account any new market conditions which may have presented themselves.

Market conditions include but are not limited to inflation in labour and material costs. Market intelligence recently confirmed that a combination of more than 191 mid-rise, high-rise and office tower projects are under construction in Toronto, which is putting an undue amount of stress on the labour force. In addition, the U.S. economic policies on NAFTA, U.S. tariffs on steel and the undetermined outcome of the trade implications of Brexit are impacting the market now but were not when the original fit-out estimated costs were prepared in 2016.

The project's third-party cost consultants confirmed that the construction markets are experiencing a hyperinflation due to the trade tariffs introduced on aluminum and steel-based products. This has a wide-spread impact throughout all of the construction market, but is particularly evident in trades such as the drywall, structural steel, miscellaneous metals and aluminum framed glazing systems contractors that are heavily reliant on this material. In reviewing market trends, they have noted that general pricing for these major trades has increased approximately 20 per cent over the last year.

Although a number of tactics are practised by the construction industry to effectively estimate and budget construction costs, the approach this project management team has taken was to effectively minimize the opportunity for change orders and price escalation for Phase Two by finalizing the fit-out budget in relation to the completion of the tender process and as timely as possible to the tender process.

Minimizing costs through other level of government and grant opportunities is an important funding source.

To date, Staff at the YMCA and the City of Vaughan have met with and delivered materials to Provincial and Federal offices that highlight this important city-building initiative, which is a core element to the VMC's social infrastructure.

The YMCA of Greater Toronto secured \$2,500,000 of funding through the Community-Based Child Care Capital Investment, contributed by the Province of Ontario – Ministry of Education and the Government of Canada. Funds were managed by the Regional Municipality of York Child Care Services in partnership with the YMCA of Greater Toronto.

Staff will continue to work with all levels of government to secure additional grant funding for the project.

An Operations Committee comprised of staff from the YMCA and the City has been formed to begin working on all aspects of the combined day-to-day programming and operations of the facility.

The Operations Committee will focus on:

- Hours of operation
- Programming continuity between the three partners
- Staffing and Security
- Wayfinding and Signage
- Cleaning and Maintenance
- Main Street uses (main foyer)
- Grand Opening Strategy and Plan

In addition to focusing efforts on the above, it was noted that the opening date of the facility has been revised. Through the tender process the timing for the grand opening of the facility which was slated for December 2019 is being adjusted to early 2020. The revised opening does not affect any of the financial obligations associated with the project.

Financial Impact

The total current construction-related budget for the VMC YMCA Community Centre and Library project is \$62.4M. The City's portion of this total project cost is \$48.2M, which consists of 100% of the capital costs for the City library and City recreation facilities and up to 2/3 of the capital costs for the YMCA facility. The project is being financed through an Infrastructure Ontario (IO) loan. The YMCA of Greater Toronto is the borrower with the City as the guarantor.

Based on the review of the project's current fit-out construction budget and comparison versus updated market pricing, a total project budget amendment of \$10.5M to the project budget would be required to provide sufficient funds to complete Phase Two: Fit Out. This amount includes both the YMCA and City spaces.

Some of the main drivers for the increase are:

- \$3.2M in market-related cost escalation and hyperinflation with the largest increases directly tied to labour and steel/metal tariffs, representing a nearly 40 per cent increase in costs over the last 24 months. Overall escalation to materials and labour due to market conditions across all aspects of the fit-out work is approximately 20 per cent.
- \$1.9M attributable to the unique project requirements and restricted access involved for the project, which were not known at the time the original budget was developed at the conceptual design phase. As the fit out will be occurring while the building's corporate tenant space is still under development, trades will be required to adjust how they carry-out their fit out work and access for site deliveries is being restricted to night time shifts. These requirements are resulting in increased trade costs.
- \$1.6M impact resulting from more precise unit costing for certain fit-out components such as masonry, tiling, athletic flooring, painting and finish hardware.
- \$1.2M in additional contingency to account for risk of additional inflation on outstanding tender results for trade packages due to market conditions at time of tendering
- The updated budget for the fit-out also contains cash allowances appropriate for the project.

The City will assume responsibility for 2/3 of the additional \$10.5M cost or approximately \$7.0M while the YMCA will be directly responsible for 1/3 of the cost or approximately \$3.5M. The below table illustrates the revised project budget:

	Current approved budget			Revised Budget			Variance		
	COV	YMCA	Total	COV	YMCA	Total	COV	YMCA	Total
YMCA space	28.5	14.2	42.7	32.8	17.7	50.5	4.3	3.5	7.8
City Space	17.8	-	17.8	20.4	-	20.4	2.7	-	2.7
Total Construction	46.2	14.2	60.5	53.2	17.7	70.9	7.0	3.5	10.5
Rec & Library FF&E	2.0	-	2.0	2.0	-	2.0	-	-	-
Total Budget	48.2	14.2	62.4	55.2	17.7	72.9	7.0	3.5	10.5

A capital budget amendment is required to capital project RE-9537-17 of \$7.0M, financed internally until project completion. As the construction for the project is being financed through a loan from Infrastructure Ontario, it is being proposed that the City's portion of the increase in project budget be financed in the long term through IO. Staff are currently working with the YMCA and Infrastructure Ontario on this option. In the interim, the City could internally finance this additional budget from its reserves.

Funding for the financing repayment of the additional \$7.0M would come 90% from the City's Recreation and Libraries Development Charges Reserves and 10% from non-DC sources (eg. taxation). Infrastructure Ontario financing would help spread the impact of the additional \$7.0M on the City's DC Reserves and Capital from Taxation Reserve over a minimum of 20 years. Although the current balances within the applicable DC reserves are healthy, there must be consideration for the effect that the additional budget will have on the timing of other recreation projects. The timing of other projects in the capital plan that are funded from the same funding sources are not anticipated to be impacted by the above required budget amendment. The intention is to include the additional budget in the next update of the DC Background Study.

Broader Regional Impacts/Considerations

Staff will continue to pursue grant opportunities with other levels of government to reduce the financial obligations of the City.

Conclusion

The proposed YMCA Centre of Community, Library and recreation space project is an important city-building project in the Vaughan Metropolitan Centre and with this project, the Vaughan Metropolitan Centre becomes a leading example of successful planning and development for a mobility hub as a vibrant, mixed-use environment. Phase One: Base Building construction is scheduled to be completed on time and on budget and the project is now moving into Phase Two: Fit Out. Evolving market conditions are having a significant impact on costing for this next phase of the project and additional budget is required to provide sufficient budget to complete the works. Staff are continuing to work closely with the YMCA project development team on this phase of the project.

For more information, Tim Simmonds, Interim City Manager or Rita Selvaggi, Manager, Financial Planning & Analysis, x8438

Attachments

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