

TORONTO STAFF REPORT

June 12, 2006

To: Budget Advisory Committee

From: Gary Welsh, General Manager, Transportation Services
William G. Crowther, Executive Director, Technical Services

Subject: Simcoe Street Underpass
(Trinity - Spadina, Ward 20)

Purpose:

To request approval to increase the City's dollar share as a result of increased total project costs for the Simcoe Street Underpass project and correspondingly, take advantage of a cost share arrangement with the third party developer, Fairmont Developments, consistent with provisions in the Precinct B Agreement for the Railway Lands East.

Financial Implications and Impact Statement:

The current estimated project cost for the Simcoe Street Underpass, including GST, is \$48.5 million. The project was originally estimated, excluding GST, at \$24.0 million which was shared 50 percent by the developer (Fairmont Developments Inc.) and 50 percent by the City. The total project cost has since increased twice: to \$30.0 million and, more recently to \$45.4 million. The City share is now estimated to be \$21.713 million, an increase of \$7.276 million, excluding GST, representing a 47.8 percent share with offsetting contributions from affected utilities. This includes total cash flows to the City of \$6.613 million in 2006, \$10.0 million in 2007 and \$4.71 million in 2008. In addition, a total amount of \$0.387 million has already been spent by the City to date.

The City's contribution is now forecasted to be funded partially from debt and development charges with offsetting reductions in other state of good repair projects for future years so that this project remains within the established debt targets for Transportation Services. This report addresses the latest increase in cost for work identified in a Precinct B Agreement for the Railway Lands East. Although the scope of work has not increased, the cost to complete various elements of work described herein have risen substantially from estimates compiled several years ago.

If the increased project cost is not approved, the City and its partners could be prevented from doing any work in the area for the next seven to ten years.

The Deputy City Manager and Chief Financial Officer has reviewed this report and concurs with the financial impact statement.

Recommendation:

It is recommended that City Council approve the increased City dollar share of the Simcoe Street Underpass project cost in the amount of \$7.276 million and that the approved 2006 Transportation Services Capital Budget be amended to reflect the 2006-2008 cash flows.

Background:

The Simcoe Street Extension, between Front Street West and Lake Shore Boulevard West/Harbour Street, was identified as part of a package of road improvements in the 1983 Central Waterfront Transportation Study. The rationale for the Simcoe Street Extension, at that time, was to mitigate the barrier effect of the elevated rail corridor by extending the downtown street grid through it, thereby supporting the planned commercial/residential growth and expanded recreational areas in the Railway Lands and Harbourfront areas. Subsequent transportation studies have confirmed the need for the Simcoe Street Extension as development plans in these areas have evolved, and on that basis the former City of Toronto embedded the requirement to extend Simcoe Street in successive precinct agreements for the development of the Railway Lands. The Simcoe Street Extension also supports the current objectives of Waterfront Revitalization by improving road, cycling and pedestrian access to the waterfront.

The construction of Simcoe Street between Lake Shore Boulevard West/Harbour Street and the elevated rail corridor was completed in the mid 1990s. The Revised Precinct B Agreement for the Railway Lands East made between Canadian Pacific Properties Inc. and the City, as amended, provides for the construction of the Simcoe Street Underpass as an identified piece of municipal infrastructure in accordance with a set phasing schedule which is attached to that Agreement. The development of the triggering Blocks is now imminent and the Precinct Agreement requires that the Simcoe Street Underpass now proceed on the basis of a 50-50 cost-share between the City and Fairmont Developments Inc., the successor to Canadian Pacific Properties Inc. The Precinct Agreement further stipulates that the Simcoe Street Underpass, like other required infrastructure, must be completed and operational prior to the occupancy of any development on the Blocks in question and that it is Fairmont's responsibility to design and build the underpass.

It is also noteworthy that the Precinct Agreement does not specify the actual cost for this project, reflecting the understanding that the development of the Railway Lands East was anticipated to be undertaken over the course of many years, and thus the final infrastructure costs would be dependant on tender prices at such time as the project might be triggered by the rate of development activity in the Railway Lands East.

Comments:

The Simcoe Street Underpass Project was originally scheduled for commencement in 2001. However, due to a number of timing issues related to Fairmont Developments Inc.'s development plans and GO Transit's projects on their rail corridor, the project was delayed for a number of years. The tendering of the work was eventually performed by Fairmont Developments Inc. in March 2006 with a closing date of May 2, 2006.

The pre-construction estimate for this project, valued at approximately \$27.0 million, exclusive of GST, was prepared in 2001 by Fairmont Developments Inc.'s consultant, Morrison-Hershfield Consultants Limited. Ancillary work (such as railway flagging, engineering design, contract administration, track signals and track work, contingency, etc.) yielded a revised total cost estimate of \$30.0 million excluding GST that would be split between Fairmont and the City. Following the May 2, 2006 tender close, it was discovered that all the received bids were well in excess of the consultant's pre-construction estimate of \$32.1 million inclusive of GST, ranging from \$40.6 million to \$48.6 million, inclusive of GST. As a result, a meeting was convened on June 1, 2006 with Morrison-Hershfield Consultants Limited, Fairmont Developments Inc., and Soncin Construction Limited (the low bidder) to discuss the variance between the pre-construction estimate and the low bid.

City staff are satisfied with the reasons provided by Soncin Construction Limited for the cost differentials and accordingly, recommend accepting the low bid, valued at \$40.6 million. Associated ancillary costs of \$7.9 million, inclusive of GST, result in a total project cost of \$48.5 million.

The competitive tender prices received are significantly higher than the original estimate based on the following key factors:

(a) Market Conditions

Prices for heavy construction projects have risen dramatically in recent months. The Ministry of Transportation Estimating Office advises that average prices have increased by 17 percent over last year, just in the two months since the beginning of the current fiscal year on April 1, 2006. The Ministry notes that prices for multi-year contracts are particularly high and attribute this to the continuing escalation in material costs; this translates to an estimated increased cost of \$4,500,000.00.

A basic capacity shortage is affecting some sub-trades. This project requires complex shoring to support the rail tracks during the bridge construction. The number of specialized companies capable of doing the work is limited, and several companies are known to have declined to tender on this project due to other work commitments. Consequently, these sub-trades are pricing to what the market will bear as evidenced by the very high prices received for the shoring work; this translates to an increased cost of approximately \$5,350,000.00.

(b) Contract Schedule

GO Transit advised in December 2005 that this project required redesign to suit the requirements of the GO Union Station Rail Corridor (USRC) work program. This program initially allowed for Simcoe Street Underpass work above the rail corridor track level to be performed in 2006 with all below track level work to be done in 2007 and first quarter of 2008. GO USRC revised their program which altered the initial Simcoe Street Underpass work plan such that work above and below track on the north portion of Simcoe Street was to be completed in 2006 and the south portion of Simcoe Street to be completed during 2007 with utility and road work to follow in the first quarter of 2008.

The redesign to accommodate this change extended the overall duration of the contract by a full year and GO USRC's revised work plan resulted in additional mobilization and demobilization activities to accommodate the north-south phased construction. This translates to an increased cost of approximately \$3,600,000.00.

(c) General Construction Costs

Due to the higher submitted tender prices, general construction costs related to bonding, insurance, GST, contingencies, etc., would also be proportionately higher; this translates to an increased estimated cost of \$750,000.00.

In summary, the City's share of the total increase in the estimated construction cost for the Simcoe Street Underpass project is approximately \$7.276 million.

Given that this work has been coordinated with other GO Transit capital projects, it is imperative that Soncin commence work immediately in order to meet the deadlines specified in the tender package. Delaying the approval of the project beyond the end of June 2006 will jeopardize the timing of planned GO Transit works and will result in the possibility of compensation claims against the City/Fairmont partnership. From Soncin's perspective, delays could preclude the company from securing required materials, such as structural steel for anchoring and shoring and the use of a specialized drill head for directional boring, necessary to complete this phase of the project prior to the April 2008 GO Transit deadline. Both of the above-noted items, particularly the structural steel, have to be secured in order to deliver the Simcoe Street Underpass project on time. Other factors contributing to the expediency of this project include the following:

- the contractor is not permitted to work through the winter months (November 1st to March 30th) because the track ballast and ties are not to be disturbed after frost; and
- the low bidder requires a GO Transit reviewed and approved detailed schedule to ensure the work plan is possible; if approval is not received this month, it is possible the City would not be allowed back into the rail corridor until the year 2015, since the tendered completion of April 2008 would be jeopardized.

Conclusions:

Not proceeding with the Simcoe Street Underpass project at this time would delay the City's effort in performing this work for the next 7 to 10 years as the GO Transit work program related to signal and track work would not permit any projects by external proponents to be undertaken until full completion of GO Transit work is achieved. This delay may further increase the ultimate cost of the Simcoe Street Underpass project. Accordingly, it is recommended that the City's increased dollar share be authorized.

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