



STAFF REPORT ACTION REQUIRED

Redevelopment of St. Lawrence Market North – Status Update

Date:	June 3, 2013
To:	Government Management Committee
From:	Deputy City Manager and Chief Financial Officer Chief Corporate Officer
Wards:	Ward 28 – Toronto-Centre Rosedale
Reference Number:	P:\2013\Internal Services\RE\Gm13017re (AFS #17733)

SUMMARY

This report provides an update on the St. Lawrence Market North redevelopment initiative, including a revised business case based on current market conditions and forecasts.

The forecast cost for the building has risen from \$74.89 million originally provided in the 2010 Capital Budget and 2011-2019 Capital Plan to a current estimate of \$91.46 million. It is recommended that design work continue, and the necessary budget adjustment(s) be referred to the 2014 Capital Budget Process. The principal benefits that will result from the project's completion include:

- Significant improvement to a City landmark and tourist destination
- Improved compatibility with the heritage character of other buildings in the St. Lawrence Market complex and neighborhood
- Increased parking capacity (through the construction of 250 new underground spaces) which will replace some of the local parking currently being lost as a result of new building developments in the area
- Service improvements resulting from the consolidation of Court Services operations into one location (this service would otherwise be accommodated in three locations)
- Creation of attractive new interior spaces that can be used for a variety of community and commercial purposes

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer and the Chief Corporate Officer recommend that:

1. City Council direct staff to authorize the continuation of design work by Adamson Associates Architects General Partnership (the "Architect"), in association with Rogers Stirk Harbour + Partners LLP (the "Design Architect"), in order to complete the Design Development and Bid Document Stages for St. Lawrence Market North Redevelopment Project.
2. City Council refer consideration of a revised financial plan to address the need for additional funding of \$15.293 million to the 2014 Capital Budget Process.
3. The appropriate City Officials be authorized and directed to take the necessary action to give effect hereto.

Financial Impact

Business Case Analysis

A preliminary business case analysis carried out in 2008 (provided to Council in a November 10, 2008 staff report) indicated that the construction of a new facility would result in a modest positive financial benefit (\$1.1 million net present value) relative to the status quo scenario, in which the existing Market building is maintained and Court Services' program requirements are accommodated within various City and leased space. City staff have updated this business case to incorporate the current capital cost estimates for the proposed building as well as the current forecasts of rental costs that will be incurred by the City if the building is not built.

The updated analysis now forecasts that the construction of the new facility will result in a net cost of \$12.95 million (net present value over 30 years) higher than maintaining the status quo scenario (see Appendix "B"). The principal reason for the increased accommodation cost of the redevelopment option is the higher estimated construction cost for the proposed St. Lawrence Market North building.

Project Capital Costs

Initial funding of \$0.875 million, to carry out an architectural design competition for the St. Lawrence North redevelopment project, was approved by Council through its adoption of the recommendations in the November 2008 staff report from the Chief Corporate Officer.

Capital funding for the overall project was first approved by Council as part of the 2010 Capital Budget and 2011-2019 Capital Plan. The annual cash flows associated with this initial funding approval are presented below in Table 1.

Table 1 - Capital Funding Originally Approved for St. Lawrence North Redevelopment 2010 Capital Budget and 2011-2019 Capital Plan (\$ millions)					
2010	2011	2012	2013	2014	Total
1.00	13.25	23.41	23.98	13.24	74.89

As part of the 2012 Capital Budget and 2013 - 2021 Capital Plan, Council approved an additional \$0.400 million of capital expenditures for Courts Services moving costs, funded through the Courts Stabilization reserve fund. This increased the total project cost to **\$76.165 million**.

Recently, after detailed architectural design work and more extensive examination of existing subsurface conditions, the Architect submitted a design with forecasted capital costs of **\$91.458 million**. The updated cash flow forecast associated with this revised estimated total project cost is shown below in Table 2.

Table 2 - Updated 2013 St. Lawrence North Project Cash Flow Plan (\$ millions)						
Amount Spent as of Dec 31, 2012	2013	2014	2015	2016	2017	Total
1.822	2.500	17.723	30.632	28.207	10.574	91.458

The portion of the Architects contract related to the design phase is \$3.2 million, of which \$0.7 million has been spent. If Council endorses continuation of the Design Development and Bid Document stages, additional costs incurred in 2013 will total \$2.3 million. The design phase is currently on hold, pending Council's authority to continue with the design based on a revised estimated total project cost of \$91.458 million.

Capital Funding

As discussed above, Council has approved a total of \$76.2 million in capital funding for the St. Lawrence North redevelopment. This total funding was originally to be drawn from the sources shown in Table 3.

Table 3 – Original Capital Funding Sources (\$ millions)	
Recoverable Debt	60.2
Contribution from Toronto Parking Authority	11.5
Court Services Stabilization Reserve	4.4
Total Funding:	76.2

In updating the business case, staff have reviewed the original 2010 forecast for recoverable debt and determined that this amount should be revised in accordance with current Capital Budget policy and also to reflect a more conservative estimate of the revenues that the City will receive through its income sharing agreement with the Toronto Parking Authority (revenues related to an underground parking garage that would be constructed as part of the proposed St. Lawrence North building). Also, other adjustments and changes to assumptions were made (e.g. future revenue growth).

The revised recoverable debt amount is now estimated to be \$39.7 million. It is anticipated that a portion of the resulting project funding shortfall will be addressed through the use of Development Charge funding that will become available as a result of incorporating the eligible project costs within the revised Development Charge By-Law that will be implemented later this year. In addition, it is currently anticipated that up to \$3 million of funding will be available through Section 37/45 funds generated by local redevelopment.

Up to \$15 million of the remaining shortfall can potentially be funded from the forecasted revenue to be received by the City in 2016 from the Toronto Parking Authority as a result of the Parking Authority's joint venture agreement for the redevelopment of the Yorkville garage. The funding for the balance of the shortfall will need to be drawn from other sources such as capital reserves or debenture debt.

Table 4 provides the current estimates of the revised funding amounts. This report recommends that the revised financing plan be considered as part of the 2014 Capital budget process.

Table 4 – Revised Forecast of Available Funding Sources (\$ millions)	
Recoverable Debt	39.7
Contribution from Toronto Parking Authority for Underground Garage	14.0
Court Services Stabilization Reserve	4.4
Development Charges	5.0
Section 37/45	3.0
Revenues Received in 2016 from the Toronto Parking Authority as a Result of Yorkville Garage Joint Venture	15.0
Capital Reserves / Debt Funding	17.0
Total:	98.1

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

DECISION HISTORY

The current St. Lawrence Market North initiative has been ongoing since 2002 to maximize the site's full potential and improve the St. Lawrence Market complex. At its meeting on July 30, 31 and August 1, 2002, City Council approved, in principal, the concept of redeveloping the St. Lawrence Market North Building and directed City staff to study redevelopment options. The 2002 Council report, which includes a detailed history of the St. Lawrence Market complex, can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/2002/agendas/council/cc020730/adm10rpt/cl014.pdf>

At its meeting on June 24, 25 and 26, 2003 City Council established the St. Lawrence Market North Working Committee to determine planning and design guidelines for the redevelopment, as well as consultations with various stakeholders. The report can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/2003/agendas/council/cc030624/adm5rpt/cl024.pdf>

At its meeting on October 26, 27 and 28, 2004, City Council adopted development parameters for St. Lawrence Market North and endorsed a strategic vision statement for the St. Lawrence Market complex. The report can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/2004/agendas/council/cc041026/adm8rpt/cl007.pdf>

At its meeting on June 27, 28, 29 2006, City Council directed City staff to investigate a number of technical matters with the redevelopment, including parking access/accommodations and Court Services as a primary tenant. The report can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/2006/agendas/committees/adm/adm060606/it020.pdf>

At its meeting on September 25, 26, 27 2006, City Council directed City staff to provide a business plan for the redevelopment of the North Market building. The report can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/adm6rpt/cl022.pdf>

At its meeting on December 10, 2008, City Council endorsed the strategy to redevelop the St. Lawrence Market North property with a multi-story building, including a ground floor Market Hall, Court Services' court rooms and administrative offices, and a 250-space below grade parking garage. The decision also authorized a design competition to select an architect for the redevelopment. The report can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/mmis/2008/bu/bgrd/backgroundfile-17440.pdf>

At its meeting on July 6, 7, 8, 2010, City Council endorsed the winning design from the St. Lawrence Market North Design Competition and authorized City staff to enter into an agreement with the successful proponent for the provision of architectural services for the new St. Lawrence Market North Building. The report can be found through the following hyperlink:

<http://www.toronto.ca/legdocs/mmis/2010/ex/bgrd/backgroundfile-31365.pdf>

This report also authorized spending of up to \$5.26 million for architectural services, including tendering and construction contract administration related to the new building design.

ISSUE BACKGROUND

The current St. Lawrence Market North building (see Appendix "A" for Location Map) is underutilized and does not maximize the full potential of the lands or the Market Complex (which includes St. Lawrence Hall and the North and South Market). The existing one-storey brick building was constructed in 1968 and is largely incompatible with the surrounding area. The current redevelopment initiative aims to improve the utility of the Market Complex for vendors, visitors and shoppers, while contributing towards economic development in the area. The Market Complex has served as a City landmark for over 200 years and remains as one of the most valuable historical sites in Toronto. In 1803, Lieutenant Governor Peter Hunter issued a proclamation that the lands be used for a public market, to be open on a weekly basis.

COMMENTS

Current Status

On November 8, 2011, the City executed a consulting agreement with the Architect to develop the Winning Design within the City's Program of Requirements, including a construction budget of \$58.1 million. The Architect has been unsuccessful to date in developing the Winning Design within the City's Original Program of Requirements. As a result, the Architect has provided an adjusted design to meet the minimum functional requirements, including 14 Courtrooms and JP Offices, 250 parking stalls, Court and Police Service administrative offices, Art Gallery, Restaurant, Kitchen Incubator and Farmers Market area. The total project budget based on the Architect's latest design submission is \$91.458 million. Additional funding of \$15.293 million is required in order to advance the project, despite considerable reductions to The Winning Design.

The Winning Design included the following design features which have been eliminated or reduced in the current design:

1. Building Height Reduction - height of building has been reduced from 6 floors (including mezzanine) to 5 floors. Space programming efficiencies have been realized by relocating non essential file storage space from the office floors to residual areas of the parking garage. The revised design also eliminates the 4th Floor mechanical area by changing the design from a centralized mechanical system to a decentralized system distributed across all floors.

2. Green Roof Reduction – the Winning Design included a separate green roof suspended over the main building roof, excluding the atrium. The revised design includes a green roof as part the building roof.
3. Sustainability Target Reductions – the Winning design stipulated designing to LEED Gold, with the 'goal' of LEED Platinum. The revised design proposes designing to the Toronto Green Standard of Tier 1 (which contributes towards LEED Silver certification).
4. Sun Shade System Reduction - the Winning Design included operable exterior wood louvers, including maintenance catwalks, on the east and west sides of the building. The current design includes a fixed louver system of composite material with an aluminum core and the elimination of the maintenance catwalks.

The Architect has informed the City that there are no further design reduction options available other than further reductions to program space, which is unacceptable to the City. As a result, in order for the project to proceed, additional funding is required. The final project cost estimate, based on 100% design, will not be known until the Architect completes the Design Development and Bid Document stages.

Current Building Design

The Reengineered Design maintains the essence of the Winning Design and accommodates the major program requirements.

The Reengineered North Market Design includes:

New St. Lawrence Market Facility	
Below Grade	250 parking spaces (operated by TPA)
Floor 1 - Market Hall	Farmers Market, Commercial Events, Retail Café
Floor 2 - Mezzanine	Restaurant, Kitchen Incubators, Court Services Administrative Offices
Floor 3	Court Services Head Office, Operations and Administrative Offices
Floor 4	JP offices, City and Provincial Prosecutions Offices, Police Services and 5 courtrooms
Floor 5	9 Courtrooms
All	5 Storey Atrium

Highlights of the Winning Design can be found through the following hyperlink: http://www.toronto.ca/stlawrence_market/design/. Images of the Winning Design and Reengineered Design are included in Appendix "C."

Revised Project Costs

The revised project costs are a result of a few significant factors:

(1) Preliminary Cost Estimate ("Class D")

Initial project estimates were based on a unit cost allocation of a typical structure on a typical site. This would be considered a "Class D" estimate, where cost estimates can vary +/- 25% depending on the level of complexity of a project. The design competition produced a winning design that is a distinct structure, and standard unit costing was not the most suitable measure. The current estimate can be considered a "Class B" estimate, where a significant amount of design development has been completed and incorporates more detailed allowances for both direct and indirect costs, escalations and contingencies. This resulted in an increase in project cost of approximately \$7.2 million.

(2) Site Conditions

Further analysis of the site has uncovered conditions that would not be considered typical, requiring additional costs to excavate to the required depths to accommodate the winning design and underground parking structure. This resulted in an increase over the original estimate for the below grade structure of approximately \$6.8 million.

(3) Inflation

Inflation / escalation has also contributed to the change in project cost, as the original estimate was prepared in 2008/09. This contributed to an increase of approximately \$2 million over the approved project budget.

There is still a possibility of variances from current estimates and actual tender prices to be received. Other risk factors that can have further impact on the final overall project costs include:

- Found conditions through environmental remediation
- Found conditions through archaeological assessments
- Construction market at the time of tender

These risk factors may also affect project scheduling.

City staff are currently at the end of the Design Development Stage with the Architect. However, the project is on hold in view of increased estimated costs. If the Design Development Stage is allowed to continue, the Architect will provide a final design within the *increased* construction cost estimate. Once the design development is finalized, the Architect is required to develop Bid Documents with a final pre-tender cost estimate. This is the Architect's best estimate of construction costs based on 100% complete design. If the estimate is within budget, City staff from Facilities Management, in consultation with PMMD, will issue a construction Tender Call. If the estimate is not within budget, staff will report back to City Council.

Business Case Analysis

Preliminary 2008 Analysis

As part of the November, 2008 report to City Council, staff provided a preliminary financial analysis that compared the total net present value of the 30-year costs under a new St. Lawrence North building scenario with the costs that would be incurred under a status quo scenario.

Under the status quo scenario, it was assumed that deferred capital maintenance would be carried out on the existing St. Lawrence Market North building and that this building would continue to be operated and maintained throughout the 30-year analysis period. It was also assumed that privately-owned office space would be rented to accommodate existing and future Court Services staff (City Council had directed that the Court Services staff currently in Old City Hall vacate the building in order to allow for more public-access-friendly functions in the building). Prior to moving into the rented space, it was assumed that significant expenditures would be made on fitting out the rented space for the Courts function.

The new St. Lawrence North building scenario incorporated the initial capital cost of this building, its annual operating and maintenance costs, and its forecast residual value at the end of the 30-year analysis term. It also included the capital cost, annual operating and maintenance costs, forecast revenues, and residual value for the 250-space underground garage that would be built under the building.

The preliminary analysis forecasted a modest \$1.1 million (net present value) savings from the new building scenario.

Updated 2013 Analysis

Staff have updated the 2008 analysis with current inputs on forecast capital costs, rental rates, operating costs, maintenance costs and parking revenues. The updated analysis continues to assume that Court Services staff will have to vacate Old City Hall and move into rented space if the new St. Lawrence North building is not built.

This revised business case analysis forecasts that the new St. Lawrence Market North building will result in costs of \$12.95 million (net present value on a 30 year term) higher than under a status quo scenario. The primary reason for this higher cost, relative to the preliminary assessment provided in 2008, is an increase in the estimated total project cost for the new St. Lawrence Market North building.

Appendix "B" provides a detailed breakdown of the revenue and expenditure components within the analysis.

Financial Risks

The updated business case analysis incorporates staff's best available forecasts for the various financial model inputs. However, there is a risk that these forecasts will not be achieved. The following is a discussion of some of the principal risks:

Capital Cost Escalation

As discussed above, one of the risks is that the capital cost estimates for the construction of the proposed building will exceed the current forecast. However, this risk is diminishing as the design, along with the examination of site conditions, has progressed considerably since the original 2008 cost estimates

Failure to Achieve Forecast for Market Rental Revenue

One of the other principal risks is that the revenue forecasts for the ground floor area and mezzanine of the new building will not be met. Based on advice received from consultants retained by the City, Facilities Management and Real Estate Services staff have forecasted that the new building will be more successful in generating revenues, which results in a 50% increase in the total annual gross revenue forecast (relative to the existing building). Projected gross revenue for the new building is approximately \$1.2 million per year. The increased projection is a result of a 7-day-per-week operating schedule that incorporates weekday events (the current building operates primarily on Saturdays and Sundays for the farmers market and flea market), additional leasable space in the new building (e.g. new restaurant and retail café) and higher operating cost recoveries. However, if the new building is not successful in competing with existing event venues in the City for weekday events, this forecast revenue increase may not be realized. A fluctuation of +/- 25% of forecasted gross revenues from the base assumptions will impact the business case by +/- \$5.2 million over a 30 year time period.

Failure to Achieve Forecast for Parking Revenue

The Toronto Parking Authority has provided input to staff on the forecast revenues that would be realized from the 250-space parking garage below the building. There is likely a firm basis for much of the forecast parking demand as this demand will be driven by the weekday daytime Court function, together with the weekend daytime market activities. However, evening parking demand may be depend on the level of success that is achieved in attracting event rentals as discussed above. A fluctuation of +/- 10% of forecasted net revenues generated from the parking garage from the base assumptions will impact the business case by +/- \$1.7 million.

Leasing Market for Court Services Accommodation

The business case for redevelopment relies heavily on savings from 3rd party leasing. Court Services current and projected lease requirements, to be accommodated in the new North Market Building, total over 63,000 square feet. Consolidating these functions into the new St. Lawrence Market North will eliminate leasehold risks with respect to rent increases and terminations, while allowing for operational efficiencies in Courts Services service delivery model. However, depending on the market conditions for leasing in the future, the forecasted savings may be less favourable or more favourable to the business case.

Benefits of Redeveloping St. Lawrence Market North

There are a number of positive benefits associated with the development, which have not been quantified and factored into the business case. These benefits include:

Building Design and Functionality	<ul style="list-style-type: none">• Improved compatibility with the heritage character of other buildings in the Market complex and in the Market area• Retention of historical farmers market and antique market areas on main floor• Energy efficiency - the building will exceed the requirements of the City of Toronto Green Development Standard and the Green Roof By-law, and also include a geothermal heating and cooling system for greater energy savings• 5 Storey Atrium provides visual connection between the North Market, South Market and Market Hall• Physical link from New North Building to St. Lawrence Hall allows the buildings to function as a single facility• Improved loading dock - loading and unloading of market goods is currently carried out along the streets, causing inconvenience for pedestrians, vendors and other users of the building• Additional parking capacity of 250 spaces – currently no dedicated parking for the Market Complex, which restricts consumer accessibility
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<p>Economic Development and Tourism</p>	<ul style="list-style-type: none"> • Improvement of a City landmark and tourist destination • Enhancement of the top-ranked farmers market in the world • Kitchen incubator provides support to small, local food businesses • Improvement of current use from a weekend market to a 7-day operation of mixed uses • Increased activity from retail café, restaurant, street level stalls, parking and commercial events • Link to St. Lawrence Hall provides access to TPA parking garage from North Market, creating 'spillover' benefits for leasing St. Lawrence Hall for events and public gatherings • Improved revenue potential for St. Lawrence Complex vendors and caterers who service Market events
<p>Community Benefits</p>	<ul style="list-style-type: none"> • Increased offering of locally grown and sourced foods • Art gallery provides opportunities for local arts initiatives • Improved streetscape (street lights, signage and landscaping) • Use of courtroom for public ceremonies (e.g., weddings) • Contribution towards additional public parking in the area. Many surface parking lots are being replaced by new building developments, reducing available parking in a growing St. Lawrence Market neighborhood.
<p>City Programming</p>	<ul style="list-style-type: none"> • Use of Market Area for City-organized events (e.g. career fairs) and a variety of non-market uses, such as exhibitions, displays and receptions • Reduction of leasehold risks in Court Services program delivery (i.e. rent increases and possible terminations) • Accommodation of future growth for Court Services expansion • Improved efficiency and sharing of common areas by consolidating multiple Court Services locations into one building

Conclusion

Based on current market conditions and the latest estimated total project cost of the reengineered winning design, it is recommended that City Council endorse the continuation of the Design Development and Bid Document stages with the Architect. This will allow staff to continue to engage in the project of redeveloping the St. Lawrence Market North facility. Also, the revised financial plan, which will address current funding shortfalls, will be referred for consideration as part of the 2014 Capital Budget process. Should Council endorse the continuation of the design work, and if the revised financial plan is approved, staff will be in a position to issue a Tender Call in 2014.

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ATTACHMENTS

Appendix A – Location Map
Appendix B – Updated Business Case
Appendix C – Design Images