

TRCA's Acquisition of Office Space – Financing Options

Date:	February 16, 2011
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2011\Internal Services\Fp\Ec11004Fp (AFS#13479)

SUMMARY

TRCA has submitted a report to the Executive Committee Meeting on February 17, 2011, requesting an interest-free loan for the City's share of the cost to acquire 1235 Ormont Drive.

This report discusses options for funding the City's proportional share of this TRCA acquisition and the City's possible future use of a portion of the building to meet City requirements.

RECOMMENDATION

The Deputy City Manager and Chief Financial Officer recommends that:

1. Should Council wish to proceed and provide financial support to TRCA for the acquisition of 1235 Ormont Drive, the recommended option is an interest-free loan of \$9.217 million repayable in 10 years, on the condition that the City may lease space at cost for any City purpose and with an option to purchase the building at fair market value at the end of the 10 year term.

Financial Impact

This report provides information concerning the financial implications of the report to the Executive Committee from TRCA entitled "Toronto and Region Conservation Authority Project for Acquisition of Office Space," dated February 17, 2011.

The recommended option for the City to finance TRCA's project to acquire new office space is a 10 year loan of \$9.2 million without interest. This option carries an annual opportunity cost of \$0.368 million of forgone interest revenue, less than the cost of providing debt financing by \$0.047 million per year.

Should the TRCA office space acquisition project proceed, the City would be offered use of space in the 1235 Ormont Drive building for TRCA's estimated cost of \$7 / square foot. As TRCA intend to use this building as an interim solution for approximately 10 years, continued City use through acquisition would be possible.

DECISION HISTORY

On November 26, 2010, the TRCA approved the Project for Acquisition of Office Space and authorized TRCA staff to seek approval of the Project by the member municipalities. The resolution #A197/10 approved by the Authority at its meeting #9/10 was sent to the mayor and Members of Council on January 11, 2011.

<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-35938.pdf>

On February 17, 2011 Executive Committee will consider a report from TRCA requesting an interest-free loan for the City's share of the cost to acquire 1235 Ormont Drive.

<http://www.toronto.ca/legdocs/mmis/2011/ex/bgrd/backgroundfile-35937.pdf>

ISSUE BACKGROUND

In 2009, through its 2010 Capital Budget submission, TRCA proposed to replace its aging administrative office building, as it no longer accommodates any future growth, has very limited parking space, and cannot be expanded on the site. TRCA decided to build a larger facility in the parking area at Black Creek Pioneer Village near the existing office at 5 Shoreham Drive. The estimated cost of this project was \$47.254 million over 20 years with financing to be provided by participating municipalities: City of Toronto, Region of York, Region of Peel, Region of Durham, Town of Mono and Township of Adjala-Tosorontio. The estimated cost to the City was \$30.785 million or 65.8% of the total, according to the modified current value assessment (CVA) apportionment. This plan did not proceed as it was not considered economically feasible at the time.

TRCA has continued to seek alternative options to resolve issues of long term office accommodation that would be more economically feasible to the partner municipalities and in 2010, through its 2011 Capital Budget submission, TRCA requested \$9.2 million from the City or 65.8% based on the CVA apportionment among stakeholder municipalities, for the acquisition of a property at 1235 Ormont Drive for a total cost of \$14 million.

COMMENTS

TRCA has indicated that in the intermediate term, the most cost effective solution is to take advantage of the existing commercial real estate market and purchase a nearby commercial building for \$14 million at 1235 Ormont Drive. The acquisition of the property at 1235 Ormont Drive would meet TRCA's needs for the next 10 years or more until economic conditions make its original proposal feasible.

The building at 1235 Ormont Drive comprises 177,935 square feet (combines a 66,577 two storey structure originally built in 1985 and a 111,358 three storey addition that was constructed in 2000 by Orlando Corporation) and is sited on 6.95 acres. The building is well served with over 165,000 square feet of office area, coupled with over 500 surface parking stalls, a loading dock and an area of approximate 11,000 square feet for warehousing/storage. TRCA needs about 70,000 square feet to accommodate its head office functions. The remaining space of about 107,000 square feet would be available for other related tenants or commercial lease.

TRCA suggested that the City review potential uses of the space. The City's Information Technology Division, Technical Services and Economic Development and Culture Division explored the option of leasing the space but only Economic Development and Culture Division expressed an interest in the facility as a possible new location for artefact storage. However, the feasibility has not yet been fully determined. TRCA has agreed that, if the City enters into a lease agreement with TRCA, only occupancy costs, estimated at \$7 per square foot, would be charged to the City.

Financing Options

The City's share of the funding required for the acquisition of the property at 1235 Ormond Drive is \$9.217 million (or 65.8%) of the total cost of \$14 million. The remaining balance of \$4.783 million (or 34.2%) would be paid by the other participating municipalities: Regions of Peel, York and Durham, Town of Mono and Township of Adjala-Tosorontio. This reflects the current apportionment using modified current value assessment formula.

The following financing options were considered:

- 1) Capital Budget Financing
 - a) Full funding by City debt through an increase to TRCA debt targets of \$0.922 million annually over the next 10 years; or
 - b) Reallocation of Source Water Protection Land Acquisition Funds for a total of \$7.865 million from Toronto Water to TRCA for Waterfront & Valley Erosion Control project, such that debt funding could be reapplied to

acquisition over 10 years. In addition, \$1.355 million of additional debt would be needed to complete the City's share of the acquisition.

Both of these options require additional City debt funding, and therefore are not recommended.

2) Purchase of the Building

a) Acquisition of the Portion of the Building

The City could purchase a portion of the building and use the space for its purposes. Economic Development and Culture Division expressed an interest in about 66,000 square feet of the building for artefact storage. The purchase price per square foot is \$69, which would price that portion of the building at \$4.6 million.

The remaining balance of the space of 112,000 square feet would be purchased by TRCA at \$9.5 million. Under TRCA funding arrangement, the City would still have to participate in the purchase of the TRCA's portion of the property. The City's share of the cost for the remaining space would be \$6.2 million or 65.8% of the total cost of \$9.5 million based on modified current value assessment formula. The total City cost would be about \$10.8 million, which is higher by about \$1.6 million from the requested funding of \$9.2 million.

As this partial acquisition of the building would need to be included in the Capital Budget requiring additional debt funding and City's usage of the building is not yet determined, this option is not recommended.

b) Future Purchase Option

TRCA's future objective is to build office space on its property at Black Creek pioneer Village near 5 Shoreham Drive. If the purchase of the property at 1235 Ormont Drive would be successful, TRCA is planning to use the proceeds from the future sale of the property that would likely occur in 10 years to be used toward the redevelopment of parking area lands at Black Creek Pioneer Village and 5 Shoreham Drive. TRCA has an appraisal that suggests that the property will be worth at least \$14 million in 10 years and likely will appreciate in value, but this is very speculative. The City will have the opportunity to purchase the building at that time at market value and reflect the City's \$9.2 million investment.

This option will be considered only if the City leases space in the building with an expectation of continued use beyond the 10 year period. TRCA has indicated that if the City desires to purchase the building prior to the end of the 10 year period, TRCA will be prepared to become a tenant until their new premises are developed.

3) Loan to TRCA

The City could provide the funding in the form of interest-free loan repayable in 10 years. This loan would be secured on the basis of a promissory note from TRCA. The opportunity cost would be the annual foregone interest revenue to the City of \$0.368 million at 4%. If the City decided to fund the acquisition of the property by debt in the Capital Budget, the annual interest cost would be \$0.415 million at 4.5%, resulting in additional cost to the City of \$0.047 million annually.

At the end of 10 years, the loan could be repaid either by realization of the future value of the property through sale or the City could acquire the property at market value. The financing of the property could also be changed prior to the end of the 10 year period by mutual agreement among participating municipalities.

Currently, a loan to TRCA is the most economically feasible option as the loaning of funds would remove the pressure of additional debt funding. If the City decides to lease space for an ongoing City use, the City's investment of \$9.2 million could be recognized in a future purchase. Such a purchase would be at market value at that future time. However, as any increased value would flow to TRCA, the City would share in that benefit as a stakeholder municipality in TRCA.

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SIGNATURE

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