

**TORONTO AND REGION CONSERVATION AUTHORITY
PROJECT FOR ACQUISITION OF OFFICE SPACE**

Date:	February 17, 2011
To:	Executive Committee
From:	Chief Administrative Officer (TRCA)
Wards:	All
Reference Number:	

SUMMARY

This report recommends that Council approve a loan to finance Toronto's share of TRCA's acquisition of office space. TRCA has proposed a \$14 million Project to acquire a vacant office building and 6.95 acres of land located at 1235 Ormont Drive, former City of North York (Ward 7).

Toronto and Region Conservation Authority (TRCA), a body corporate under the Conservation Authorities Act, has adopted a Project for Acquisition of Office Space. The Project seeks to address TRCA's longstanding office space issues by making a cost effective investment in an existing building.

The City of Toronto is a participating municipality of TRCA and appoints 14 members to the 28 member Authority. TRCA is seeking approval of the Project and funding from each of its participating municipalities. Funding is apportioned on the basis of a formula using modified current value assessment. The City apportionment is 65.83% of the \$14 million total cost or \$9.217 million. The balance, \$4.783 million would be paid by the Regions of Peel, York and Durham, Town of Mono and Township of Adjala-Tosorontio.

RECOMMENDATIONS

Toronto and Region Conservation Authority (TRCA) recommends that:

1. Council authorize an interest-free loan of \$9.217 million to TRCA for 10 years, to finance the acquisition of the of the City's share of the acquisition of the property at 1235 Ormont Drive, secured on basis of promissory note from TRCA, on the condition that the City has the option:
 - a. to lease space at cost for any City purposes; and
 - b. purchase the building at Fair market Value at the end of the 10 year term.
2. Council authorize the General Manager, Economic Development & Culture to continue to work with TRCA to explore opportunities for the Economic Development and Culture Program's Collections, Conservation and associated services to utilize a portion of the property TRCA is acquiring on terms and conditions satisfactory to the City.
3. The loan to TRCA recommended in Recommendation 1 be deemed to be in the interests of the City.
4. Authority be granted for the introduction of the necessary bills in Council.

Financial Impact

The City's share of the funding required for the acquisition of 1235 Ormont Drive is \$9.217 million (or 65.83%) of the total cost of \$14 million and is proposed to be financed through an interest-free loan (repayable in 10 years) secured on basis of promissory note from TRCA. The remaining balance of \$4.783 million would be apportioned among other municipal funding partners: Region of Peel, Region of York, Region of Durham, Town of Mono and Township of Adjala-Tosorontio and is subject to their approval of the Project and their respective shares of the cost of the Project.

Making the loan interest-free will result in annual opportunity cost and foregone interest revenue to the City of \$368,000. However if the City's share of acquisition of \$9.217 million would be financed through 10 year debt, the annual debt charges would result in \$1.182 million, which would result in additional cost to the City of \$814,000 annually over the 10 years. However, if the project was debt financed, the principal would be paid off over the term of the debentures, which accounts for most of the difference in the annual costs of the loan versus a debenture.

The loan would be repayable in 10 years through the following options:

- 1) Realization of the future value of the property through sale;
- 2) City's acquisition of the property at market value; or
- 3) City agrees to a TRCA levy to repay the value of the City loan over a term to be decided.

The financing of the property could be changed prior to the end of the 10 year period by mutual agreement among the municipal stakeholders and TRCA. The intent of the City loan is provide necessary bridge financing for the Project until the City is able to fund its share as part of the TRCA capital levy.

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

DECISION HISTORY

TRCA is a body corporate under the Ontario Conservation Authorities Act and has made the request of City Council pursuant to the provisions of the Act. The City is one of TRCA's participating municipalities, the others being: the Regions of York, Peel and Durham, the Town of Mono, the Township of Adjala-Tosorontio. Pursuant to the Act, the total Project cost of \$14 million is apportioned to the participating municipalities using modified current value assessment of which the City's share is 65.83%.

The City of Toronto as a participating municipality appoints 14 representatives to the 28 member Authority which governs and directs the work of TRCA. Attached is the correspondence to the Mayor and Members of Council including resolution #A197/10 approved by the Authority at its meeting #9/10, held on November 26, 2010. This resolution which was approved unanimously by the members present at the meeting on November 26, 2010, has been sent to each of TRCA's participating municipalities (see attachment 1).

ISSUE BACKGROUND

TRCA has grown considerably since its main office at 5 Shoreham Drive was constructed in 1971 and the existing office accommodation no longer meets the needs of the organization. As well as 5 Shoreham Drive, TRCA has staff located in office space at several different locations including leased space at Downsview Park, Visitors Centre at Black Creek Pioneer Village and a former education centre in a building dating back more than 50 years. Cost effective, consolidation of space will improve productivity, create opportunities for new partnerships and enhance customer services.

In 2008, TRCA completed a comprehensive analysis of options to resolve issues of long term office accommodation including aging infrastructure; poor working conditions; lack of adequate meeting space to deal with customer service needs and ability to realize on future value of developable lands. TRCA is seeking to accommodate about 240 staff in the consolidated space. A number of options have been considered and can be summarized as: building of new space, leasing of space and purchase of office space in a suitable location.

TRCA concluded that the best location to serve its head office would be in the vicinity of the existing head office at 5 Shoreham Drive (Jane/Steeles area) and within the City of Toronto. Also, TRCA concluded that the best long term solution is to revitalize the lands in the parking area at Black Creek Pioneer Village and the existing office at 5 Shoreham Drive as this area will be well served by the new subway to York University. In 10 to 15 years, as the development in this area matures, it will be possible to realize on the increased value of these lands by doing a public/private partnership or other form of development.

The following table summarizes in general terms the three major options TRCA has considered. For clarity, TRCA has made assumptions about the three options and the costing to enable a fair comparison of the options. Costs and revenues have been averaged over the 10 year period. The analysis is done at a summary level and is intended to illustrate the work to date:

	Build	Lease	Purchase Existing 1235 Ormont Drive
Space	80,000 square feet	60,000 square feet	178,000 sq. ft.
Initial capital outlay	\$28 million (excluding land, \$350/sq ft)	n/a	\$14 million (incl. 6.95 acres of land and improvements, \$69/sq. ft.)
Rent Income	(\$6 million) (20,000 sq ft @\$30/sq ft x 10 years)	n/a	(\$15 million) (100,000 sq ft 2 \$15/sq ft x 10 years)
Rent Expense	n/a	\$18 million (\$30/sq ft x 10 years)	n/a
Common Area Costs	\$12 million (\$15/sq ft over 10 years)	n/a	\$18 million (\$10/sq ft over 10 years)
Major Maintenance	\$500,000 total over 10 years	n/a	\$1.5 million total over 10 years
Downsview Lease offset	(\$4.0 million over 10 years)	(\$4.0 million over 10 years)	(\$4.0 million over 10 years)
10 year estimated cost	\$30.5 million	\$14 million	\$14.5 million
Residual Asset	10 year old building with +25 years residual value	No assets; continuing cost of lease	Building and lands worth minimum \$14 million

Assumptions:

“Build” means construct a new 80,000 LEED building on existing land in the parking lot of Black Creek Pioneer Village.

“Lease” means leasing of commercial office space in vicinity of Jane/Steeles.

“Purchase Existing 1235 Ormont Drive” is the recommended project.

COMMENTS

TRCA has investigated and researched a number of opportunities, and concluded that in the intermediate term, the most cost effective solution is to take advantage of the existing commercial real estate market and purchase a building in a nearby location that can meet TRCA needs for at least 10 to 15 years. The property is located at 1235 Ormont Drive which is situated about four kilometres west of TRCA’s current office building in the area south of Steeles in the Jane/Highway 400 area. Purchase of this property ensures that the head office functions of TRCA will remain within the City of Toronto. Acquisition of the property by TRCA will also create an opportunity for the City Economic Development and Culture Division to secure needed artefact storage facilities in a cost effective manner. Also creates opportunities for future partnerships as part of “green jobs” and other initiatives.

The purchase of the building at 1235 Ormont Drive will cost about \$12.125 million plus \$1.875 for improvements and outfitting. TRCA has a signed Purchase and Sale Agreement (PSA) conditional on TRCA Authority approval no later than March 29, 2011. Purchase of this property is the most cost effective solution: \$69 per square foot (including 6.95 acres of industrial zoned land) compared to \$300 to \$400 per square foot (without land value) to build new or add to existing space or leasing at \$25 to \$30 per square foot that would require significant increase in operating costs and at end of 10 years produces no equity for TRCA (See Table). Attachment 2 is a briefing note prepared by TRCA providing additional details of the Project.

TRCA has the capacity to carry the operating costs of the property and will lease commercially a portion of the building or enter into an agreement with the City to use a portion at cost. The building is well served with over 177,000 square feet of office area, coupled with over 500 surface parking stalls, a loading dock and an area of approximate 11,000 square foot for warehousing/storage. TRCA analysis concluded that about 74,000 square feet is needed to accommodate the various head office functions (about 240 staff) of TRCA. Balance of space can be leased commercially.

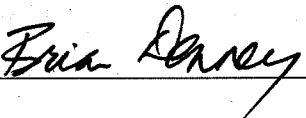
The General Manager of Economic Development & Culture is continuing to review future use of this facility for Economic Development and Culture Program's Collections, Conservation and associated services. TRCA has agreed to the City's lease of space in the building at cost. If the City does participate in the use of the building, TRCA will provide an option for the City to purchase the property at fair market value at the end of the 10 year period. Also, TRCA is prepared to have the City purchase the portion of space it may require at any time if the City were to choose to buy rather than lease.

City approval of the Project is required no later than early March to enable TRCA to deal with the Project at its meeting on March 25, 2011.

CONTACT

Brian Denney, Chief Administrative Officer, 416 667 6290 bdenney@trca.on.ca
Jim Dillane, Director, Finance and Business Services, 416 667 6292 jdillane@trca.on.ca

SIGNATURE



ATTACHMENTS

1. Letter dated January 11, 2011, to Mayor and Members of Council setting out TRCA resolution #A197/10 and requesting Council approval of the Project for Acquisition of Office Space
2. Briefing Note on Project For Acquisition of Office Space dated January 11, 2011

CONFIDENTIAL

January 11, 2011

Sent via email

Mayor and Councillors
City of Toronto
100 Queen Street West
Toronto, ON M5H 2N2

At Authority Meeting #9/10, of Toronto and Region Conservation Authority (TRCA), held on November 26, 2010, confidential Resolution #A197/10, in regard to Project for Acquisition of Office Space was approved unanimously by recorded vote as follows:

WHEREAS the current office accommodation of Toronto and Region Conservation Authority's (TRCA) Head Office at 5 Shoreham Drive is sub-standard;

AND WHEREAS staff that perform core "head office" activities are currently housed in multiple locations that add to the operating costs and result in inefficiencies in operations;

AND WHEREAS the current market assessment is that it will be more economical for TRCA to reduce the the amount of rental accommodation for staff;

AND WHEREAS the current market condition provides the opportunity to acquire property at a reduced cost as compared to previous years;

AND WHEREAS the project to acquire consolidated office space cannot proceed without funding support of TRCA's participating municipalities;

THEREFORE LET IT BE RESOLVED THAT the Project for Acquisition of Office Space be approved;

THAT staff be directed to seek approval of the Project for Acquisition of Office Space by the member municipalities;

THAT total funding for the Project of \$14,000,000 be levied from Toronto and Region Conservation Authority's participating municipalities on the basis of the modified current value assessment formula;

THAT staff be directed to finalize an acceptable purchase and sale agreement with representatives of ING Inc. for acquisition of the property at 1235 Ormont Drive, City of Toronto, on terms and conditions acceptable to TRCA and its solicitors, perform such due diligence as is required and report to the Authority no later than March 25, 2011, with a recommendation on the purchase and sale agreement;

AND FURTHER THAT authorized TRCA officials be directed to take action necessary to implement the project including obtaining any necessary approvals and the signing and execution of documents.

Under separate cover, senior staff of the City have been sent a confidential document with details of the proposed Project. TRCA staff will contact senior staff at the City and provide any additional information they may require.

As noted in the resolution, the cost of the Project will be apportioned on the basis of modified current value assessment. The City of Toronto share of the project cost would be \$9,216,620. TRCA recognizes that each of its funding partners has different financial requirements. TRCA is prepared to have the funding from the participating municipalities spread over a number of years and will work with the City's finance staff to arrive at an acceptable cash flow plan.

The key issue is the need for City Council to advise the Authority of its support for the project no later than March 25, 2011.

This project represents a rare opportunity for TRCA to secure needed long term office accommodation at an exceptional value that will not likely be available as the economy and office space markets improve. Please contact me at 416-667-6290 if you have any questions or require additional information.

Sincerely



Brian Denney, P.Eng.
Chief Administrative Officer

cc. Joe Pennachetti, City Manager (with attachment)
Cam Weldon, Deputy City Manager and Chief Financial Officer (with attachment)

ATTACHMENT 2

TORONTO AND REGION CONSERVATION AUTHORITY BRIEFING NOTE

PROJECT FOR ACQUISITION OF OFFICE SPACE

The Issue

Toronto and Region Conservation Authority (TRCA) has been seeking a solution to its long term office accommodation needs since 2007. The need for updated and additional office space was demonstrated in a business case analysis completed in 2008. In summary, the analysis concluded that about 80,000 square feet was needed to accommodate the various head office functions of TRCA. This reflected existing uses, additional meeting room and common space and modest growth over the next 10 to 20 years.

The business case also looked at ways to achieve the needed space. Options considered included:

- Build new space either as a separate structure or as an addition to an existing office
- Lease space
- Buy space in a building in a suitable location

Staff of TRCA advised the Authority of the findings and opportunities. A Long Term Office Accommodation Working Group consisting of members of the Authority including the Chair was formed to advise staff.

The Working Group and staff concluded that the best location to serve TRCA head office interests would be in the vicinity of the existing head office at 5 Shoreham Drive. This was based on the geography of TRCA's area of jurisdiction, the desire to stay within the City of Toronto, the availability of transit including the planned subway extension to Steeles and Jane and beyond, proximity to major highways such as #407 and #400 and the relationship with York University and Black Creek Pioneer Village. With respect to Black Creek Pioneer Village, there exists an opportunity to enhance the Village amenities and experience as part of any solution to the TRCA office accommodation requirements utilizing the parking lot at 5 Shoreham Drive.

The optimal long term solution to TRCA office accommodation is a revitalization of the lands at 5 Shoreham Drive and the parking lot at Black Creek pioneer Village to include LEED platinum office space for TRCA. Revitalization of the parking lot lands is most likely to have currency in terms of market conditions in 10 to 15 years when the subway to York University and Vaughan is fully completed and planned development of the Steeles corridor and lands north of Steeles creates demand throughout the Jane/Steeles area.

The interim solution is to take advantage of the existing commercial real estate market and buy available office space in the vicinity of Jane/Steeles. At Executive Committee Meeting #3/10, held May 7, 2010, Resolution #B41/10, was approved as follows:

THAT Toronto and Region Conservation Authority (TRCA) staff be directed to pursue acquisition of suitable office accommodation and report to the Authority at the earliest opportunity.

TRCA staff has investigated and researched a number of opportunities and in June, 2010, began negotiations with the owners of 1235 Ormont Drive. The property is geographically situated some four kilometres west of TRCA's current Head Office location, near Weston Road and Steeles Avenue West. The building 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 foot for warehousing/storage.

At its meeting #9/10, held on November 26, 2010, the Authority considered in private session a report from staff that provided details on the proposed acquisition of the property at 1235 Ormont Drive. Following extensive discussion, by recorded vote the Authority unanimously adopted the following resolution

WHEREAS the current office accommodation of Toronto and Region Conservation Authority's (TRCA) Head Office at 5 Shoreham Drive is sub-standard;

AND WHEREAS staff that perform core "head office" activities are currently housed in multiple locations that add to the operating costs and result in inefficiencies in operations;

AND WHEREAS the current market assessment is that it will be more economical for TRCA to reduce the amount of rental accommodation for staff;

AND WHEREAS the current market condition provides the opportunity to acquire property at a reduced cost as compared to previous years;

AND WHEREAS the project to acquire consolidated office space cannot proceed without funding support of TRCA's participating municipalities;

THEREFORE LET IT BE RESOLVED THAT the Project for Acquisition of Office Space be approved;

THAT staff be directed to seek approval of the Project for Acquisition of Office Space by the member municipalities;

THAT total funding for the Project of \$14,000,000 be levied from Toronto and Region Conservation Authority's participating municipalities on the basis of the modified current value assessment formula;

THAT staff be directed to finalize an acceptable purchase and sale agreement with representatives of ING Inc. for acquisition of the property at 1235 Ormont Drive, City of Toronto, on terms and conditions acceptable to TRCA and its solicitors, perform such due diligence as is required and report to the Authority no later than March 25, 2011, with a recommendation on the purchase and sale agreement;

AND FURTHER THAT authorized TRCA officials be directed to take action necessary to implement the project including obtaining any necessary approvals and the signing and execution of documents.

RATIONALE

1235 Ormont Drive

At Long Term Office Accommodation Working Group Meeting #4/10, held on October 29, 2010, a status report from staff on negotiations for the acquisition of 1235 Ormont Drive was received. The key terms and conditions of the proposed purchase and sale agreement are:

- purchase price to be \$12,125,000;
- offer is all cash;
- initial refundable deposit of \$200,000 to be provided by TRCA upon execution of the agreement;
- vendor to provide TRCA with relevant materials and property access to permit TRCA to do its due diligence;
- TRCA shall have 30 days to complete due diligence. Upon waiver of due diligence conditions, TRCA to provide second, refundable deposit of \$325,000;
- approval of the purchase and sale agreement to be at the sole discretion of the Authority on or before March 31, 2011, failing which all deposits shall be returned in full;
- closing to April 29, 2011;
- TRCA shall refrain from any transfer or assignment of the proposed Agreement of Purchase and Sale until after the closing date unless said transfer is to an affiliated party;
- TRCA may enter into a conditional leasing agreement with a third party for a portion of the property prior to closing date.

TRCA's solicitor and its advisors, CB Richard Ellis, have reviewed the terms and conditions of the proposed agreement and are working with staff toward a final version. The Working Group has been advised of the terms and conditions.

Staff has concluded that the price and terms and conditions are fair and reasonable given the location and current market conditions. The proposed date for Authority approval would be March 25, 2011, with a closing date of April 29, 2011.

Cost per square foot would be about \$69 which includes land (6.95 acres) valued at \$750,000 per acre. Excluding land value, the office space itself is priced at less than \$40 per square foot. This compares with the cost to construct new space at a cost of \$300 to 400 per square foot.

FINANCIAL DETAILS

Capital Project Funding Arrangements (Asset Acquisition)

Staff has included in the 2011-2020 preliminary capital budget approved by the Authority on September 21, 2010, for each of the City of Toronto and the regions of Peel, York and Durham, the capital funding requests for this project. Assuming the \$14 million total project cost is financed over 10 years at \$1.4 million annually, costs (rounded numbers) could be apportioned on the basis of current value assessment (CVA) as follows: Toronto - \$922,000; Peel - \$161,000; York - \$275,000; Durham - \$42,000. These costs have been discussed informally with municipal staff. The \$14 million includes an allowance for improvements to the building. Also, for each jurisdiction, payment of the apportioned share need not start in 2011. As long as the total funding commitment is approved, each municipality could choose to make the payments over a different time frame. Total funding requirements based on modified current value assessment (CVA) are as follows:

	2010 Modified CVA	Project Costs
City of Toronto	0.65833	\$9,216,620
Region of York	0.19679	\$2,755,060
Region of Durham	0.02985	\$417,900
Region of Peel	0.11486	\$1,608,040
Town of Mono	0.00009	\$1,260
Township of Adjala-Tosorontio	0.00008	\$1,120
Project Total Cost		\$14,000,000

TRCA has sufficient cash flow to carry the initial purchase cost. At the moment, TRCA has \$12 to \$13 million invested. These funds are held for future projects and the amount has been consistent in recent years. Also, TRCA has discussed and received a term sheet for a \$10 million line of credit with the Royal Bank (RBC). The term sheet from RBC has favourable interest rate and other terms. There is always risk of a run-up in interest rates in later years but this risk would be mitigated by the capital payments from the partners.

Operating Costs

A key aspect to the project is payment of the operating costs estimated at \$10 per sq. ft. or about \$1,800,000 annually. TRCA has immediate need for only 66,000 square feet of the building so 110,000 sq. ft. could be leased. Attached as Table 1 is a schedule illustrating the estimated costs and revenues associated with a commercial lease of this space. Major assumptions are that it would take two years to have such a lease in place and that the gross lease rate would be \$17 per sq. ft. inflating over 10 years.

A second option which staff is exploring is to have the City of Toronto lease space in the building. Specifically, the City has need of a cultural artifact storage centre. The proposed office space and warehouse area would serve this purpose well. City staff has visited the building and indicated the option is being considered. Assuming such an arrangement could be finalized, TRCA would propose to lease to the City space at a discounted market rate, about \$10/square foot, a discount of 40%. This assumes the City has agreed to fund their share of the capital project. Attached as Table 2 is a schedule setting out how the cash flow might work. Table 2 is based entirely on assumptions by TRCA staff and has not been considered by City of Toronto staff.

Offset Revenue/Costs

5 Shoreham Drive

TRCA's existing Head Office accommodates approximately 160 staff in approximately 23,810 square feet (main building - 20,160 sq. ft. / modular structures - 3,650 sq. ft.). Lease of the building to a third party tenant is feasible but demand for the subject property on a leased basis is low due to its functional utility and size. It could take 12 to 18 months to find a tenant. The building could generate an annual net income of approximately \$200,000 (based on analysis for 5 Shoreham Drive by CB Richard Ellis Limited) per year, subject to the appropriate municipal planning and zoning regulations. TRCA historically leased a number of its properties. TRCA has, in the past, leased property to Ontario Power Generation and is currently leasing property to Wild Water Kingdom. Given that the preferred long term plan is to construct a new head office adjacent to Black Creek Pioneer Village, it may be preferable to maintain some operations at the 5 Shoreham Drive location depending on leasing prospects for the other properties.

70 Canuck Avenue - Downsview Park

TRCA currently leases 18,119 square feet of office space, which houses about 70 staff in the Watershed Management Division, Marketing and Communications, Conservation Land Planning and Source Water Protection sections.

Although the location of the building is not a common destination for office tenants, the existing space is in good condition so there should not be a need for remediation of the space to accommodate a sub tenant. It is estimated that a deal to sublet the space could be done in the \$16.00 per square foot gross range (based on analysis for 70 Canuck Avenue by CB Richard Ellis Limited) representing a recovery of approximately 66% of the outstanding rental obligation. However, if the remaining lease obligation could be extended by TRCA beyond August 2014 (expiry date of current lease) by way of renewal (for a further five year lease term) making this space more opportunistic for potential sub tenants, a \$20.00 per square foot gross range could be achieved. Parc Downsview Park has indicated a willingness to extend the existing lease. A marketing period of 12 months is considered in order to secure a sub tenant for this facility.

Current Combined Operating Costs for 5 Shoreham Drive and 70 Canuck Avenue

Total operating expenses for 2010 are estimated at \$775,000, which includes a current \$355,000 facility charge (rental expense) for the Downsview Office. Application of these combined offset revenues to the pro forma models illustrated in Tables 1 and 2 shows the impact on the cost of operations.

When the existing, combined operating costs are factored into the operating cost analysis of the 1235 Ormont building, under either a commercial scenario (Table 1) or a City scenario (Table 2), the costs can be funded by TRCA without additional municipal levy. TRCA has funds set aside as part of the office accommodation project sufficient to cover the operating costs of the building in 2011 and 2012 until the leases are in place.

Property Taxes

The property taxes on 1235 Ormont are about \$1.10 per square foot. This is based on existing use of the building and there is some indication the valuation is low. Typical property taxes for structures such as this would be in the \$3 to \$4 per square foot range. If the City is a partner in the project, the building could be exempt from property taxes.

Residual Value of the 1235 Ormont Property

Estimated gross resale value of the 1235 Ormont property in 2021 is \$18.9 million. Based on an analysis by CBRE taking into account fees and inducements and depending on conditions of sale, net resale value could be between \$12.5 and \$15.0 million. This is of course very speculative and takes into account the fact that 6.95 acres of industrial zoned land is involved. The proceeds of the sale of the property would be used toward the redevelopment of parking area lands at Black Creek Pioneer Village and the property at 5 Shoreham Drive to create office space for TRCA.

Added Value of Consolidated Office Space

In the initial business case for updated office space, needs to be met included:

- Aging infrastructure: 5 Shoreham is more than 35 years old; leased space at Parc Downsview was built in 1970; TRCA's "Boyd Centre", a converted residential field centre is more than 75 years old.
- Bringing staff to one location will yield gains in productivity through reduced travel time as well as real cost savings
- Meeting and collaboration space in the proposed new office will be greatly enhanced over existing, limited meeting space improving customer service opportunities and internal productivity
- New space presents the opportunity to reduce the cost of outside storage systems and added productivity from having ready access to central filing now stored off site.
- Partnership opportunities are critical to TRCA's future success and the proposed building offers exciting opportunities to house at reasonable cost new ventures aligned with TRCA's vision and mandate.
- TRCA has unique knowledge in many areas and is actively seeking opportunities to share that knowledge through training and certification programs but needs efficient conference and meeting space to do so.

SUMMARY AND CONCLUSIONS

Approval of the project for acquisition of office space by the Authority enables staff to apply formally to the participating municipal funding partners for their respective shares of the cost of the project as part of the 2011 - 2020 capital budget process. If the funding partners do not approve their respective shares of the capital cost, the project cannot proceed. Staff will report to the Authority no later than the meeting scheduled for March 25, 2011, on results of discussions with the participating municipalities.

Further, staff have until the Authority meeting on March 25, 2011, to complete due diligence on the Ormont property and determine if suitable lease arrangements can be made that will enable staff to finalize the cost estimates in the pro forma statements. Assuming that the feasibility analysis is positive and that capital project funding approval of the municipal partners is received, staff would recommend to the Authority that the acquisition proceed. If the Authority decides on March 25, 2011, not to proceed, all deposits are fully refundable.

If the project does not proceed, staff will make recommendations for further capital investments in 5 Shoreham Drive to better accommodate the staff based at that location, extension of the lease at Downsview Park for a further five years and/or investments in leased space as necessary in locations yet to be determined. The long term strategy continues to be construction of a new head office adjacent to Black Creek Pioneer Village as part of a comprehensive plan to realize the potential value of TRCA lands at a scale appropriate to their location close to the new subway and its associated development.

January 11, 2011

Attachment 1

Table 1

FORECASTED OPERATING COSTS - COMMERCIAL LEASE MODEL

	2011 ^	2012	2013	2014	2015	2016	2017	2018	2019	2020
Common Area Costs (Per Consultant)	1,560,000	2,142,400	2,206,672	2,272,872	2,341,058	2,411,290	2,483,628	2,558,137	2,634,881	2,713,928
Rental Revenue Recovery* (\$17.00/SF X 110,000 SF)	-	-	1,870,000	1,870,000	1,870,000	1,870,000	1,870,000	1,926,100	1,983,883	2,043,400
Projected Operating Cost	1,560,000	2,142,400	336,672	402,872	471,058	541,290	613,628	632,037	650,998	670,528
LESS - Offset Revenue ~	-	400,000	500,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Net Operating Cost (Revenue)	1,560,000	1,742,400	(163,328)	(247,128)	(178,942)	(108,710)	(36,372)	(17,963)	998	20,528

- Forecasted Operating Costs on 177,935 square foot building.
- Common Area Costs (CAC's) include a stabilized management fee of \$100,000 per annum , annual reserve/structural allowance for building and parking, contingency @ 10% & inflation adjusted @ 3%.
- ^ Pro-rated to reflect April 1, 2011 occupancy.
- * For this model rental revenue has been adjusted for inflation @ 3% for years 6, 7 and 8 of lease term.
- ~ Denotes combined annual cost savings/rental recoveries for PDP office and 5 Shoreham Drive.

Table 2

FORECASTED OPERATING COSTS - CITY OF TORONTO MODEL

	2011 ^	2012	2013	2014	2015	2016	2017	2018	2019	2020
Common Area Costs (Per Consultant) *	1,560,000	1,586,200	1,633,786	1,682,800	1,733,284	1,785,282	1,838,840	1,894,005	1,950,825	2,009,350
Rental Revenue Recovery # (\$10.00/SF X 110,000 SF)	-	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,133,000	1,166,990	1,202,000	1,238,060
Projected Operating Costs	1,560,000	486,200	533,786	582,800	633,284	685,282	705,840	727,015	748,825	771,290
LESS - Offset Revenue ~	-	400,000	500,000	650,000	650,000	650,000	650,000	650,000	650,000	650,000
Net Operating Cost (Revenue)	1,560,000	86,200	33,786	(67,200)	(16,716)	35,282	55,840	77,015	98,825	121,290

- Forecasted Operating Costs on 177,935 square foot building.
- * For the purpose of this exercise property taxes are considered to be exempt for years 2 through 10 (2012 - 2020) as a result of the City of Toronto's involvement in the facility.
- Common Area Costs (CAC's) include a stabilized management fee of \$100,000 per annum , annual reserve/structural allowance for building and parking, contingency @ 10% & inflation adjusted @ 3%.
- ^ Pro-rated to reflect April 1, 2011 occupancy.
- # For this model rental revenue has been adjusted for inflation @ 3% for years 6, 7, 8 and 9 of lease term.
- ~ Denotes combined annual cost savings/rental recoveries for PDP office and 5 Shoreham Drive.